



IRELAND - THE NEXUS OF THE GLOBAL AIRCRAFT LEASING INDUSTRY

BY TREVOR BUCKLEY, DIGITAL MARKETING MANAGER,
ACUMEN AVIATION, IRELAND

The foundation of Guinness Peat Aviation (GPA) in the 1970s by Aer Lingus and the Guinness Peat Group, laid the foundations for Ireland to become a key early player in global aircraft leasing industry.

Patrick Blaney, Chairman, Aircraft Leasing, School of Business, University College Dublin, said "In essence, this industry grew out of a need. Aer Lingus in the early 1970s found itself with two Boeing 747s that it just bought, and immediately after the "Troubles" they had no passengers from America to fill them. Tony Ryan was dispatched by his then employer to find a home for these two planes and he found an airline in Thailand called Air Siam (now Thai International). Tony realised there was a business here. He got \$20,000 from Aer Lingus to start up an aircraft-leasing business." (Irish Independent 2016).

Centre of the aircraft leasing world

Aengus Kelly, CEO of AerCap said "Ireland is the centre of aircraft leasing in the world, and that came from GPA. The seeds were sown" (Reuters January 2014). According to estimates up to 75 leasing-related companies grew out of GPA after it folded in the early 1990s with a pool of expertise in lease law, sales, accounting and finance. Many former GPA executives have played a key role in the development of the top 10 lessors including AerCap, Avolon, BBAM, GECAS and SMBC Aviation Capital.

Ireland is the nexus of the global aircraft industry with significant M&A activity over the last few years with the AerCap acquisition of International Lease Finance Corporation (ILFC) from AIG and Avolon's acquisition of CIT Aerospace from CIT. AerCap moved almost \$40bn of assets to Ireland following the acquisition of ILFC in 2014.

Some 14 of the top 15 aircraft lessors are headquartered in Ireland, prominently in Dublin. Ireland now has a 60% share of the global leasing market, with one in every five aircraft managed from Ireland. An Irish managed aircraft departs every two seconds across the globe. In 2015, approximately 4,300 leased aircraft were managed from Ireland with a total estimated value in the region of \$125bn. The total international aircraft leasing industry has grown from 5% of

the global fleet in the 1970s to 40% today and is forecast to grow to 50% in 2020s.

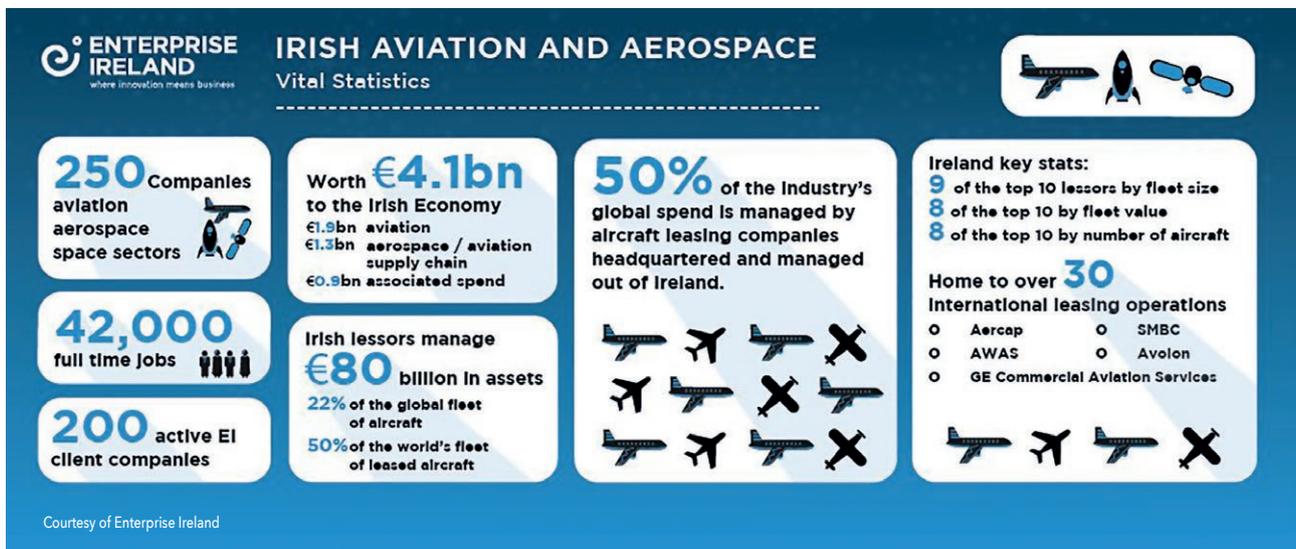
Ireland has broad tax treaty networks with over 74 countries with negotiations underway to further expand the network to high growth emerging markets. Every January over 4,500 delegates descend on Dublin for two of the global biggest aviation conferences further endorsing Ireland's position as a pre-eminent hub for the aircraft leasing industry.

Ireland is home to the main global players. AerCap headquartered in Dublin has a portfolio owned & managed fleet of 1,060 aircraft with 411 aircraft on order. AerCap is the world's largest Airbus A320neo family lessor and Boeing 787 lessor and is the first lessor of new Embraer E-Jets E2 aircraft.

Avolon headquartered in Dublin is a wholly-owned, indirect subsidiary of Bohai Capital Holding Co Ltd, a Chinese public company listed on the Shenzhen Stock Exchange and is the world's third largest aircraft leasing business with an owned, managed and committed fleet, as of June 30, 2018 of 890 aircraft. GECAS headquartered in Shannon owns or services a fleet of nearly 2,000 aircraft (1,685 fixed wing/ 310 rotary wing) in operation or on order, plus provides loans collateralised on an additional 400 aircraft.

Nordic Aviation Capital (NAC) is the world's largest regional aircraft leasing company headquartered in Billund with an office in Limerick City. According to its new annual report, in the fiscal year ending June 30, 2018, NAC had a \$6.3bn portfolio of 426 aircraft, managed 11, and had purchase commitments for 84, totalling 521 aircraft. Orix Aviation headquartered in Dublin is a 100% subsidiary of Orix Corporation of Japan. Orix Aviation owns and manages over 200 aircraft and leases them to more than 70 airlines located in over 30 countries.

SMBC Aviation Capital headquartered in Dublin fleet of 675 owned, managed and committed and is owned and supported by a consortium of leading Japanese institutions Sumitomo Mitsui Banking Corporation (SMBC), Sumitomo Mitsui Finance and Leasing Company Limited (SMFL) and Sumitomo Corporation.



There is considerable M&A activity within the Irish aircraft leasing sector. Intrepid Aviation has rebranded as Voyager Aviation Holdings (Voyager) the move follows the strategic partnership entered into with Amedeo. Goshawk Aviation closed the acquisition of SKY Leasing's Irish subsidiary creating a top 10 aircraft lessor with a combined US\$11.4bn fleet. On August 8, Orix Corporation announced it entered an agreement to acquire 30% stake in Avolon from Bohai Capital.

The fundamentals for the aircraft leasing industry are strong as demand for global air transport continues to grow aided by expected robust GDP growth of 3.1%. In December 2017, the International Air Transport Association (IATA) increased its estimates for 2018 industry net profit to \$38.4bn. Passenger numbers are expected to increase to 4.3 billion in 2018 with passenger traffic, measured in revenue passenger kilometres (RPKs), expected to rise 6.0%. The average load factor is pushing up to a record 81.4%. Passenger revenues are expected to grow by 9.2% to \$581bn in 2018.

Eamonn Cronin Chief Commercial Officer Acumen Aviation said "The industry has remained robust over the past 40 years adopting to various shocks including 9/11, financial crisis, SARS and fuel prices. It is regulated & innovate and will be subject to further changes but if the past is reflective of things to come it will continue to grow at projected rates with Ireland remaining a dominant player."

Market opportunities

Ireland is well placed to capture the market opportunities as demand for leasing continues to grow driven by airline business model evolution and global GDP growth. The

biggest driver of demand will be the Asia-Pacific region. The region will be the source of more than half the new passengers over the next two decades. The Chinese aviation market is one of the fastest growing markets as over the next 20 years, Chinese airlines will need nearly 6,000 new aircraft, valued at US\$780bn, accounting for more than 40% of forecast deliveries to the Asia Pacific region according to forecasts.

According to forecasts India will become the world's second-biggest aviation market by 2038 with one billion passenger journeys a year. India's domestic air passenger traffic grew in double digits for the 46th consecutive month in a row in June up by 17.6%.

Recognising all that Ireland has to offer in the aviation finance space, Chinese and other Asian Investors have decided to establish their European headquarters in Dublin. FlightGlobal data shows that more than 1,100 Chinese-owned aircraft are managed from Dublin. In 2012, ICBC Leasing, the leasing arm of ICBC, the largest bank globally, and CDB Leasing (Sinoaero), the leasing arm of China Development Bank, both established European headquarters in Dublin. In November 2013 Goshawk Aviation Limited (Goshawk) established an office in Dublin. In 2014 IDA Ireland announced a third Chinese leasing company, Bank of Communication Financial Leasing (JY Aviation), had chosen Ireland for its leasing operations. In 2015, China Construction Bank announced the establishment of its leasing arm's international headquarters in Dublin and Ping An International Financial Leasing established a new Dublin Office.

Ireland's significant presence in the global aircraft industry can be attributed to many factors including the following

IRELAND - THE NEXUS OF THE GLOBAL AIRCRAFT LEASING INDUSTRY

(i) a taxation regime which provides for a low headline rate of corporation tax and a depreciation write-off period of eight years; (ii) a comprehensive double tax treaty network with approximately 70 countries where many of the latter provide for zero withholding tax on inbound lease rentals; (iii) flexibility in the adoption of recognised accounting standards (i.e. IFRS, US GAAP or Irish GAAP) for financial reporting; and (iv) a skilled workforce (v) the applicability of the securitisation provisions of Section 110 (S110) of the Taxes Consolidation Act, 1997 to the aircraft leasing industry has been expanded in recent years. Under changes to these provisions enacted in the Finance Act 2011, aircraft and aircraft engines are now designated as a qualifying asset under S110. This provides an opportunity for new entrants to the market to establish aircraft finance special purpose vehicles (SPV's).

Leasing and the Irish economy

Ireland's aviation leasing industry currently contributes \$660m (€541m) to the Irish economy, supporting nearly 5,000 jobs. The industry in Ireland grew by 36% in aircraft numbers in the five years to 2016 and is expected to show further significant growth to 2021. This is fueled by rising wealth in Asia creating pent-up demand for air travel, with Ireland capturing much of this growth. This is according to PwC's inaugural report 'Taking flight 2018: An economic & employment analysis of the aviation leasing industry in Ireland'.

Brian Leonard, Tax Partner, PwC Ireland Aviation Finance Practice and author of the report, said "The report confirms the significant economic potential of Ireland's aviation leasing industry to 2021 and beyond. It is clear that Ireland

has a long-standing association with the industry. This, together with a continued focus on our favorable legal and tax environment for aviation leasing, has helped position Ireland as the location of choice in the global market."

CSO (Central Statistics Office) figures published in February 2018 the highlighted growth, showing that the stock of leased aircraft increased from €27.4bn in 2007 to €77.5bn in 2014, with the largest growth, over €30bn (65%), recorded in 2014 following the arrival of new entrants in the sector. The Central Bank's quarterly bulletin noted last year that industry-specific developments have the capacity to impact Irish official statistics. The aircraft leasing industry is high value and is recognized in Irish Government policy and through state sponsored agencies and bodies.

The development of the aircraft leasing sector is a cornerstone of Ireland's National Aviation Policy 2015 document. Government policy states that "supporting the aircraft leasing and aviation finance sectors to maintain Ireland's global position in these spheres" recognises that aircraft leasing employs 1,000 people directly and 2,000 indirectly in highly paid professional positions generating €300m in exchequer returns annually".

The Department of Transport established The National Civil Aviation Development Forum to support implementation of Ireland's National Aviation Policy document. A working sub group was established with stakeholders from finance and leasing sector identified work streams to address barriers to growth in the sector.

The Irish Aviation Authority (IAA) continues to prioritise their support for leasing activities by further extending the number of States to which they will delegate oversight responsibilities for Irish registered aircraft, referred to as Article 83bis agreements. These agreements afford the protections applicable under the Chicago convention to the state of registry (Ireland) while allowing the operation of the aircraft by an airline in another State.

The Irish Stock Exchange based in Dublin launched a dedicated exchange for aviation-related debt and other financial instruments enhanced by specialised knowledge in broking, corporate and leasing firms. The exchange offers "highly efficient, low cost platform delivering better visibility, greater investor reach and improved market intelligence" for aviation related debt and other instruments.

The Irish Minister for Transport, Tourism and Sport, Shane Ross TD in May 2017 announced that the Government has



IRELAND - THE NEXUS OF THE GLOBAL AIRCRAFT LEASING INDUSTRY

signed an Order pursuant to the State Airports (Shannon Group) Act 2014 implementing the provisions of "Alternative A" of the Aircraft Protocol to the Cape Town Convention on International Interests in Mobile Equipment into Irish law further enhancing Ireland's competitiveness.

Education is key to the future of this industry. The UCD Smurfit Business School in 2016 established a new one-year MSC in Aviation Finance in a collaborative partnership between UCD and AerCap, Avolon, GECAS, SMBC Aviation Capital and Snecma (Safran) to meet industry needs to create a pipeline of new talent with the necessary expertise and skills. The MSC focuses on developing student's understanding of all aspects of aviation finance, with a specific focus on the practical features of global aviation markets.

The leasing industry benefits hugely with connectivity enabling ease of business to emerging and key global markets. Dublin Airport handled 27.8 million passengers in 2017 with a route network of 191 destinations in 42 countries operated by 47 airlines. Dublin Airport is the sixth largest airport in Europe for North American flights. New direct flights to Hong Kong with Cathay Pacific and to Beijing with Hainan Airlines and Miami, Philadelphia and Seattle with Aer Lingus further enhancing Ireland's attractiveness a global aircraft leasing hub.

The growth of aircraft leasing services in Ireland has created an industry eco system. Service providers have grown in acquisition and management, execution and deal structuring, financing operations, remarketing and lease placement, transaction negotiation, sales and technical services including Irish aircraft registration. Today these ancillary service providers are collaborating to deliver end of lease (EOL) aircraft transition programmes at Dublin Airport and Shannon Airport utilising MRO and painting services.

Pointing to strong growth prospects lessors placed

significant orders at the 2018 Farnborough Air Show. Goshawk announced that it has entered into sale and purchase agreements with Airbus and Boeing for the purchase of 20 A320 NEO family and 20 B737 MAX family aircraft respectively for delivery between 2023 and 2025. GECAS and Boeing announced to that they have reached an agreement for 35 additional Boeing 737-800 Converted Freighters. The contract, which includes 20 firm orders and an option for 15 more. Jackson Square Aviation (JSA) announced an order for 30 Boeing 737 MAX aircraft in a contract valued at \$3.5bn at current list prices. Macquarie AirFinance Group Limited, a wholly owned subsidiary of Macquarie Group Limited ordered 20 Airbus A320neo aircraft.

Aircraft Leasing Ireland

IBEC, through Financial Services Ireland established a new representative body, Aircraft Leasing Ireland (ALI), to ensure that Ireland maintains its number one position globally in aircraft leasing. ALI is made up of all the major aircraft leasing companies, including four of the largest global lessors AerCap, Avolon, GE Capital Aviation Services (GECAS) and SMBC Aviation Capital.

Minister for Finance, Paschal Donohoe, TD welcomed the establishment of Aircraft Leasing Ireland said "Ireland is a global leader in the aviation financing industry due in part to our extensive network of double taxation treaties, our specialist skilled staff and our focused support for the sector through, for example, the 2018 Action Plan for Ireland's IFS2020 Strategy; where aviation finance has been identified as one of the priority areas. Ireland's aviation sector has gone from strength to strength in recent years, and, as a former Minister for Transport, it has been a great source of pride to see the growth that has taken place, the number of jobs that have been created and the impact the industry has had on the wider economy. I wish Aircraft Leasing Ireland every success in growing this dynamic and evolving industry and further supporting its members in the years ahead."

TREVOR BUCKLEY

Trevor has 20 year's experience in the aviation industry having held a number of roles in Aer Rianta, SR Technics and Ascend Aero in the fields of commercial, component repair, retail, sales and marketing and is an active member of the Dublin Branch of the Royal Aeronautical Society. Trevor launched the Irish Aviation Research Institute blog in 2011.

Trevor holds an BA (Hons) in Personal and Professional Development from All Hallows College DCU, Dublin, Ireland. Trevor is Digital Marketing Manager at Acumen Aviation, an aircraft lease management company.