Sky is the limit for growth of Irish aviation sector

Global industry is set to double in the next 20 years, offering huge opportunities here. World’s first satellite-based air traffic control system will be run from Co. Clare.

The Irish aviation sector is one of this country’s quiet success stories and has grown to play a very significant role in the economy. According to the Irish Aviation Authority (IAA), the sector contributes just over €4 billion to GDP comprising €1.9 billion directly from aviation, €1.3 billion through the supply chain and €900 million from associated spending by people employed in aviation. Some 26,000 people are employed directly, with a further 16,000 in the supply chain.

While the international success of airlines such as Ryanair and Aer Lingus and the aircraft leasing industry tend to command most of the headlines, there are many other growth opportunities for the industry, according to IAA chief executive Eamonn Brennan.

“There are opportunities for Ireland in virtually every area of aviation,” he says. “The global aviation industry continues to expand and it is estimated to double over the next 20 years, increasing to over 7 billion passengers flying per annum compared to 3.5 billion today, whilst the global aircraft fleet is set to double from 22,000 aircraft to 44,000 aircraft.”
This presents opportunities for the Irish civil aviation industry in areas such as pilot training services. The new Turkish Airline pilot training contract with Cork based Atlantic Flight Training Academy is a good example.

Other areas of opportunity include satellite-based air traffic control services, with the IAA playing a key role through the Aireon project; airport growth as long-haul markets open up; and continued expansion of the corporate jet market.

Ireland is also fast becoming a centre of excellence for the drone industry, according to Brennan.

“On December 21st, 2015, Ireland became the first country in the world to successfully implement an online drone register via the IAA,” he says.

“This sector is expanding rapidly around the world and the potential application for drones is truly incredible, and the development of the drone industry in Ireland will have a very positive effect on the wider economy.”

In many ways, the jewel in the crown of the aviation sector is aircraft leasing. “The industry’s development here goes back to Tony Ryan first in Aer Lingus and then in GPA”, says KPMG head of aviation finance and leasing, Tom Woods.

“At this point more than 50 per cent of the world’s leased aircraft are owned and managed from Ireland and 14 of the top 15 global lessors have operations here.”

Overseas

He believes an important factor in the industry’s success has been its outward focus. “One of the very positive features of the industry here is the fact that people have always been alive to developments overseas. A number of countries including Singapore and Hong Kong have done a lot to attract aircraft leasing to their shores, while China has a number of free trade zones which are attractive to the industry.

“Given that a lot of the demand for future growth in the sector is going to be in China and Asia generally these are significant developments. The industry here has been watching these developments very closely and has been responding. The establishment of satellite offices in other key markets will be a key development.”

This is not our only strength of course. “Ireland has many other strengths and advantages as a location for aviation leasing”, says Michael Murphy of Capita Asset Services.

“These include the fact that we are an English speaking nation, we have a well-respected aviation authority and a legal environment which generally provides protection to lenders.

“The legal environment includes Ireland’s position as a contracting state under the Cape Town Convention as well as the location of the International Registry in Dublin. Such protections should be enhanced by Ireland’s adoption of the Convention’s ‘Alternative A’ insolvency remedies.”

The health of the leasing sector was proven during the downturn, as PwC tax partner Yvonne Thompson points out. “It has the advantage of having been around for a long time. It was a relatively quiet player for many years but has become a lot more vocal in recent years.

“It continued to grow during the downturn and was unique from that perspective. The person in the street might not be able to see how important it is but it supports a huge amount of additional employment both in the IFSC and the aviation sector generally.”

Ireland certainly majors in leasing but other forms of aviation finance are starting to be arranged through the country.

“Although the capital markets have been tapped by US carriers and lessors for some time, due to a lack of ratings and affordable debt outside of the US market, very few players have traditionally turned to the capital markets for funding,” says Donna Ager, partner and head of aviation practice with Maples and Calder.

“However, in the last couple of years, aircraft securitisation has boomed, with numerous aircraft portfolios refinanced by operating lessors using publicly-listed debt, as they seek to diversify their financing options in the wake of the global financial crisis.”

Assets and platforms

In Ireland this increased capital markets activity has led to the establishment of more aircraft platforms and the holding of more aircraft assets in Irish companies.

“This has been aided by the section 110 regime and the utilisation of Cayman incorporated Irish tax resident vehicles which facilitate the efficient structuring and delivery of securitisation transactions for a variety of asset classes and is recognised as one of the leading regimes in the EU,” Ager explains.

“Coupled with Ireland’s acknowledged position as a leading international location for the aviation industry, this has made this country one of the leading jurisdictions for the structuring of aviation securitisations.”

This financial activity has a direct impact on other segments of the aviation industry in Ireland.

“Aviation finance may not be a huge employer but the people that it does employ are very high value,” Tom Woods says. “It employs around 1,200 people directly and a further 2,000 indirectly in areas like professional services, MRO [maintenance, repair and operations] and transitioning.

“An awful lot of support companies are involved in the ecosystem created by the sector. These include companies involved in the design and fit-out of aircraft interiors – seat configuration and so on – and others in a range of areas including the development of software for in-flight entertainment systems.”
Eamonn Brennan agrees. “Our MRO sub-sector plays a key supplementary role in the wider aviation sector in Ireland, supporting airline and airport activity, aircraft finance and leasing activity and manufacturing.

“About 2,000 aircraft are moved globally each year by leasing companies – there’s substantial work required in the aircraft transition process to meet company and regulatory requirements. Ireland is well placed to develop as an aircraft transitioning centre, to underpin the success of the aircraft leasing and MRO sectors and to support their growth.”

**Ahead of the posse**

Brennan also points to the fact that the sector here is extremely technologically advanced and innovative. “An interesting example of innovation is something the IAA is directly involved in itself, namely satellite-based air traffic surveillance technology.

“The IAA is part of Aireon, a joint venture with Iridium Communications of the US, Nav Canada, ENAV of Italy, and Danish firm Naviair, which was established to launch the world’s first satellite-based air traffic surveillance system from 2018.

“The IAA was selected to manage a new global emergency tracking service centre that will provide accurate information on the location of aircraft anywhere in the world, known as the Aircraft Locating and Emergency Response Tracking (Alert) system. Through Alert, rescue agencies, air traffic control providers and airlines will then have accurate information on the location and last flight track of any aircraft.

“This new technology will be fully operational in 2018 and managed by IAA personnel at its North Atlantic Communications Centre in Ballygirreen, Co Clare. Another area we are leading on is remote tower systems and we will commence a trial this year concerning air traffic control tower services at Cork and Shannon aerodromes which will be provided from a central location at the Dublin air traffic control centre.”