

Panel 3 - Aircraft Leasing

Moderator – Eduard CIOFU

Your safety is our mission.

Panel 3 – Aircraft Leasing

Key Themes:

- Aircraft Leasing – Safety and efficiency implications
- European wet lease market – evolution and challenges
- Group Operations and leasing
- Regulators' Oversight
- EASA's perspective

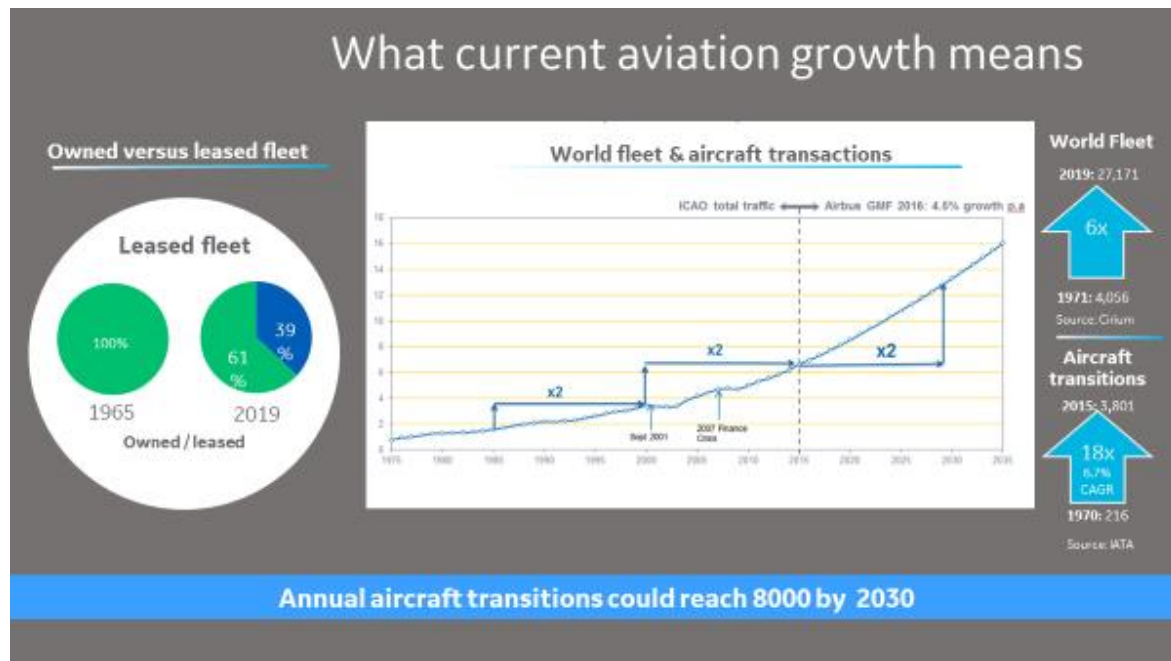


→ **MARK LYNCH**

→ **GECAS, Senior VP – Materials and Engineering Solutions**

Transcript: Mark Lynch 5th November 2019 – EASA safety conference Helsinki

Thank you for the time to present a slightly different perspective of our industry. Most of you work on the front line of aviation safety, and I know you all take it seriously at both a professional and personnel level. The Aviation Working Group, represent lessors, amongst others, who engage in the dry leasing of aircraft. That is where the aircraft alone transfers. As this conference is focused on operations I understand that most of the discussion today will be on wet leasing. My challenge to you is to think about resources over the next decade, efficiency within the industry, and the implication of the increase in aircraft leasing.



Demand expansion is compounding. Every 15 years traffic doubles, 1985 – 2000 – 2015 – 2030 and along with it the number of aircraft. Industry has dealt with it for the last two 15 year blocks, so what's the problem? The difference is leasing. 40% of aircraft are now leased and these aircraft won't stay with the same operator for life, transitioning on average 3-4 times over their commercial life. With some operators now also engaging with leasing and aircraft trading, it is estimated by 2030 there will be 8,000 transfers.

We all are happy to pronounce that Aviation is a global industry. But is it really? An A320 flying in the Europe is safe with 180 seats; in the US it is only safe and legal if it has 179 seats. Similarly, a Boeing B737 is safe flying in the US with a half hour emergency battery while it is unsafe and illegal to do so in Europe. Plenty of other examples of unharmonized requirements exist from ozone converters, nitrogen gas inerting, TCAS 7.1. Even the recent ADS-B mandate requires different equipage fit between the US and Europe. I have only mentioned EU/US differences but other countries have unique requirements too. SGI, an aviation consultancy assessed, that the total cost of such dissimilar requirements could cost industry between \$4 and \$5 billion dollars over the next decade.

My question to you is, if I said we had \$4billion to invest in aircraft safety over the next ten years is this how we would choose to spend it?

A positive example of industry and regulators working together is to do with aircraft records. In 2010 we asked our customers how much does it cost them to transfer aircraft records at transition. The

answer was \$80,000 at aircraft return; \$40,000 at delivery. Multiply \$120k by 8,000 transitions gives \$1billion a year in 2030; \$1billion a year to push paper?

Happily, this is not going to happen. Industry and regulators have worked together to create a sensible and efficient framework for records transfer. For instance, in 2012 EASA set up a rule making task to overhaul records requirements. The resulting new regulation, (EU) 2019/1383 of 8 July 2019, along with the associated guidance material, protects airworthiness and is a model of clarity. This will become the leasing standard and hopefully will be adopted globally. We commend EASA for this. ICAO has issued guidance on acceptance of electronic records, published in advance of Rev 4 of the Airworthiness Manual (Doc 9760), and industry has done their bit too. The AGW & IATA have agreed a standardised record checklist and industry through the ATA has defined a protocol, Spec 2500, for the electronic transfer of records.

Let me try and answer Eduards question on whether a leased aircraft is safer than an owned one.....?

At every international transfer a perfectly serviceable aircraft with a certificate of airworthiness is taken out of service and carefully scrutinised by five separate organisations. Both the aircraft and the associated records are subject to scrutiny by the returning operator to ensure lease return conditions are met, by the exporting authority which issues the export C of A declaring the aircraft is airworthy and meets the importing states requirement. It is scrutinised by the Lessor to protect his asset and ensure all contractual conditions are met. The aircraft and records are then scrutinised by the new operator to ensure they are getting what they paid for, and finally by the importing authority to ensure that the aircraft & maintenance programme meets their national requirements. None of this scrutiny would have occurred if the aircraft were to remain with the original operator.

So the glib answer would be yes, a leased aircraft is safer as it is inspected more often. Of course the actual answer is that it depends on the operator, and his airworthiness management and maintenance of the aircraft.

By 2030 the transaction I described will be repeated 22 times a day, every day. My second question to you is based on risk based oversight is this an efficient use of Authority resources?

The AWG / ICAO have set up a cross border transfer (XBT) initiative. It has already been agreed that the Export C of A need no longer include a declaration that the aircraft meets the importing states requirements. Circular 95 is being reissued as a database where states can declare their own import requirements and view others, and a registrations manual separate from the Airworthiness manual is being drafted. In addition the task force is looking to facilitate aviation authority use of a delegation mechanism under ICAO, to discharge their XBT functions and promote global consistency, relieve resource pressures and enhance efficiencies. Delegation of tasks is common under EASA, with CAMO organisations being a very positive development in Europe. Delegations of tasks at a global level would be a big step forward.

Thank you for listening and I look forward to discussing this more as a part of the panel.



→ **EUGENE QUIGLEY**

→ **CityJet, Chief Operating Officer & Accountable Manager**

European Regional Wet Lease Market

Development &
Challenges

05 November 2019



Wet Lease Today

- Wet Lease – Provision of Aircraft, Crew, Maintenance and Insurance (ACMI) for a guaranteed minimum of block hours per month over an agreed period
 - Why Wet lease ?
 - Allows airlines to hire in both short-term and long-term capacity solutions
 - Permits airlines to focus on their own operation without the resource risk (people/aircraft) of smaller-gauge aircraft
 - Simple cost-effective “capacity as a service” solution without a major investment & support infrastructure
 - Provides alternate formula to continuing to compete with Low Cost Carrier’s for lowest possible seat cost but being competitive with frequency and lower footprint cost per flight
 - Right gauge, right price feed for hubs
 - European market still in development compared to the American market
 - American market is generally made up of independent providers with long term strategic partnership agreements (+10yrs) and have more global union agreements.
 - European market only has a few truly independent suppliers, contracts are generally short term (2 year or shorter) and union agreements tend to be country specific
-

Challenges

- Short term contracts have higher risk/cost – Investment v return
 - Short term contracts are not conducive to crew stability – training costs and standards
 - Drain from the mainline carriers on the regional pilot pool
 - Maintaining high operational standards across a broad theatre of operations (e.g cold weather operations)
 - Airline specific standards (eg Lufthansa CARA) and other customer requirements (Livery's, uniforms, on board experience, etc)
 - European cultural, language differences and region specific labour laws and union requirements
 - Establishing longer term strategic partnerships between airline and wet lease provider
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→ **CÉSAR EUGÈNE HOLZEM**

→ **TUI fly, Senior Manager Flight Deck TUI fly**



Safety Approaches in Aircraft Leasing

A Practical Airline Experience



Safety Approaches in Aircraft Leasing

About **TUI fly** (very briefly)



German airline branch of the TUI Group – the world's largest leisure, travel & tourism operator with similar airlines in UK, SW, NL, BE



Operating 35+ Boeing 737-800 (MAX was planned for 2019) and seasonal wet lease of up to 3 aircraft



Short & medium haul to typical tourist destinations in the Mediterranean, the Canary Islands, Cabo Verde, North Africa, Egypt, and the Gulf region



7 aircraft are operated as ACMIO-lease for Eurowings – making TUI fly a lessor itself



Seasonal long haul operations to the Caribbean existed until 2017 with dry-leased aircraft from Group airlines

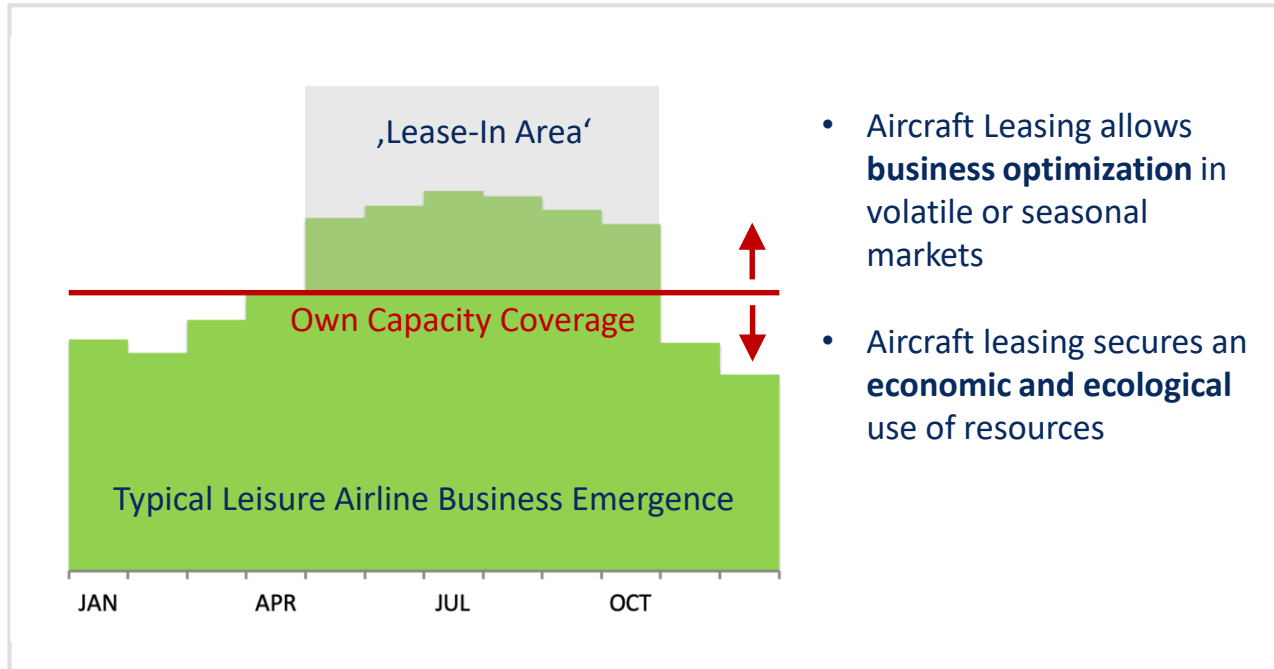


Leased-in operators, especially when employed on a long term basis, are handled under the TUI fly SMS



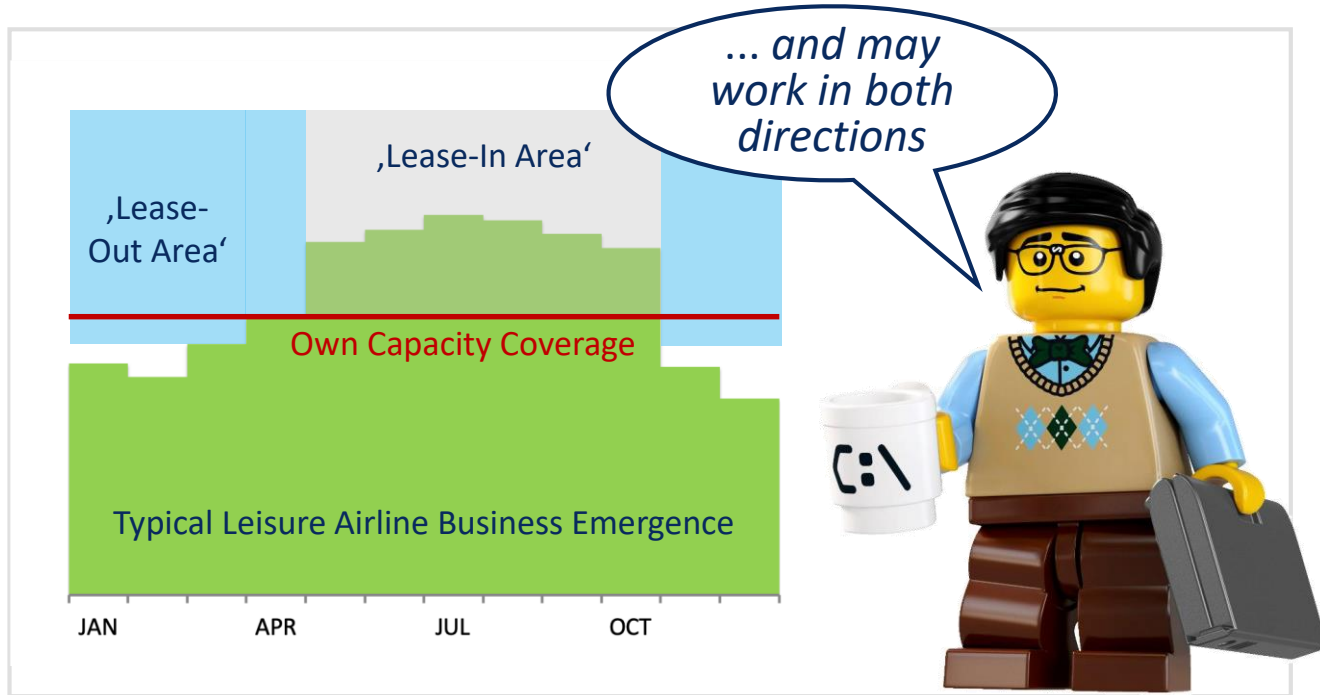
Safety Approaches in Aircraft Leasing

The Why – A Leisure Airline Business Fundamental



Safety Approaches in Aircraft Leasing

The Why – A Leisure Airline Business Fundamental



Safety Approaches in Aircraft Leasing

The How – An Airline Safety Fundamental



For example at TUI fly:

- *Inter-Group leases rely on the common standards and procedures within the TUI Aviation Group*
- *Leased-in operators are audited prior or during their employment under the TUI fly SMS*
- *... and are not regarded as pure capacity providers but as trusted safety partners*



Thank you very much.

For further questions:

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Senior Manager Flight Deck

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→ **PEARSE McCRANN**

→ **Irish Aviation Authority, Head of Flight Operations Department**

Regulatory oversight of leasing – IAA perspective

PEARSE MCCRANN

05 NOVEMBER 2019

EASA ANNUAL SAFETY CONFERENCE, HELSINKI

Various Emerging Wet Leasing Scenarios



Main scenarios according to business arrangements

(1) Operator is a subsidiary of a commercial group operating ACMI only to the group or operators of group wet-leasing substantial fleets intra-group

- AOCs in different States/different NAAs
- Long term arrangement
- Service level agreements/contracted services

(2) Operator only operates ACMI, various contracts in different EU States

- Long term arrangement
- AOCs in different States/different NAAs

(3) Operator 'owned' by parent operator, also ACMI business model

- AOCs in different States/different NAAs
- Long term arrangement
- Service level agreements/contracted services

Wet-leasing increasing

Emerging scenarios:

- ▶ large scale Wet-Leasing activity increasing
- ▶ becoming a regular feature of Air Ops oversight: 965/2012 v service agreement
- ▶ operator business models migrating towards various group/business arrangement scenarios incorporating ACMI only operators
- ▶ group operations dynamic and leasing

Potential regulatory challenges:

- ▶ More complex oversight need – new intrinsic risks emerging: EASA 2017
- ▶ inter-NAA cooperation / information within regional safety oversight organisation
- ▶ any critical mass or limit to wet-lease in that challenges existing regs
- ▶ potential issues with ACMI only business model

Dry Leasing

Financial leasing v dry leasing; largely facilitated through Article 83bis agreements



(1) support for aircraft leasing sector

- Irish Aircraft Register

(2) EU versus Non-EU

- EASA – Regional Safety Oversight Organisation
- Globally

(3) State of Registry/State of the Operator

- Annual C of A
- Risk – Combined Airworthiness/Flight Operations visits
- Aircraft on AOC & aircraft transitioning between operators

Thank you



→ **CLAUDIO TREVISAN**

→ **EASA, Head of Air Operations Department**

→ **Regulatory perspective**

- Need to better align with market access regulations
 - Example: prior approval for intra-EU wet-leases
- Better regulatory framework for group operations
- No shortcuts on safety

→ **One Europe, One System**

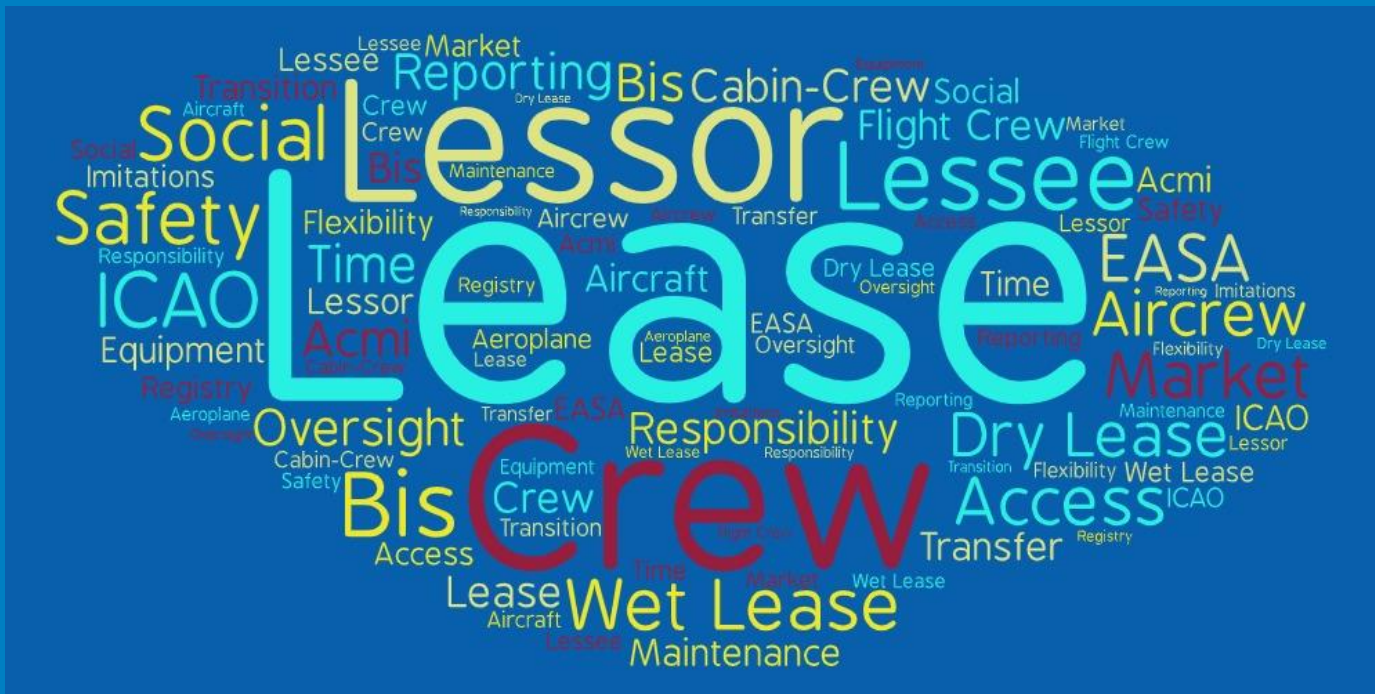
- Mutual recognition of certificates: Standardisation as a key enabler
- Cooperative oversight amongst Competent Authorities is essential
- Are Authorities making the best use of Industry Standards ?

→ Leasing of third country aircraft

- EASA TCO authorisation: necessary, but not sufficient
 - As lessors need to have “an equivalent level of safety” to the EU standards
- Market access elements are also important
 - But they should be regulated with the right instruments
- What about a voluntary **TCO+** scheme?
 - = EASA assessment of third-country wet-lessors

EASA

European Union Aviation Safety Agency



easa.europa.eu/connect



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An Agency of the European Union 