

The 24th Annual Commercial Aviation Geneva Forum: Strategies for handling the ever changing challenges facing the world of commercial aviation

March 2010

The Annual Commercial Aviation Geneva Forum is one of the longest running aviation finance events in Europe attended by senior executives from airlines, banks, leasing companies, manufacturers and legal practices. Ince senior associate Ben Conway attended the Forum and gives his impressions below.

The three-day event provided an insight on the current economic conditions, the economic outlook and future developments for commercial aviation. Key issues arising from the conference included the following:

- The commercial aviation funding gap, much discussed last year, did not materialise due to the vastly increased activity of the export credit agencies. There were some mixed views as to whether such activity was a wholly beneficial development. Participants recognised that without their involvement deliveries of new aircraft last year would have been severely constrained, but concerns were raised as to whether this level of intervention in the market for finance was enabling new aircraft to be delivered when perhaps they should not be. Finance for pre-delivery payments continues to be difficult to obtain as this is a market that the export credit agencies do not engage in and there was a feeling that Basel 2 is not helpful in this area.
- The market for used aircraft sales was the lowest on record last year. The operating lessors saw the main trading in used aircraft as being in sale and leasebacks and were of the view that there is a major log-jam in the used aircraft market that has to be cleared. For many participants this was due to the lack of funding being made available for used aircraft and was identified as the "real funding gap". There were lively discussions regarding the implications for aircraft values if this situation continues. At some point it was felt funding for new aircraft would be affected, as banks might be concerned by residual values being lower than expected. The export credit agencies stated that they are able to finance used aircraft but had received no requests.
- Both main manufacturers, Airbus and Boeing, expressed confidence in the future (particularly in relation to Asia Pacific) and stated that their currently high delivery levels and announcements of ramped up production in the future were justified by the current market conditions. This was not a view shared by all, however, and some participants (including some operating lessors) cited overcapacity concerns. Announcements are expected from Airbus by Farnborough (July 2010) and from Boeing by the end of the year as to whether they will proceed with the heavily discussed re-equipping of the A320 and B737 with new engines. Issues surrounding the impact on residual values of those A320 and B737s that were not re-equipped, and in particular on those that are due to deliver shortly before re-equipped models are delivered should the re-equipping go ahead, were discussed. Operating lessors indicated some concerns over residual values as a result and also queried whether there will be an impact on the underlying assumptions for time periods for depreciating aircraft on their balance sheets.