

C-19, airline restructurings, legal stability, ESG, return-to-service, GATS, and export credit

Airline Economics, Hong Kong

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AWG – who we are and what we do

- AWG is the preeminent group developing, and advocating for, global and national rules to advance asset-based financing and leasing of aircraft equipment
- Chaired by Airbus and Boeing, AWG members are these leading manufacturers, leasing companies, and financial institutions



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Airline restructuring principles

- Ten principles for successful restructurings
- Elective guidance tool
- Does not represent policies, positions or views, nor agreement among or binding upon individual AWG members
- Available at www.awg.aero

Key Principles

Restructuring should be consensual

If the creditor does not agree it retains its legal rights and should not be "crammed down"

2 No "forum shopping"

Restructurings to be managed under or applying the laws of the country where the airline has its major base, not where it thinks it can obtain a more favorable outcome

A viable and transparent business plan (3

Airline to present a viable business plan identifying the sources of fresh equity and/or government support with information equally and fully available to participants

Fair treatment of creditors

Debt ranks ahead of equity and aircraft creditors' claims should otherwise be dealt with fairly



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Cape Town Convention



- Supply/demand equilibrium in tension with asset based financing principles
- CTC and laws being stress tested
- CTC compliance index at

https://ctc-compliance-index.awg.aero/

Key Principles

Avoid bad precedent

The current environment presents the risk that insolvency rulings and legal changes may create bad (and lasting) precedent adversely impacting the industry. Action is required to avoid that

2 Ensure compliance with CTC

Strict compliance with CTC, especially alternative A (insolvency) and its cross-border application, including in the context of schemes of arrangement, is imperative. That would prevent cram-down

3 Powerful role of CTC compliance index

AWG's CTC compliance index is a powerful tool to incentive compliance with the treaty. To maximize its effect, all parties and their counsel should use the index as appropriate in the transactional context

AWG intervention in insolvencies and c-19 driven law reform

AWG has intervened, in one way or other, in virtually all insolvencies and law reforms, with many tangible successes, including: UK, India, Singapore, Australia, and Russia



AWG Carbon calculator



Key Principles

- Increased focus on sustainability from the investment community, financiers and financial regulators
- Current focus on aircraft and airline operations - no standards for aircraft financiers, investors and lessors
- Simple, reliable, consistent metrics on aircraft CO2 emissions are not widely available today
- AWG has access and credibility to help the aircraft finance industry establish a standard

1 Use reliable, consistent data from aircraft OEMs

Collect input directly from OEM performance data utilizing standard configurations, agreed-upon rules and multiple data-points for increased interpolation accuracy

2 Automate simple calculations to provide standard output for the industry

An imbedded online calculator will allow the user to provide their own input on utilization or use default averages. Output will be standard: CO2 emissions per FH, per trip and per annum.

3 Consistent, reliable, standard output allows for comparisons over time

Having standard data will allow each user to look at their own portfolios over time, evaluate trends and make decisions based on their own goals



Return to service

- Large percentage of global fleet out of service
- C-19 implications and restrictions on aircraft condition monitoring and operation
- Need to add lessor and financier perspective relating practical airworthiness and asset value impacting rules

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Key Principles

Important new materials and practices being developed to facilitate cross border transferability

AWG and ICAO are working on next generation of materials relating to cross-border transferability, including a new ICAO registration manual. AWG is also preparing a practitioners guide to share best practices around the world

2 Prepare for, and prevent delays in, return to service

Close coordination among airlines, lessors, and authorities is needed to ensure that there are no added return-to-service delays based on avoidable airworthiness related matters

3 Rapid, secure, and trusted transmission of airworthiness and health-related materials

AWG and ICAO are working with Aviareto to establish a trusted communication facility (TCF) to electronically transmit airworthiness and health related materials. It will be optional, voluntary, permissive, and non-exclusive

4 Avoiding calendar-age based import restrictions

Given the lack of correlation between calendar age and safety, AWG is actively at work seeking to secure ICAO guidance (as a revision to its airworthiness manual) to discourage calendar age based important restrictions





GATS

- Standardized, simplified, and electronic system for aircraft trading
- Protective of the interests of all parties, especially the airlines
- See: <u>https://e-gats.aero/</u>

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Key Principles

1 GATS went live on 1 June 2020

The user-friendly platform is live. Use of GATS will save substantial time and resources in aircraft trading, at all times while enhancing the rights and protections of airlines

2 Standardized e-transactions

GATS is based on best form standardized document (approved by the FAA and compliant with requirements of authorities), which are effected electronically

3 Usage of GATS

All parties are encouraged to use GATS when they can, whether in new transactions, following the return of aircraft, or by migrating existing transactions to GATS trusts. The major trusts companies have been approved for GATS transactions

4 Potential additional functionality: securities

AWG is considering use of GATS for other debt and investment transactions, by setting our standard documents for, and recording, fractionalized or packages GATS transactions



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Key Principles

- ECAs support role during crisis/market disruption
- Short term deferral rules needed on debt repayment
- AWG role in engaging with OECD/ECAs and aligning OEMs



Ramp up to fill the finance market gap

2 "Common Line" discussion/procedure at OECD

Short term changes to ASU under consideration to support deliveries and provide relief on debt repayment while maintaining OEM level playing field

3 Consideration of longer term changes

Link between export credit and ESG objectives - further discussion among ECAs still needed



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Overview chart – emergency & insolvency laws & CTC compliance analysis



* 'RPL' means regulatory public law.



Oman

India

Annex – legal stability

Cape Town Convention COMPLIANCE INDEX

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View country scores with qualifying declarations made (43) Country Score ↓ Category 6 Australia A 94.5 Very High (+) Canada 94 Very High 6 92.5 Singapore Very High **R**... New Zealand 92.5 Very High # 89.5 Norway Very High Ð A 89 Sweden Very High Ireland A 88.5 Very High * United Kingdom 87 Very High 85 Malta High 0 Denmark 84 High San Marino 79 High Luxembourg 76.5 High Russia 75.5 High R# 75 High Fiii С 73 United Arab Emirates Medium C 73 Pakistan Medium Vietnam 71.5 Medium × Turkey 70.5 Medium

70

69

Medium

Medium

Eenya Kenya	69	Medium
e Rwanda	67.5	Medium
5 Jordan	67.5	Medium
Panama	67.5	Medium
Senegal	66.5	Medium
S Brazil	65.5	Medium
S Kazakhstan	64	Medium
	64	Medium
Mongolia	62.5	Medium
Argentina	60.5	Medium
Jalaysia	60	Medium
- Uzbekistan	57.5	Low
С Тодо	56.5	Low
South Africa	▲ 56	Low
😡 Myanmar	55	Low
Bahrain	54	Low
	51.5	Low
Cote d'Ivoire	50	Low
Egypt	49	Low
🥌 Mozambique	49	Low
Tajikistan	47.5	Low
Ethiopia	46.5	Low
Nigeria	43.5	Low

Country scores with no qualifying declarations

Country	Score ↓	Category
Lunited States of America	90	Very High
Spain Spain	76.5	High
Mexico	68.5	Medium
e Colombia	65	Medium
= Latvia	64	Medium
🚷 China	59	Low
Cameroon	56.5	Low
Burkina Faso	55	Low
Belarus	49	Low
C Kuwait	46.5	Low



Annex – GATS – lessor readiness



- What have lessors been doing to ready themselves for GATS?
- What more could lessors be doing?
- Bank readiness / law firm readiness

- Refamiliarize yourself with GATS materials: <u>https://e-gats.aero/help</u>
- Provide or arrange GATS training for your teams
- Onboard your teams as 'digital certificate users' on the GATS platform
- Establish your 'entity profile' on the GATS platform
- Engage with a cleared GATS trustee
- Update standard forms to include GATS provisions in leases
 - Do not need to use all features in 'template clause'
- Migrate your fleet into GATS trusts, and seek transitions when:
 - Signing new leases
 - Selling/buying an aircraft, or while aircraft is off-lease
 - Transfer / novate into a GATS Trust as part of lease restructurings
 - Continue engaging with airlines on GATS



Investor Inputs:

- Airplane model
- Annual cycles
- Annual flight hours

Calculator logic:

- 1. Input airplane model \rightarrow select relevant data table
- 2. Annual FH/annual cycles = **XX** FH/mission
- 3. Interpolate data from OEM data table for **XX** FH \rightarrow **YY** CO2/FH for average mission for this aircraft
- 4. → **YY** x Annual FH = **ZZ** CO2 per annum

Calculator Output:

List of Assumptions



- Airplane model
- In/out of production
- Annual FH
- Annual cycles

Calculated CO2 for input airplane:

- CO2 per annum
- CO2 per FH
- CO2 per trip





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