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Aviation: Financing & Leasing 2025

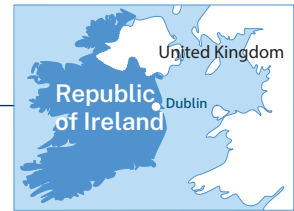
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Ireland: Trends and Developments

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IRELAND



Trends and Developments

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A&L Goodbody LLP is one of the leading corporate law firms in Ireland. Its aviation and transport finance team is led by partners Marie O'Brien, Séamus Ó Cróinín, Maria McElhinney and Keith Mulhern. Collectively the team has unparalleled experience when advising on financing structures, including significant experience in the establishment of new aircraft leasing and financing platforms, joint ventures and sidecars, mergers and acquisitions, asset-backed securitisations, aircraft CLOs, aircraft portfolio sales,

acquisitions and financings, aircraft leasing transactions and high-profile restructurings. It works closely with clients in the USA, Asia, the Middle East and Europe to start or expand their business through a presence in Ireland, helping them navigate the legal, tax and regulatory environment in Ireland. As one of the largest aviation teams in Ireland, it has the experience to advise on the largest and most complex transactions with a focus on delivering client-first, solution-based Irish legal advice.

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Introduction

2024 marked a significant milestone for the aviation industry, with global passenger demand returning to and surpassing pre-COVID-19 levels in many regions. The International Air Transport Association (the “IATA”) reported an 11% increase in global passenger demand compared to the previous year, which equated to a 6% increase compared to 2019 levels. This resurgence was driven by robust performances in the largest passenger markets of Europe and North America and a continued recovery in the Asia-Pacific region. International passenger traffic also saw a notable increase and air cargo volumes rebounded after two years of decline, with full-year growth forecast at nearly 12%.

As the aviation industry continued to battle with the supply demand imbalance throughout 2024, availability of financing was very strong for many of the lessors allowing for increased trading and further M&A activity. Major geopolitical events in 2024 caused uncertainty in the global economy, albeit the aviation industry remains robust and is responding well to significant challenges. As the global hub for aircraft leasing, Ireland’s important and wide-reaching role provides an insightful lens on the trends and developments within the industry.

Financing trends

The aviation industry in 2024 was marked by robust demand for capital, a resurgence in capital markets activity and continued innovation in financing structures. These trends have continued in the first few months of 2025. Investor interest in aviation assets remains high with capital availability outstripping the supply of new aircraft. As a result, lessors and airlines have found themselves in a competitive environment for aircraft acquisition, shifting bargaining power towards lessors and driving up asset values and lease rates.

US private equity continued to play a significant role, with firms such as Castlake, Oaktree, Carlyle, PIMCO, Apollo, KKR and Bain actively investing in leasing platforms and alternative lender structures. Japanese and Middle Eastern investors also increased their activity with notable growth in JOL and JOLCO transactions and the expansion of Middle Eastern les-

sors such as DAE and AviLease. The resilience and long-term outlook of the aviation sector has attracted both traditional and non-traditional investors, including institutional and private equity capital.

There has also been a marked return of aviation issuers to the capital markets, particularly among investment-grade lessors. Large-scale lessors such as BOC Aviation, Air Lease Corporation, AerCap and SMBC Aviation Capital issued significant volumes of unsecured bonds, taking advantage of tightening spreads and strong investor demand. The US unsecured bond market remained the cornerstone of funding for these entities, with more than USD150 billion in lessor bonds in circulation.

The aviation asset-backed securities (ABS) market also experienced a notable rebound. Seven new commercial aircraft ABS deals closed during 2024, with a combined value of USD4 billion, which while still below the 2019 peak, showed a clear sign of renewed investor confidence. The reopening of the ABS market was led by experienced issuers such as Carlyle Aviation Partners, SKY Leasing and BBAM as well as others. These transactions were characterised by tighter spreads, lower loan-to-value ratios and a focus on well-constructed portfolios.

The loan ABS and collateralised loan obligation (CLO) segment also grew in popularity, offering attractive risk-return profiles and drawing in new investors. The ABS and CLO trend is one that has continued into 2025 notwithstanding geopolitical uncertainty.

Warehouse financing has also remained popular, especially among non-investment grade lessors, as a means to quickly acquire assets before refinancing through the capital markets. However, the cost of warehouse debt was a challenge for some, and many facilities put in place during the COVID-19 pandemic were refinanced in the ABS market as conditions improved.

As in recent years, the M&A trend continued throughout 2024. The competitive environment and supply constraints led to increased M&A and portfolio trading activity. Large-scale portfolio acquisitions, such as Avolon’s purchase of Castlake Aviation Limited and

platform sales in the regional aircraft space (eg, DAE's acquisition of Nordic Aviation Capital) were prominent. Trading volumes in the secondary market were robust with lessors and airlines both actively buying and selling aircraft to manage fleet age and capitalise on high asset values.

Capital availability was key for these acquisitions to occur with purchasers availing of numerous types of financial products to make these transactions succeed.

The financing trends in the aviation industry in 2024 and for the first few months of 2025 has reflected a sector in transition. This has been buoyed by strong investor appetite, a resurgence in capital markets activity and continued innovation in funding structures.

Supply chain issues

Although finance availability has been plentiful for numerous lessors, the lack of available aircraft places a constant strain on the industry. The aviation industry continues to grapple with the persistent supply chain issues which started during the COVID-19 pandemic. These issues primarily relate to challenges in securing parts, labour shortages and engine delivery issues, resulting in delayed aircraft deliveries and slower fleet expansion.

Market data shows that approximately 1,200 commercial passenger and freighter aircraft were delivered in 2024, representing a reduction from 2023 totals and well below the peak of 1,813 aircraft in 2018. The backlog for ordered aircraft has reached almost 17,000 with some delivery dates as far out as 2038. The supply chain issues have resulted in an aged global fleet and according to the IATA, the average age of the global fleet has risen to a record 14.8 years, representing a significant increase from the average of 13.6 years for the 1990-2024 period. An older fleet and increased fleet utilisation rates has resulted in an increased need for maintenance services and higher fuel burn.

According to market analysis, Airbus' and Boeing's 2025 first quarter delivery data suggests significant challenges on the path to achieving their respective

delivery targets for 2025. The consensus, within the industry, is that it will be closer to the end of the decade before production levels improve to pre-COVID-19 highs.

The background to these challenges is that demand for air travel continues to trend upwards with the IATA forecasting an 8% growth in traffic in 2025. The shortage and backlog of aircraft may limit lessor's growth strategies in the medium and long term. However lease rates were higher at the end of 2024 than they were the previous year across most asset types. Throughout 2024 lessors saw nearly all flyable aircraft placed on lease. Asset values also increased through 2024 with older narrowbodies seeing the largest increases in market values throughout 2024. The supply demand imbalance has led to increased trading on the secondary aircraft market and an increased amount of lease extensions.

The rise in lease rates and asset values has decisively shifted the balance of power towards lessors. Airlines, constrained by supply shortages and the need for capacity, have lost some of their previous negotiating leverage. Lessors now enjoy higher returns and can often be selective in their counterparties and asset placements. This dynamic is expected to persist as long as supply constraints remain, reinforcing the strategic importance and financial strength of the Irish leasing sector within the global aviation sector.

Tax changes

Changes in taxation practice and legislation throughout 2023 and 2024 has prompted many aviation lessors to review group holding structures. Aviation structures make use of special purpose vehicles (SPVs) through which aircraft are owned and leased and intra-group funding is funnelled through. The Irish Revenue Commissioners (the "Revenue") had historically viewed such SPV entities as "trading" entities provided that these entities were part of an active trading group.

Entities categorised as "trading" benefit from a 12.5% corporation tax rate (subject to any top-up required due to the application of the Pillar Two provisions (if applicable)). 2024 saw changes to the Revenue's practice regarding the categorisation of entities as

"trading" and trading status is now more closely considered on a standalone basis rather than in a group context. Entities with insufficient activities and not classed as "trading" entities are subject to a higher tax rate (a 25% corporation tax rate generally applies to non-trading income).

In terms of intra-group funding vehicles, the Finance Act (Finance (No. 2) Act 2023 (the "Act")) introduced changes, in the form of a "Qualifying Financing Company". This new concept provides companies involved in intra-group lending with the potential to make use of a specific tax treatment, subject to specific conditions being fulfilled. The primary benefit of this new concept is that subject to satisfying the relevant conditions, a Qualifying Financing Company can obtain a tax deduction for interest paid on external third-party finance borrowed for on-lending to a direct 75% trading subsidiary resident in an EU/EEA state.

These changes in practice did not impact upon the "Section 110" regime which remains a viable option for achieving tax neutrality. These changes led to several internal group structures, including the insertion of Section 110 vehicles and provides further considerations for the structuring requirements of new platforms going forward.

The Act also contained certain measures which can impact upon the Irish tax treatment of the outbound payments of interest, royalties and the making of distributions by an Irish tax resident entity (or the Irish branch of a non-resident company) to an "associated entity" resident for tax purposes in a "specified territory". A "specified territory" for these purposes broadly means a jurisdiction which is listed in Annex I of the Council conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes or a zero tax territory.

A potential impact of these new rules is that they can "switch off" particular Irish interest withholding tax exemptions on payments to lenders (or permanent establishments of lenders) which are resident for tax purposes or established in specified territories in particular scenarios. The provisions have been of particular focus to lessors whose ultimate holding company is based in these territories or which are members of

groups which historically lent intra-group funds from these jurisdictions.

Insurance settlements

The first few months of 2025 saw the first wave of litigation in the Irish Commercial Court in Dublin relating to insurance claims arising out of the Russian invasion of Ukraine reach their conclusion. Following the implementation of sanctions on Russia in February 2022 by the EU and its global partners, which left more than 400 planes stranded in Russia, six lessors including Avolon, BOC Aviation, Nordic Aviation Capital, CDB Aviation, Hermes Aircraft A1264 Ltd and SMBC Aviation Capital filed a total of more than EUR2.5 billion of claims under their contingent and possessed (C&P) insurance policies with the High Court in Dublin.

These proceedings were grouped together and heard in a single trial, which started in June 2024. The proceedings were centred around the obligation of the insurers to compensate lessors for aircraft stranded in Russia and key issues included: whether there had been a physical loss; whether the lessors had a duty to mitigate their loss; whether the claims fell under the "war risk" or "all risk", "contingent" or "possessed" coverage; and whether lessors were obliged to seek compensation under the operator's policy first.

The cases represent the largest commercial court trial to take place in Ireland. In March 2025, Avolon, BOC Aviation, Nordic Aviation Capital, CDB Aviation, Hermes Aircraft A1264 Ltd and SMBC Aviation Capital reached settlements with, or discontinued their claims against, the remaining insurers bringing an end to the first wave of litigation. The terms of these commercial resolutions remain confidential.

Similar cases were brought by lessors, including AerCap, Merx, DAE, Falcon 2019-1, KDAC and GASL Ireland Leasing A-1 in the English High Court in London in October 2024 with a substantial judgment in this trial expected in June 2025.

Outside of insurance litigation, lessors continue to attempt to agree settlements with Russian lessees under operator insurance policies. These settlement agreements are completed in line with applicable sanctions and often require the approval of the US

Office of Foreign Assets Control where there is a US nexus and potentially the US Bureau of Industry and Security where US export controls apply.

Throughout 2023 multiple settlements completed successfully. However, a slowdown in the volume of these settlement transactions was seen in 2024. This slowdown appears to have been influenced by various factors including: funding issues; additional designations under applicable freezing measures; and US sanctions on the Moscow Stock Exchange. Negotiations of these potential settlements remain ongoing and represent a key possible step for lessors to mitigate their losses in respect of aircraft previously leased to Russian airlines where they can be completed in a way that is compliant with applicable sanctions.

Tariffs

The introduction by the US of a new executive order establishing a “reciprocal” tariff policy in April 2025 has caused uncertainty within the aviation industry. This policy marks a significant shift, particularly for the aviation industry, as it ends long-standing exemptions for aircraft and related parts that had been in place under the Agreement on Trade in Civil Aircraft since 1980.

The introduction of tariffs comes at a time when the aviation industry is already grappling with supply chain disruptions, engine reliability issues and rising labour and maintenance costs. Tariffs add another layer of complexity and cost, potentially exacerbating existing bottlenecks and delays in aircraft deliveries.

Tariffs will increase costs for US imported aircraft and parts, disrupt established supply chains and likely drive up prices and lease rates across the aviation sector. While some mitigating measures exist, the overall effect will be to raise the cost base for aviation lessors, airlines and manufacturers, potentially slow fleet renewal and introduce new operational and contractual risks.

Although the tariff implementation remains fluid, the uncertainty caused by the possibility of further changes to tariff rates, scope and exemptions in response to international negotiations or retaliatory measures complicates long-term planning for all industry participants.

Conclusion

As we navigate 2025, the outlook for the aviation industry in Ireland is positive. The sector is expected to continue evolving and innovating, supported by strong leadership and a stable business environment. While supply chain constraints and macroeconomic and geopolitical uncertainties persist, the industry has demonstrated remarkable resilience and adaptability, positioning itself for continued growth and transformation in the years ahead.

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