

SAF a key opportunity for lessors: AFJ Dublin 2023

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Start-up sustainable aviation fuel producers and airlines believe lessors' entry into SAF production would be a sound commercial and strategic decision with important synergies in the value chain.

Given the scale-up of SAF required in order for the industry to meet its net-zero targets, panellists at *Airfinance Journal's* Dublin 2023 conference argue that the more the finance sector becomes involved in SAF production and distribution, the better.

"It's a brilliant addition to an aircraft lessor's business," says Chris Chaput, chief financial officer of DG Fuels, when quizzed about the decision by new Saudi lessor Avialease to launch the production and distribution of sustainable aviation fuel (SAF) to airline customers around the world.

"Lessors use fuel for ferry flights and other things but in addition to that, it is such a competitive business and since it is so related to their business, if a lessor controls some amount of SAF that they could allocate to their lessees, it provides a valuable edge to securing some very competitive leases."

"It makes a lot of sense. The financial skill set you use to evaluate aircraft leases is not that different from evaluating the purchase of SAF or investing in a SAF producer."

"It's a signal of great leadership," adds Andrew Turner, strategic adviser at Zero Petroleum.

"There isn't a single part of the aviation and space sector that shouldn't be putting the front foot forward in achieving these goals.

"It will be led by public pressure and governments but we need also the big corporates, capital markets, insurance companies and investors to become more involved.

"We've seen in other sectors the lack of ability to raise equity and debt due to the absence of a green trajectory and the missing plan for scope 3 accounting," Turner continues.

Saudi Arabia's \$620 billion Public Investment Fund launched Avialease in June 2022 as part of its 'Vision 2030' economic transformation plan to diversify its economy away from oil, in part by becoming a global transport hub.

"It's the right move for big corporates in the lessor space to take a view and it's all the more impressive that a sovereign wealth fund has taken a stance."

Turner lamented the financing sector's hesitancy to become more involved in supporting innovative producers of SAF with unnecessary complexity of the product creating hesitancy.

"If this is going to take over and change the world, why isn't it a bigger conversation in the financing market, such as the long-term investor space like pension funds and the insurance industry. We've had a SAF conversation with ourselves for too long and have obscured it.

"We need to find where the best long term sustainable sources of cash are."

The enormous scale-up requirements necessitates a huge influx of capital, particularly in Europe where incentives are less attractive than in the USA.

"We need the capital markets to figure out the space quickly – right now there is no bank market or bond market in this space," adds Chaput.

"We need to demonstrate the commercial viability over a two-to-three-year period, because unfortunately that is the only way to get the

financing sector, including the bank sector, involved.”

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