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## Global Aircraft Trading System (GATS™)<sup>1</sup>

by Jessi Saba

## MAY NEWS on Mexican Aviation

COELUM: Pronunciation: 'che-l&m, is Latin for airspace or sky. The Romans began questioning the rights they had in the space above the land they owned and to how high above did that right extended to. Ad coelum et ad inferos, they discussed, meaning that their right of property would extend as high up to the heavens and down to hell.

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# Global Aircraft Trading System (GATS™)<sup>1</sup>

by Jessi Saba.

The Aviation Working Group (AWG) is a “legal entity comprised of major lessors, manufacturer’s, leasing companies, and financial institutions that contribute to the development of policies, laws, and regulations to facilitate international aviation finance and leasing”<sup>2</sup>.

As part of their on-going work, the AWG has developed a Global Aircraft Trading Systems (GATS™). In this article we will explore the purpose, the mechanic, and the expected results of this newly developed trading systems.

## What is GATS™?

GATS is a fully electronic trading systems, including the use of electronic signatures, electronic delivery of documents and a secure electronic ledge to record transactions.

## What is its purpose?

The idea behind the creation of GATS, is to facilitate, simplify and make more efficient the buying, selling and financing of aircraft and engines on lease. It is no secret to all industry players that aircraft trading between lessors, leasing companies and financial institutions result in a burden on the airline who is operating the aircraft and/or engines to be traded. All airlines cooperate with lessors, because this is usually a condition on the lease agreements, but of course, some lessee’s are more cooperative than others, and this can cause a delay in the trading of aircraft or engines, so the more the burden can be reduced, the more efficient and attractive these transactions will be, plus, the idea is to avoid local law issues that may arise during the transfer, which sometimes become unavoidable given airlines have to comply with certain matters given their jurisdiction. This process has also resulted in inefficiency for lessors and financiers alike, so the basic idea is to make these transactions which have been increasing in the last couple of years, easier and more efficient to all parties involved.

In addition to the above, this proposes system will result in an increase of transparency of the operation, as well as an increase in the protection of rights of all parties, including the lessees.

## How it works?

Basically, the idea is for each aircraft to be owned by a trust, as trusts structures have been used for decades in the industry and have proved efficient. The sale of an aircraft or engine will be conducted by an electronic transfer of the beneficial interest in a trust, rather than a metal transfer.

By having an electronic transfer of the beneficial interest in a trust, the basic transactions documents, including the lease agreement, remains unchanged. Therefore, there will not be necessary to enter into a novation or assignment agreement, which is what causes a burden on lessee’s and other parties. Most importantly, GATS will not be changing any lease condition.

All documents related to the transfer will be standardized, simple, executed and delivered electronically.

*“GATS is a fully electronic trading systems, including the use of electronic signatures, electronic delivery of documents and a secure electronic ledge to record transactions.”*

1- All information on this article was directly obtained from the Aviation Working Group through their website [www.awg.aero](http://www.awg.aero)

2- [www.awg.aero](http://www.awg.aero)

It is important to consider that for transfer of ownership between trust branches, a metal transfer would be required.

### **Will it work in all jurisdictions?**

The structure of GATS, which is by trust structures in several jurisdictions (to start, U.S., Singapore, and Ireland, though other jurisdictions might be added as the project progresses), is friendly with most jurisdictions, but it is important to be considered that it might not be possible to use GATS for all leases, provided that certain jurisdictions have difficulty with the concept of trusts, or trusts are simply not part of their legal systems.

### **Who can access it?**

The access to GATS is voluntary and is open for all players of the industry. Provided that the system was created by the AWG, it is expected that members of this group constantly use it, yet no one will be required to join GATS nor will it impose any obligation on participating companies.

*“...it might not be possible to use GATS for all leases, provided that certain jurisdictions have difficulty with the concept of trusts, or trusts are simply not part of their legal systems.”*

### **When will it be available?**

GATS platform will be launched by the AWG by end of the first quarter of 2020. The instruments used for these electronic trading have been released by the AWG and can be found on their website ([www.awg.aero](http://www.awg.aero)) for review of the industry. There is also a called “*transition period*” that will commence when the final documents are released, which is expected to happen by July 2019.

### **Transitioning Period**

Wells Fargo Trust Company, N.A., announced that it is their intention to resign from many of its aircraft owning trusts. This will affect leasing companies who will need to appoint a new trustee, and which might see GATS as an opportunity to use a modern, simpler and more efficient platform. The AWG has also prepared instructions and provided information on the transition from a Wells Fargo Trust to a GATS trust, to facilitate this process to leasing companies.

### **Will there be any tax implications?**

It is not expected that there be any tax implications for the use of GATS, as transfer of interests in trusts are generally subject to the same local tax considerations as transfers of full ownership.

In light of all of the above, GATS seem to be the next go to option for aircraft trading, as it has many benefits and reduces the burden that these transfers now have on all parties involved, causing it to be more appealing to lessors and leasing companies. This will reduce time invested by companies in transfers, legal costs of the same, and most importantly, it will provide transparency and confidence to all parties involved.

### **Mexico and Germany Sign Aviation Agreement.**

Mexico and Germany signed an amendment agreement to the agreement on air Transport between both countries, which will enhance the aerial connectivity in purpose of benefiting the tourism and bilateral commerce. The secretary of Communication and Transportation, Javier Jiménez Espiriú, and the foreign relations ministry of Germany, Heiko Maas, signed the agreement during the binational commission Mexico-Germany. Both countries committed to fortify the cooperation in aviation matters. <https://www.eluniversal.com.mx/cartera/firman-mexico-y-alemania-un-convenio-sobre-aviacion> May 06, 2019.

### **Without Pro-Mexico, FEMIA will promote the country's aeronautical sector.**

The Mexican Federation of Aerospace Industry (FEMIA) announced that, thanks to the agreement signed with the Association of French Aeronautics and Space Industries (GIFAS, for its acronym in French) may install a Mexican pavilion at Paris Airshow, which will take place on 17 to June 23. This is very important since, with the disappearance of PROMEXICO, it is vital that there is a Mexican pavilion inside the event, one of the most important on airlines industry worldwide, said Luis Lizcano, director of FEMIA. Likewise, FEMIA will carry out an in-depth diagnosis on the development of suppliers in the Mexican territory and, to achieve this, it will sign 13 lines of actions with each of its members. <https://a21.com.mx/aeronautica/2019/05/06/sin-pro-mexico-femia-promovera-al-sector-aeronautico-del-pais> May 06, 2019.

### **CIASA inaugurates flight attendant course.**

The University of Aeronautics of Queretaro (UNAQ) in collaboration with Airports and Auxiliary Services, through its International Center of Instruction (CIASA), will inaugurate this month the training course for Aviation flight attendants, this course seeks to promote the preparation of new professionals in security and on-board services, that the national aviation sector demands. The participants will obtain their flight attendant license issued by the DGAC, the course will have a duration of 282 hours, divided into 3 months. <http://a21.com.mx/index.php/normatividad/2019/05/06/ciasa-lanza-curso-de-sobrecargos> May 06, 2019.

### **Ministry of Communications and Transportation present decree of creation of the Federal Agency of Civil Aviation.**

The Ministry of Communications and Transportation (SCT) presented the preliminary draft for the creation of the Federal Agency of Civil Aviation (AFAC), which would function as a decentralized agency with technical, operational and administrative autonomy, with exclusive competence of processing and decision in the Aeronautics. It is worth mentioning that Article 4 of the preliminary draft gives the President of the Republic the capacity to appoint and freely remove the general director of the AFAC. In 2010, the administration of Felipe Calderón undertook to inaugurate the AFAC, after an audit conducted by the Federal Aviation Administration (FAA) determined the need for an independent entity in aeronautics in Mexico. Subsequently, Enrique Peña Nieto committed to the establishment of this body and, although he presented the corresponding draft on June 28, 2017, it was not published in the Official Gazette of the Federation to carry it out. The current document was sent to the current president, Andrés Manuel López Obrador and establishes the functions of the AFAC, such as the administration of slots at airports (better known as slots), the issuance of licenses for aeronautical technical personnel, among many others. <https://a21.com.mx/aeronautica/2019/05/20/presentan-decreto-de-creacion-de-la-agencia-federal-de-aviacion-civil> May 20, 2019.

### **Three Hubs in Mexico will affect international flight network.**

According with Luis Felipe de Oliveira, Executive Director of the Latin American and Caribbean Association of Air Transport (ALTA), the coexistence of three air distribution centers in the center of Mexico (AICM, Toluca, Santa Lucia), known as hubs, will complicate the development of the international flight network, the simultaneous operation of three air terminals would bring complications, not only in the flights of the airlines, but also economic damages that threaten the economic viability of the airlines. Mexican airlines Interjet, Volaris and Aeromexico pointed out that operating two or more airports in the center of the country would be complicated because it will increase the operating costs. <https://www.elfinanciero.com.mx/empresas/operacion-de-3-hubs-en-mexico-afectara-red-de-vuelos-internacionales-experto> May 21, 2019.

*In this month extract was prepared by J. Estrada, J. Muñoz, J. Dorantes, A. De la Fuente, P. Arandía, R. Nerio, R. López, R. Mancilla.*

### Three challenges for the Santa Lucia airport to conclude.

One of the main threats is the peso-dollar exchange rate. The budget for the airport should be in dollars, not pesos, because several of the inputs and services required for an airport project are quoted in US currency. Regarding government financing, if the cost of the project rises, the government will have to allocate more resources from the treasury to continue with the works. A third variable is the term of the two years that the federal government imposed for its construction, technical, legal, operational, financial, environmental, social and community impact, and aeronautical viability, are not clear for the case of Saint Lucia. <https://aviaciondia.com/2019/05/mexico-3-retos-para-que-el-aeropuerto-de-santa-lucia-concluya-como-quiere-amlo.html> May 27, 2019.

### President of Mexico receives foreign aeronautical and railroad businessmen.

The president of Mexico, Andrés Manuel López Obrador, received on Tuesday at the National Palace representatives of the Canadian company Bombardier and the French Safran, both manufacturers of aeronautical and railway equipment. The two meetings were attended by Alfonso Romo, who serves as head of the Office of the Presidency and liaison between López Obrador and entrepreneurs through the Council for the Promotion of Investment, Employment and Economic Growth. López Obrador's transportation program has sparked controversy since he decided to cancel the construction of the New Mexico International Airport (NAIM), the great work boosted by his predecessor, Enrique Peña Nieto. As an alternative to decongest the current airport in Mexico City, the president wants to convert the military base of Santa Lucia, just outside the capital, into a civil airport with the construction of two new runways. The other major transportation project of the new Government is the Mayan Train, a passenger railroad that will link the tourist states of the Mexican southeast: Quintana Roo, Yucatan, Campeche, Tabasco and Chiapas. This work has been opposed by indigenous communities in the area, who claim they must be consulted before building in their territories. Finally, López Obrador wants to build a freight corridor that links the Pacific and Atlantic oceans in the Isthmus of Tehuantepec, since it is the narrowest zone between both oceans. <https://www.hoylosangeles.com/efe-3987248-15467593-20190528-story.html> May 28, 2019.

### Mexico, second most important air market in Latin America.

In agreement with the Latin American and Caribbean Association of Air Transport (ALTA), Mexico is positioned as the second largest aviation market in Latin America and the Caribbean (behind Brazil), as well as the first in terms of foreign tourism. During 2018, the domestic route that registered the highest growth was Cancun - Mexico City, transporting 300 thousand passengers more than the previous year, while the international route with the highest passenger traffic was the United States - Mexico, with an increase of 1 million 200 thousand people transported, in year-on-year comparison. According to data from the World Travel and Tourism Council (WTTTC), the tourism and travel sectors contributed 17.2% of the Gross Domestic Product (GDP), while it is a source of 17.8% of the jobs in the country, more than in any other country in Latin America. International traffic from the country was distributed by 53% going to North America, 39% to Latin America, 7% to Europe and 1% to the Asia Pacific region. Likewise, a total of 41 million international tourists visited Mexico in 2018, of which 58% did so by air. ALTA estimates that air traffic will double in the region in the next 10 years, so it recommends that the countries that comprise it improve its infrastructure on land and air, in order to reduce saturation and meet the future demand of passengers, reduce fuel costs, taxes and fees, as well as increase the efficiency of operations, which would result in a reduction of environmental impact. <https://a21.com.mx/organismos/2019/05/28/mexico-segundo-mercado-aereo-mas-importante-de-america-latina> May 28, 2019.

### 6.5% increase in the number of passengers for domestic flights.

So far 2019, 33.7 million passengers have been transported by air, reflecting a growth of 4.0% with respect to 2018 operations and 67.8% compared to 2013. This growth of passengers on domestic flights sums up to 6.5%, while those on international flights summed 1.8% due to the negative growth of foreign companies (-0.8%). In total, Mexican airlines achieved cumulative total growth of 7.0%. The load factor for domestic flights reached 81.2%, very close to the averages published by IATA for the Latin American region (81.3%). <http://mexicoaeroespacial.com.mx/2019/05/30/se-incremento-un-6-5-el-numero-de-pasajeros-en-vuelos-nacionales/> May 30, 2019.

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