2025 - Clear Skies or Turbulence Ahead?

Morgan Lewis takes a helicopter view of the aviation market heading into 2025.

Following years of unprecedented upheaval for the aviation industry, there are strong signals that many parts of the market are set for exponential growth in 2025. Global airlines body IATA forecast industry-wide 2025 revenue of more than a trillion dollars and record passenger numbers. However, the market is not without challenges. Supply chain issues, geopolitical tensions, potential strike action, and a drive towards technology and efficiency continue to present potential threats.

Looking ahead we take a deeper dive into some of the trends and traps that will be dominating the aviation scene in 2025.

ESG

Similar to many other industries, airlines and those involved in the aviation value chain are increasingly looking to embed ESG principles into their strategies. Decarbonisation is a key consideration here, and as the industry represents the third largest producer of transportation emissions, several airlines, airports, and manufacturers of aircraft have committed to net-zero emissions by 2050. Many are looking to sustainable aviation fuels (SAF) as one of the few low-carbon technologies that can help decarbonise the sector. SAF production is already in place, and in 2025, SAF production is expected to reach 2.7 billion litres. Supply chains continue to mature and existing industrial

infrastructure is being leveraged for SAF production. Investments in SAF have increased due to federal and state tax credits incentives in the US.

The SAF Mandate, which starts in January 2025, is the UK's key policy mechanism to secure demand for SAF. It delivers GHG emission savings by encouraging the supply of SAF within the aviation industry. It does this by setting a legal obligation on fuel suppliers in the UK to supply an increasing proportion of SAF from 2025 to 2040. Suppliers will receive certificates for the SAF they supply. The number of certificates they receive will be issued in proportion to the level of GHG emission reductions that fuel delivered. That is, the greater the savings, the greater number of certificates they will receive.

Although global SAF production has increased significantly, the 2025 level is set to account for only 0.7% of total jet fuel production.In line with the European Corporate Sustainability Reporting Directive, both EU-corporations and non-EU corporations should prepare for new sustainability reporting obligations heading their way. The CSRD obliges certain companies to disclose sustainability information pursuant to the European Sustainability Reporting Standards. It came into force in January 2023 with EU member states generally having had until July 2024 to transpose the first part of the new provisions into national law, although some member states are late with their transposition. The first set of companies, i.e. those with securities listed on a regulated EU market, large insurances and financial institutions, will have to report under CSRD for financial years starting on or after January 1, 2024, with their disclosures to be published in 2025. As of January 1, 2025, additional companies will be captured by CSRD, including large EU companies. Further reporting obligations will enter into force as of January 1, 2026 for listed small- and medium-sized enterprises and January 1, 2028 for non-EU companies. The UK is developing its own corporate sustainability reporting regime. In addition, high-turnover UK companies are already required to report in line with the Task Force on Climate-Related Financial Disclosures (TCFD) framework.

S IN ESG

An increasing focus is the "S" in ESG which concerns the social aspect and a company's impact on its employees, workers, and community. Key areas include civil and human rights; health and safety; diversity, equity, and inclusion; equal pay; and stakeholder and community engagement. The aviation industry has seen challenges in this respect particular with labour disputes and strike action.

A recent ruling in the US is also noteworthy as it significantly shifts the legal landscape for companies that provide services to airlines and will require significant, proactive change by both the customers (airlines) and the service providers to address this new reality. From an employer perspective airline service providers should prepare for a radically altered labour landscape under National Labor Relations Board jurisdiction. Such an expansion will impact organising activity, potentially increase labour disruptions, and create uncertainty for employers and their airline customers.

SUPPLY CHAIN

Original equipment manufacturers (OEMs) and airlines are dealing with post-COVID supply-chain issues, compounded by inflation, geopolitical events, and labour markets challenges. Since the COVID-19 pandemic began, many airlines around the world have filed for bankruptcy, a trend that prevails as airlines continue to recover. We would also expect sustained levels of litigation as parties seek remedies where contracts are not fulfilled. This could also lead to industry consolidation, to enable airlines to be able to weather this market.

DIGITISATION AND AUTOMISATION

Digital innovation has fuelled economies around the world for decades. Now, breakthroughs in artificial intelligence (AI) and machine learning offer enormous promise—but can pose serious risk. In a data rich industry, protecting data against cyber, legal, and reputational risks is a continued challenge.

The prolific digitisation of services and adoption of technology within the entire value chain in the industry presents many opportunities for efficiency. For example as air traffic grows, effective air traffic management (ATM) is essential for ensuring safety and reducing delays. Autonomous systems and AI-driven tools are transforming ATM by automating certain tasks and improving airspace management.

AI-driven design and automation could indeed speed up production and reduce costs in the aviation and aerospace industry. Smart sensors could make aircraft maintenance smoother, while AI-powered co-pilots could change the way we fly.

As ever, with opportunity comes risk. The EU's new AI Act became effective 1 August 2024. It is the first-ever comprehensive law focused on artificial intelligence and machine learning. The Act impacts many businesses—including those operating outside the European Union—that design, develop, or use AI systems or models. As with the EU and UK General Data Protection Regulation, violations of the Act may result in significant regulatory fines (including direct liability for group parent companies) and private litigation (including collective litigation). Like the aviation industry, AI knows no boundaries, and this regulation could serve as a template for further regulation around the world—something to be aware of as the industry looks to AI for efficiencies.

REGIONAL TRENDS

There are pockets of regional activity that are presenting signs of sustained growth. Opportunities are coming out of India, which is growing at an astonishing rate and undergoing major transformation. Airline capacity in India was predicted to reach 230 million departing seats in 2024 - almost double where it was back in 2014. The October 2023 amendment of the Indian Bankruptcy Code rule which no longer applies to transactions in aircraft, aircraft engines, airframes and helicopters, brings the country's insolvency rules in line with the global aircraft leasing rules under the Cape Town Convention. This provides more flexibility for lessors, though prolonged delays in the Indian court system remain a challenge to the effective enforcement of lessors' rights.

Whilst continuing to grow, China's aviation market has encountered turbulence in 2024. Despite the easing of pandemic-related restrictions and the gradual return of international travel, the country's leading state-owned airlines continue to grapple with challenges, many arising from sluggish recovery of international travel and geopolitical tensions.

The North Asian market is also looking to grow amid a varied outlook. In Japan, for example, we continue to see the domestic carriers strengthening and building to meet capacity for inbound and outbound travel. In South Korea, against the backdrop of the Asiana / Korean Air merger, we may see increased demand for finance leases from the carriers in this market. South East Asia is heading towards recovery with Singapore Airlines and Malaysian Airlines leading the charge. There remains mixed appetite for creditor exposure in the South East Asian market but this is being buoyed by improving results from the careers in the region which is expected to continue into the new year.

In the Middle East, new airlines, increased mobility and significant infrastructure developments are set to lead to a period of rapid growth and transformation. Airfares are becoming increasingly competitive with increasing capacity and new entrants creating a consumers' market. New Saudi Arabia based airlines are also looking to bring increased connectivity to the country and region. These airlines have significant goals, however still need to address the global macro trends discussed around supply chain, ESG and litigation to name a few.

In addition coming out of these pockets of activity, many regions are entering an era of post-pandemic airline consolidation. This could also pose antitrust and competition challenges for both mergers and alliances.

TAKING FLIGHT?

Despite headwinds, the airline industry overall is poised for steady growth. It remains to be seen whether the market is able to capitalise on immense opportunity to offset acute challenges relating to supply chain problems, geopolitical tensions and labour markets.






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