



CIT 5 MINUTE CAPITAL PODCAST SERIES

EPIISODE EIGHT: Globalizing the Skies **with Anthony Diaz, Executive Vice President of CIT Aerospace, Commercial Airlines**

Elliott Forrest: Welcome to Five Minute Capital, CIT's executive insight series which takes on financial issues in about five minutes. On today's episode, we welcome back Anthony Diaz, Executive Vice President of CIT Aerospace, Commercial Airlines. Good to see you again.

Anthony Diaz: Thank you very much, great to be back.

Elliott Forrest: Talk to me about the globalization of the business, for example, what's going on in the Middle East.

Anthony Diaz: Well, what you're seeing is historically the U.S. and Western Europe were the two large markets. There's a billion people between U.S., Western Europe, Japan, Australia. There's five and a half billion people in the rest of the world and that's really where the growth has been over the last ten years. One of the beauties of aircraft leasing, say as opposed to real estate in Manhattan – if you had a building in Manhattan, it may have been a good investment, but if the market's soft, you have no choice but to wait it out. With aircraft leasing the beauty is you can pick up the airplane and move it to the part of the world where the business is growing. So, for example, today in the U.S. – and in Western Europe – the market is slowing down, there's capacity coming out. But in the Middle East, that part of the world is booming. Obviously there's a lot of oil revenue in the Middle East, so you have airlines there that are growing. The same in Eastern Europe, as well as Asia.

Elliott Forrest: Is part of this because we have seen a doubling in the fuel costs here and relatively speaking they haven't increased so much there?

Anthony Diaz: There is some of that, because oil is denominated in dollars. I think it's more to do with revenue, where these airlines are growing. You have a billion people in India, for example. Twenty years ago there was maybe 50 million of those people considered middle class, today 200 million of those people are middle class and they're flying. Instead of taking a 36-hour train trip, they now take a two-hour flight. Once you've done that once, you don't want to get back on the train. So that demand is there.

Elliott Forrest: Can you talk to us specifically about some of the new technologies that are making these planes more fuel-efficient?

Anthony Diaz: One is to modify existing aircraft and you add things like winglets. Winglets are added to the tips of the wing. They help fuel efficiency, they help performance. They add one or two per cent fuel savings. At \$40 a barrel that wasn't as important as when oil is at \$140 a barrel. Now, it's not free. It costs \$750,000 to a million dollars to add winglets to one airplane but when you add the price of fuel burn over the rest of the life of the aircraft then it does, the payback is pretty quick. You also have new technologies for new aircraft down the road. On Boeing - it's the 787 - it's a carbon fiber aircraft. And Airbus has their variant of a similar-sized aircraft - the A350. The 787 hopefully will be in service as early as 2009 and the A350 will come into service in about 2013. The next step beyond that is: how do you replace the most popular aircraft? For Boeing it's the 737; for Airbus it's the A320 family. They're the most fuel-efficient airplanes available today in their size. But when you look out for 2015 or 2018, when the replacement for those airplanes comes, the idea is that you are going to have a fuel savings of 15 to 20 to 25 percent over what the aircraft do today. And the way you do that is primarily through the engine technology. Pratt Whitney, for example, is doing what they call a gear turbo fan. It's an engine that looks a lot like today's technology but through the gearing it makes the engine much more fuel efficient. You have GE and Rolls Royce working on what's called an open rotor. And the technologies there could add 20, 25 percent of savings. That's what's going on today and it's driven very much by the price of fuel. It's also driven by the environment. You talk about carbon footprint of aircraft, the number one way to reduce the carbon foot print is to burn less fuel. It is a one for one savings. The industry has done a tremendous job over the last 10 to 20 years of reducing fuel consumption, but there's a long way to go.

Elliott Forrest: Tony, it might be easier for me to paint a negative picture of the industry with rising fuel costs and all that that implies. Are you pessimistic or more positive?

Anthony Diaz: I'm much more upbeat long-term. There's some storm clouds on the horizon – rough seas ahead. However, as I mentioned earlier, the beauty of aircraft is they're mobile I think the next two or three years are going to be difficult for the airlines, particularly here in the U.S. But the airlines will sort it out. They'll get more fuel-efficient aircraft. They will consolidate their own systems and the like. And eventually, it will probably end up with a better airline system. But it will be difficult, no question, for the next couple of years.

Elliott Forrest: Anthony Diaz, good to talk to you again.

Anthony Diaz: Thank you very much.

Elliott Forrest: Anthony Diaz, executive vice president of CIT Aerospace, Commercial Airlines. Thank you so much for listening to Five Minute Capital. Please log on to fiveminutecapital.com for more. I'm Elliott Forrest. This has been a production of CIT. Capital Redefined.