



IS THERE A FUTURE FOR DRONES – OR WILL THEY JUST NOT FLY?



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With Bladerunner 2049 hitting the big screen this week, we are presented with yet another speculation of a futuristic society - this time in the year 2049.

Coming 35 years after the iconic original set in 2019, a future filled with robots, replicants and artificial intelligence has yet to materialise – yet the prediction of a skyline filled with flying vehicles may be much closer than we think. Or will it?

The recent rise in the use of drone technology and its huge potential across many aspects of everyday life has led commentators to suggest that city skylines could soon be filled with drones.

According to Tris Dyson - Director of the Challenge Prize Centre at Nesta:

"A decade or so from now, fleets of drones will zoom across our cities. Some will be delivering medicines and vaccines to hospitals (already the case in Germany), while others will drop off sensitive contract documents for busy City workers. Drones will be performing assessments for Network Rail following winter storms, monitoring air pollution for the GLA, delivering live broadcasts for the BBC or even carrying people as they go about their business."

PwC's 2016 report on the commercial aspects of drone technology lists eight sectors in which it believes there are "key commercial applications" and a recent House of Commons Briefing Paper points out that in the UK alone, there are now almost 2,500 permissions for commercial drone operations. In Sweden, there have been successful trials of drones fitted with defibrillators, and on top of the commercial and industrial applications it is estimated that British consumers purchased some 530,000 drones in 2014 for personal use.

Drone Regulation

The Civil Aviation Authority (CAA) is responsible for regulating civil aircraft, which also includes drones. The relevant legislation can be found in the [Civil Aviation Act 1982](#) and [Air Navigation Order 2016](#) and detailed guidance is also set out in the CAA's "*Unmanned Aircraft System Operations in UK Airspace – Guidance*" (CAP 722).

In December 2016 the Department for Transport consulted on proposals to fill the gaps contained in existing drone regulation, with the outcome published in July 2017. There is currently little uniformity in drone regulation across countries, however, the European Aviation Safety Agency (EASA) is expected to submit a proposal to the European Commission at the end of the year to create uniformity across EU countries and it is likely this will be implemented in the UK regardless of Brexit.

The extent to which regulation applies to a drone varies depending on the type of drone that is used and whether it is being used for recreational or commercial purposes. The general rule is that the heavier the drone the more regulation applies. More regulation also applies if you are carrying out "aerial work" with a drone.

Drone Financing

At present, there hasn't yet been a large utilisation of drones in a commercial context, with the only organisations currently using drone models in large quantities being various militaries. However, based on the potential of the technology and the wide areas of industry within which drones could be utilised, it is not unreasonable to anticipate this will happen in the near future and a financing will surely follow shortly afterwards.

In terms of how this financing would work, it would likely follow similar models to those used today for

other mobile assets. Where the drone is a core business tool it is likely to be financed on a corporate balance sheet basis – a simple loan – but where it is an occasional tool it is possible to imagine the development of short, medium and longer term operating lease structures.

The challenge for leasing companies - offering any longer term operating lease - is the difficulty in establishing a second hand or residual value for the drone. Any such valuations will be significantly impacted by both the continuing technological development of drones and increasing regulation to which they will be subject. These issues and the absence of a developed second hand market for drones will no doubt make it unlikely that the value of the drone itself will be an acceptable security or credit support for any financing. But we can well imagine the development of financial “full pay out” leases of both individual drones and fleets of drones to credit worthy operators.

Leasing companies will be interested in levels of manufacturers after sales support for drones and will want to be fully insured for the risks associated with flying remote devices, especially if the drones are to be used in urban or residential areas.

The ability for financiers to establish good title to assets has been a key support for high value equipment financing. One of the motivations for the current proposals in the UK to modernise the law regarding the pledge of non-registerable assets (the current law on bills of sale dates back more than a century) is to make it easier for SMEs to support their external funding requirements by pledging their assets. We can see a role for blockchain technologies to provide reliable publically searchable data-bases of ownership of drones.

Depending upon the legislation that is expected to be introduced towards the end of the year by the EASA, there may also be requirements to have the details of the drones registered with a database. If the UK and/or EASA choose to follow the model in China there may also be a requirement for companies supplying drones to provide proof that those operating the drones are appropriately qualified (perhaps not an unreasonable requirement given that drone operators are remote from their drones).

So will the drone market continue to fly?

Before any futuristic visions of cities filled with drones can be fully realised, there is still much that needs to be achieved with regards to regulation (in particular licensing, privacy and enforcement), insurance and (in today’s volatile climate perhaps most importantly of all) security.

It is likely that the regulators and policymakers will be just as, if not more important, than the technologists if the potential of drones is to be fully realised.

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