



BREXIT POSES A THREAT TO IRELAND'S AIRCRAFT-LEASING BUSINESS

News / Finance



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To see why, look at aircraft finance, perhaps the city's most successful industry. The topic of Brexit dominated the chatter at the world's two biggest air-finance conferences, both held in Dublin this month. Drawing more than 4,500 airline bigwigs, lessors and bankers, such gatherings are usually preoccupied by issues such as aeroplane prices and the aviation cycle. This year geopolitics predominated. "In Ireland we're surrounded by Trump to the west and Brexit to the east," one industry veteran sighed in despair.



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The financing and leasing of aircraft is a peculiarly Irish business. Its origins in the 1970s were as a way for Aer Lingus, the country's flag-carrier, to exploit its planes during the lean winter seasons. Previously, airlines owned all their aircraft. Leasing allows them to finance rapid expansion or contraction of their fleets without taking on debt. Only 2% of aircraft were leased in 1980. Now over 40% are.

For a country of under 5m people, Ireland has made a global success story of leasing. Irish firms manage in excess of 5,000 commercial aircraft, worth over \$130bn, accounting for half of all leased planes and a quarter of the fleet globally. Although Irish lessors were once chiefly thought to be used by struggling African airlines unable to get bank loans, says Peter Barrett, the boss of SMBC Aviation Capital, now virtually everyone leases planes.

Aircraft lessors took up the slack created by the implosion of the banks, renting their old offices in central Dublin. The industry in Ireland is now growing so fast, it is skewing the country's economic data. Official GDP growth of 26% in 2015 was largely the result of lessors buying so many new

planes; the rest of the economy probably grew only by about 5%.

Although Ireland's first lessor, Guinness Peat Aviation (GPA), collapsed in 1993, Ireland has remained the industry's global hub. All but one of the world's 15 largest aircraft lessors have operations there. Patrick Blaney, a former boss of GPA, cites a number of big attractions. Dublin has a ready supply of workers already trained to manage and finance aircraft. It is home to the international registrar of aircraft that enables owners to gain swift repossession of their aircraft if an airline defaults on lease payments. And Ireland's low-tax regime leavens the industry's otherwise wafer-thin margins. Ireland's low corporate-tax rate of 12.5%, generous capital allowances and vast network of double-taxation treaties all offer further help.

At first glance, Brexit should have no direct impact on any of these advantages. But it worries the industry. A survey of aircraft-finance executives this month by Deloitte, a consultancy, showed that 38% think Brexit will damage Ireland's attractiveness as a base for leasing. The proportion was much higher among executives outside Ireland, says Pieter Burger of Deloitte. They know that other financial centres such as Hong Kong and Singapore are aggressively trying to attract lessors away from Dublin with lower tax rates and other incentives. Almost a third of aircraft-finance executives say that they could move operations out of Ireland if it changes its tax policies for the worse.

This is where Brexit poses a potential threat to Ireland. France and Germany have long wanted Ireland to align its corporate-tax system with their, much higher rates. After Brexit, Britain, Ireland's only big ally against European tax harmonisation, will no longer have a seat at the table. Many in Ireland believe the EU is already closing in. They point to the big fine imposed by the European Commission on Apple last year, when the tech giant was accused of paying too little in Irish taxes, and to plans to standardise the rules on how corporate taxes are calculated.

Dublin does have advantages for companies fleeing a hard Brexit: the English-speaking population, a very similar legal system and light-touch regulation. Yet many air lessors say they would be quietly relieved if hordes of exiled bankers do not turn up. The city is already short of office space, housing, roads and international-school places. Irish central bankers are worried about whether they have the right expertise to regulate some of the complex trading that could move out of Britain. Even if Ireland retains its edge on tax, a post-Brexit exodus of financiers from London might not be an unalloyed boon.

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