

Analysis: Chinese lessors choose Ireland

Michael Allen

10/12/2015

“If you were to come to me on Thursday and say I wanted to set up a leasing company in Ireland, I could have you set up by the Thursday after,” says Caroline Devlin, head of law firm Arthur Cox’s Asia-Pacific Group.

The ease of establishing a company in Ireland is just one of several factors that, since 2010, have influenced Chinese aircraft leasing companies to set up subsidiary companies in Ireland. The first Chinese lessor on the scene was ICBC Financial Leasing, which set up ICBC International Leasing Company Limited in 2010.

ICBC was later joined by Sinoaero – established by Shenzhen-based CDB Leasing – who was subsequently followed by JY Aviation Leasing Ireland Company, set up by Shanghai-based Bocomm Leasing.

There are now at least seven Chinese leasing companies in Ireland, all of which benefit from the country’s tax-friendly policies, its pool of global aviation talent, and its location on the edge of the European Union. The most recent addition *Airfinance Journal* is aware of is Ping An Aircraft Leasing, which opened an office there in late October.

The Irish government has been courting Chinese lessors as part of its wider promotion of foreign direct investment into the country, which has seen Ireland become the world’s premiere aircraft leasing hub, as well as a serious force in other non-aviation-related industries.

Lessors benefit from the very favourable tax environment, including a low 12.5% rate of corporation tax on trading profits, coupled with beneficial tax depreciation and interest deductibility rules, and access to an extensive network of treaties which can eliminate foreign tax on lease rentals, according to a report by law firm Maples & Calder.

“This ability to eliminate or reduce foreign withholding tax on lease rentals is critical to the commercial success of a lessor leasing to multiple jurisdictions,” the report states.

But Arthur Cox’s Devlin is quick to mention that, although the tax advantages are important, the rationale for Chinese lessors setting up business in Ireland is not “purely for tax at all”. Rather, it is because Ireland offers a stable and experienced common law legal regime.

“Because so many people are [already] in Ireland, it’s a regime people are used to,” she says. “It’s an experienced, common law regime and people know what to expect. It’s fair and it’s open to all; if you come from anywhere in the world you’ll get equal treatment in front of the law.

“It’s also a safe place for a bank to lend into or for a lessor to be located. Even to compare our system with a lot of mainland Europe’s systems, those would be a nightmare to enforce lessors’ and bankers’ rights in China.”

Devlin’s views are echoed by Kevin Young, a partner at Allen & Overy, who says that while the country’s tax regime is “fairly attractive” to Irish lessors, it is not the only pull factor.

“It’s certainly true that, out of the European jurisdictions, Ireland is beneficial in terms of both corporation tax and the range of double tax treaties Ireland has,” he says.

“There’s also the ‘centre of excellence’ type ideas because so many leasing companies are based in Dublin or Shannon.”

Young adds that, even though the world is now a “smaller place” with the introduction of the internet, it does still help to “knock on someone’s door and press the flesh”.

“If you have someone who has strong English language skills but can also speak Mandarin or Cantonese and can be the face between that monster Chinese leasing company and the customer, their ability to do business is going to be enhanced,” he says.

Luo Le, director of JY Aviation Leasing Ireland Company which set up in Ireland in 2012, says the attraction of having a platform in Dublin is not

AIRFINANCE GLOBAL

just the low tax, but that the potential for the company to broaden the geographic spread of its client base is great. His team in Dublin, which is linked to Bank of Communications Financial Leasing (Bocomm Leasing) in Shanghai, covers all the regions of the world outside of Asia Pacific.

“If you have a platform in Dublin and are trying to reach customers in Europe, it’s maybe a two-hour flight, but if it’s from China you have to fly at least 12 hours,” he says.

“At least it means we are playing on the same ground as the other leasing companies – which itself is a benefit for us.”

No comment

Besides JY Aviation, the Dublin-based Chinese leasing industry, perhaps somewhat surprisingly, does not seem particularly keen to speak publicly about their activities in Ireland.

A CCB Leasing source said: “Our Irish company is still developing. People are travelling back and forth between China and Ireland. Maybe we can talk about it at [a] later stage.”

A Ping An Aircraft Leasing source confirmed that its Dublin office had started operations in late October, but declined to comment further at this time.

CALC Ireland said it has a policy not to speak with the media. HKAC Ireland declined to comment. SinoAero and ICBC International Leasing Company did not respond to requests for comment and Goshawk Aviation could not be reached for comment.

Despite this reluctance to publicise their presence in Ireland, it looks likely that Chinese companies will be contributing significantly to keeping the country at the forefront of commercial aircraft financing.

=====

Case Study: JY Aviation Leasing Ireland Company

JY Aviation Leasing Ireland Company started doing business in 2012/13, providing finances leases to China Southern Airlines. At that time, the company only had one SPV in Dublin and no staff. After a year, the company decided to send then-Bocomm Leasing employee Luo Le, now director of JY Aviation, to Ireland.

The company now has four people in its team, and will add another person “very soon”.

Since its founding, the company’s fleet has grown to between 40 and 50 aircraft, though this number fluctuates because it tends to move aircraft from the Dublin platform to SPVs in the Tianjin and Shanghai Free Trade Zones (FTZs) so that Chinese lessors can reap the withholding tax benefits.

When the company first set up as JY Aviation Leasing Ireland Company, there were limitations for Bocomm to set up direct subsidiaries, so the company was set up under the ownership of Bank of Communication’s Hong Kong subsidiary.

But when the company received approval from the Chinese banking authorities, it set up the similarly named JYH Aviation Leasing Company in March 2015. Unlike JY, JYH is owned directly by Bocomm with its subsidiary in the Shanghai FTZ.

The company is likely to eventually transfer all its aircraft from JY to JYH, but it may take some time because the company “doesn’t want to disturb its existing customers”.

“With the parent company as Bocomm Leasing, I think we can take advantage of Bocomm Leasing’s credit rating in terms of finance,” says Luo Le.

Luo Le says the benefits of having a platform in Dublin are not just tax related, but that the marketing potential is great. His team in Dublin covers all the regions in the world outside of Asia Pacific.

“At least it means we are playing on the same ground as the other leasing companies, which itself is a benefit for us.”

=====

Finding the right talent

Chinese lessors have different expectations of their staffing requirements than Irish lessors due to cultural differences in business practices between the two countries. This can lead to challenges when they try to recruit the right talent for their new enterprises.

Emily Brady, head of recruitment firm Mason Alexander's aircraft leasing desk, says one struggle is finding an employee with the requisite expertise to manage mid- to end-of-lease aircraft.

"A lot of Chinese companies seem to be purchasing a lot of new aircraft and in five to six years' time they move into mid-life, and a lot of the staff they have hired wouldn't be as experienced in dealing with mid- to end-of-lease aircraft," says Brady.

"Something I would advise would be to have someone who has a mix of both mid- to end-of-lease experience. Someone coming from a company that works with all ranges of aircraft would be highly desirable."

However, the main issue for non-Chinese employees looking to enter a Chinese leasing company is "cultural awareness".

Once a candidate has navigated a recruitment process that can last up to six months and include face-to-face or Skype meetings with a top company director in China, the new employee will come up against a hierarchical structure unlike what they might be used to in Ireland.

"Going above your superiors is a massive no-no," says Brady.

Networking with clients and developing relationships also works differently.

"The Chinese culture is all based on trust. With a new airline client the Chinese lessor initially wouldn't even talk shop. They want to get to know the person."

Nonetheless, the market has seen some hires of non-Chinese in Dublin. Gareth Delany, former director, asset management at Orix, joined Ping An Aircraft Leasing in Dublin as chief technical officer earlier this year.

Although Chinese leasing companies do need to tap the local talent pool for some new recruits, a lot of their needs can be satisfied by the transfer of existing staff from China.

"My experience is they're sending people there from China and they're sending people that, as far as possible, have the language skills and have the experience doing international business," says Kevin Young, a partner at Allen & Overy.

"I think they'd be mad not to bring some of the local expertise in, but with the Far Eastern corporate structures you often see the basis laid through those who know the corporation."

Michael.Allen@euromoneyplc.com

Thank you for printing this article from Airfinance Global, your essential intelligence resource for aviation finance. If you have been given this article by a subscriber, you can contact us through email at accountmanager@airfinanceglobal.com or call us on +44 (0)20 7779 8015 to discuss our subscription options.