

# Pact aims to cut the risk of buying, leasing planes

By Daniel Michaels  
And J. Lynn Lunsford

Airlines could save billions of dollars in financing charges under a treaty known as the Cape Town Convention that becomes effective Wednesday.

The treaty aims to cut the risk of buying or leasing aircraft by making it easier for creditors to seize airplanes from deadbeat airlines. Reducing such risk can significantly lower the financing costs, yielding savings for airlines and potentially boosting demand for new planes.

The protections offered by the treaty are expected to attract fresh capital to aircraft financing, which could see greater competition and lower financing costs as a result. Until now, investors and financial institutions that barely blinked at dropping \$200 million on foreign real-estate deals have shied away from similar-size loans on airplanes because they can be spirited away overnight by an airline that doesn't pay its bills.

The 10-year effort to draft the treaty and get it ratified was led by a group co-chaired by executives from Airbus and Boeing Co., which are normally bitter rivals.

For working-group members, the treaty could make it easier to do certain airplane deals by eliminating uncertainty and reducing headaches in the event of defaults. "It's about as close to a free lunch as you can get," said Ingo Walter, a professor of finance at New York University's Stern School of Business. Prof. Walter and his colleagues concluded in a recent study that a low-income country could save about \$5 billion over the next 20 years under the treaty. Richer countries could save larger sums.

Advocates say such savings are only the start. "The more security you have with your asset and the legal system of a country, the more comfortable you will be financing your aircraft," says Claude Brandes, co-chair of the working group and customer-finance director at Airbus. Airbus is jointly owned by European Aeronautic Defence & Space Co. and Britain's BAE Systems PLC.

## Cape Town treaty

The Convention on International Interests in Mobile Equipment comes into force on Wednesday.

### Ratifying countries

- Ethiopia
- Nigeria
- Panama
- Ireland
- Oman
- Senegal
- Malaysia
- Pakistan
- U.S.

### Benefits of the treaty

- **Airlines** will pay lower financing fees on aircraft thanks to lower risk and clearer rules
- **Aircraft suppliers** could sell more planes, because they will be less expensive and more secure
- **Financiers** could do more deals, as credit gets cheaper
- **Passengers** could pay lower fares and be offered more flights, especially in developing countries

So far, nine countries have ratified the treaty, including the U.S., Ireland, Nigeria and Malaysia. More are expected soon, say advocates. The U.S. Export-Import Bank has already cut by a third the up-front "exposure fee" that it charges airlines in certain countries.

Working-group secretary Jeffrey Wool says the treaty is "a diplomatic effort serving a commercial purpose." An international registry has been set up for airplanes covered under the treaty. Sponsored by the Irish government and run from Dublin by a joint venture called Aviareto, it will be overseen by the United Nations' International Civil Aviation Authority.

Scott Scherer, vice president and general manager of aircraft-financing services at Boeing's aircraft-financing unit, said advocates of the treaty hope it eventually will have 40 to 50 signatory countries. A few key countries are still considering the measure, including China, India and Russia—all of which are expected to be major customers of Western-built aircraft during the next 20 years.