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**Transcript of Remarks by
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Mr. Komarov, thank you for the opportunity to speak to this group today. I'd like to make a brief introduction and then present arguments about the state of regulation of business aviation in Russia today, and then a brief analysis of some pending developments.

We are all, everyone here today, involved in business aviation in Russia one way or another. My role is from a legal standpoint. I am with a law firm of 26 Attorneys in Moscow and St. Petersburg. We are currently handling the purchase and sale of four business jets and five regional aircraft. One interesting transaction involves creating joint ownership of a Russian-owned business jet. The agreements provide a number of rules concerning how to share use of an aircraft, and also some of the rules you find in a fractional ownership program providing there is one person who is ultimately in charge and the circumstances in which the aircraft may be sold one day. Those are kinds of legal projects we are working on at that moment, by way of introduction.

We are all know that business aviation market in Russia is growing. There are between 400-450 aircraft reportedly owned by Russian businesses and individuals.

It's hard to prove that number. I know because I have worked on a number of transactions in which aircraft were bought by Russian individuals. Beneficial ownership of the aircraft is in the hands of Russian-controlled corporations, but formally title to the aircraft belongs to a bank trust department. There is nothing in the public records that would indicate that these are Russian owned aircraft.

Of the 400-450 aircraft owned by Russian businesses and individuals, very few are registered here in Russia. I've seen two sets of statistics. I have in front of me some papers from the Ministry of Transportation showing foreign-manufactured aircraft registered in Russia as of June 1, 2010. There is a total of a 103 and many of these are not business jets. Many are propeller aircraft. I also have in front of me the current issue of Top Flight magazine. Here it is reported there are 25 foreign manufactured business jets registered in Russia. That is only 25 out of the total of up to 450. Interestingly, Top Flight reports that there are 108 foreign manufactured business jets based in Russia. These 108, except for the 25 that are registered here, are presumably being regularly flown to other countries so they are not triggering Russian customs clearance requirements.

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So, this is where we need to start when we begin to talk about legal aspects of the Russian business aviation market, with this primary distortion in the market that only 5% of the aircraft owned by Russians are registered here, and 95% are not.

This is one of the primary characteristics of the market, and one of the reasons why it's hard to make progress, because so many of the owners are not present here and they are not actually operating Russian-registered aircraft. That's what I want to say by way of introduction.

What I'd like to present next is a thesis for discussion, an analysis of pending legal reforms, and then a few conclusions which I think follow from the material.

The argument I would like to present is that the Russian market for business aviation, and the regulation of business aviation in Russia, are in an unsatisfactory state.

I have twelve reasons why the state of affairs is unsatisfactory.

1. Reason number one is that 95% of Russian owned aircraft, as I just mentioned, are registered outside the country, are not subject to Russian law, and their owners are not pressuring for reform of the Russian ministries that register and regulate aircraft in Russia. These 95% of the owners of Russian controlled aircraft are not responsive to the need for regulatory reform. They are not real cooperating in efforts to amend the rules because they feel no need. They have Swiss and US registered aircraft, and Russian laws do not really apply to their aircraft.

2. Reason number two why the market is in an unsatisfactory state is that, when this 95% of Russian owners bring their aircraft to Russia to fly domestically, they very frequently engage in illegal cabotage flights, strictly speaking. They obtain one-time permits to make a planned domestic flight and arrange that Russian customs will not interfere in that domestic flight. But, if something goes wrong on that flight, then, as I have spoken and written about before, there may be severe adverse consequences for the owners. There is an example involving a foreign-manufactured business jet that unfortunately crashed five years ago outside Domodedovo. The insurance company did not pay any claim for the lost aircraft, or for the lives. The insurance company's refusal to pay since it was established this was an illegal cabotage flight was upheld on appeal. So this multi-million dollar aircraft was lost, life was lost, and there was no insurance coverage. That's another reason why this market is not in a satisfactory state.

3. A third reason, as many if you know, is that the business of arranging chartering of foreign-registered aircraft is mostly conducted as a grey market activity. These are illegal flights, and people know that. These flights may have a flight permit, and there may be arrangements that Russian customs will not interfere. But, these are illegal flights where passengers are picked up here in Russia and passengers are told to say, if ever asked, that they are guests of the owner. There is no "normal" way for the market to develop in a grey market situation.

4. A fourth reason why the market is unsatisfactory is almost amusing. Ministry of Transportation representatives and industry representatives have begun to talk about how this is "unfair competition" from foreign charter companies that they can fly their aircraft in Russia, as well as outside Russia, and this seems to be unfair from the point of view of domestic operators. Everyone is complicit in allowing the market to function as a grey market, yet the foreign operators and Russian owned aircraft who participate are presenting "unfair competition".

5. A fifth reason the market is unsatisfactory is that because it is not achieving its potential. There are a lot of opportunity costs. There are jobs that do not exist because businesses have not been created to support aircraft that could be registered and based here. Jobs that are in existence today, I believe someone will present this afternoon, are under threat of elimination due to the

dominance of the gray market. I believe someone today will speak about a particular situation where, if a legally-conducted business here is not more successful in the near term, then it may have to be closed. The Russian people working there today will be put out of work due, largely, to customs clearance problems for imported parts.

6. A sixth reason the market is unsatisfactory is lost tax revenue since there is a lot of business activity that could be here. The government is losing a lot of different kinds of tax revenues.

7. A seventh reason is the high costs for operating business aircraft here because of monopolization of airports

8. There are few fixed base operators (FBOs) across the country.

9. There are few maintenance facilities across the country. These are the eighth and ninth reasons.

10. The tenth reason the market is in an unsatisfactory state is that, in my view, the government is controlling the debate about what regular reform should be in business aviation. Government officials are the ones advancing different proposals. The private sector should be advancing proposals about the needs of business aviation in Russia.

11. An eleventh reason is the basic “rule of law issue” that many wealthy persons who have bought a very expensive jet do not want to put their aircraft on Russian registry and be exposed to Russian legal risks, including having aircraft seized, or in getting out of the country again these valuable assets.

12. A twelfth point I want to make about the unsatisfactory state market is that all of the above eleven factors are internal Russian factors. These are the factors that are completely under the control of the Russian government to address. All of this is, in fact, not a foreign conspiracy. These are Russian regulatory problems that can be removed, if clear proposals to do so would be developed and a political constituency for the necessary reforms could be assembled.

Turning now to likely regulatory developments in the near future, in the paper I have brought today for distribution I make five predictions.

1. One prediction is that, while today 95% of the business aircraft owned by Russian individuals and businesses are registered outside the country, there is some reason to think that there will be more Russian-registered aircraft in the future. Particularly, more Russian companies will register aircraft here.

There are some examples. In particular I have a slide presentation that Severstal gave presenting their analysis about their successful importation of two Bombardier aircraft. These aircraft were customs-cleared. Severstal has gone through an analysis about why tax considerations were not an issue. This major Russian company did not pay customs duties to import the aircraft because aircraft weighing less than 20,000 kilograms are not subject to customs duties. This company did pay import VAT, but then recaptured that import VAT within a matter 5 to 7 months. There is a property tax to be paid. But, Severstal has reported that it is very satisfied with the results of importing two Challenger aircraft and registering them in the Russian registry. They are flying completely legally domestically. They can fly internationally without any issues. The tax issues were not a problem for this company since import VAT could be recaptured against VAT inputs they were receiving in their domestic Russian business. I think Severstal has made a very convincing argument that any major Russian corporation that is operating an aircraft should be

operating a Russian-registered aircraft, if, under today's regulations, it weighs less than 20,000 kilograms and is exempt from customs duties. So, I think we can safely predict that there should be more Russian aircraft. Severstal is telling you that the economics work to import an aircraft if you are Russian business that we can offset import VAT, and that is a lot of Russian businesses.

2. A second prediction is that, over the next couple of years, there will be more Russian and foreign finance for Russian-registered aircraft.

Today this is a very problem proposition. In Canada and Brazil, for example, there is some export credit agency money for aircraft sold to Russian buyers. This may be back-to-back financing through a Russian bank. Or, it may be a foreign bank loan to Russian buyer. Today, based on contacts I have had with one major European bank, there is low cost Western bank finance available where a wealthy Russian buyer can show, and can give a guarantee based upon, assets outside of Russia. So, there is foreign financing available. There may be domestic financing, particularly if a back-to-back deal may be structured involving a loan to a Russian bank that on-lends the funds domestically. This mechanism is more likely to be used if the transaction is the sale of a regional jet to a regional airline. But, this mechanism may apply to business jets as well.

3. A third prediction is that there will be more liberal rules for the use of Russian-registered business aircraft.

Staff members in the Ministry of Transportation have indicated that they are actually willing to analyze and apply here in Russia the US rules for charter operators. These are found in Part 135 of the Federal Aviation Regulations (the "FAR"). I have a letter in front of me dated April 29 where it says, in part, "Минтранс России полагает возможным рассмотреть вопрос по разработке и утверждению правил аналогичных Part 135 FAR с последующего внесения изменений в воздушное законодательство Российской Федерации. So, there it is in black and white. The Ministry of Transportation would like to work with whoever will work with it to develop Russian regulations like Part 135 in the FAR. That is an invitation, and nobody has yet taken up this invitation.

I've spoken to a couple of persons organizing an effort to accept this invitation. There is a lot of work to do. Our law firm has created a table showing every section of the US Federal aviation regulations in Part 91, having to do with business aviation, commercial use of business aircraft in Part 135 which is called "on-demand" aviation. In a third column, we have put the comparable European aviation (EASA) regulations. The content is similar.

There are a lot of rules for business aviation and charter aviation that many people in the room know exist in Europe and in the US, but these rules are absent in Russia. There is no reason for that. Russia should adopt similar rules and learn from the experience of business aviation in Europe and the US. When we talk to professionals, people tell me the US regulations in Part 135 are superior to the European regulations. The European regulations were written for airlines and need to be simplified. European charter companies themselves feel at a competitive disadvantage relative to US charter companies operating under more liberal US aviation regulations for business aviation.

4. The fourth prediction is that there will be more liberal rules for the use of foreign-registered business aircraft here in Russia.

In this connection, there is a draft Постановление (Decree) of the Russian government on the Ministry of Transportation website. I spoke to the person responsible in Ministry of Transportation the day before yesterday who confirmed to me that this proposal is to be passed in the next two or three months (Это будет принято через два месяца. идет согласования.) So this is going to happen, maybe in September, I was told.

This is an amazing document. The document has the following title «Об утверждении Порядка выдачи разовых разрешений на выполнение иностранными авиационными предприятиями, международными эксплуатационными агентствами и иностранными индивидуальными предпринимателями полетов, связанных с приемом на территории Российской Федерации на борт воздушных судов пассажиров, багажа, грузов и почты, для воздушных перевозок в пределах территории Российской Федерации»

If this document is indeed approved in September, then domestic charter flights of foreign-registered aircraft will no longer be illegal cabotage flights in the Russian Federation. One would not have to go to Rosaviatsiya, but to the Ministry of Transportation for these one-time permits. There would still be the issue of customs clearance. This issue may be solved by arranging a “temporary import” of an aircraft with the customs duties to be paid over three years (36 months). If customs duties are paid, then a foreign registered aircraft may be flown domestically in Russia on charter flights. It looks like this is going to become real. This is an interesting thing, actually promoting flights inside Russia of foreign-registered aircraft, which is sort of contrary to the possible policy objectives I mentioned earlier of creating circumstances in which there would be more Russian-registered aircraft.

5. My fifth prediction is that there will be more Russian customs clearance of foreign-registered Aircraft, which follows from my fourth point.

Conclusion

In conclusion, just from looking at the foregoing information, we can analyze what this industry should be doing. I think, objectively, few things jump out.

1. There should be more private sector leadership in the industry, as compared to the situation today.
2. There is a need to bring owners of aircraft into this discussion. I do not know how many owners of aircrafts represent in this room, I think very few. Russian owners of aircraft are, I think, very detached.
3. Russia could become a desirable place to register aircraft. Theoretically, this is possible. Other countries do it. The Isle of Man has in just two years become a very popular registry, with more than 200 registered aircraft. Why does not Russia create the ideal aircraft registry?
4. There should be more Russian-registered aircraft flown legally domestically, creating jobs in the Russian aviation industry. Customs clearance problems should be removed.
5. The legal risks associated with cabotage flights within Russia of foreign-registered aircraft should be reduced by creating stronger incentives for Russian registration of Russian - owned aircraft. Rather than one-time permits for domestic flights, Russian aviation regulations should be revised to permit free operation of Russian-registered business aircraft domestically, as per the US regulations in Parts 91 and 135 of the FAR.
6. The industry needs to put up budget to finance the necessary legal and political work
7. As a last point, I think additional trade associations in Russia should become involved in business aviation, particularly a group like the Russian Union of Industrialists and Entrepreneurs that include many Russian companies that are owners of business jets, and all interested parties

should agree on an agenda. We all have to be involved if we really intend to help to steer developments in the Russian business aviation industry in the necessary direction.

Thank you very much for your attention.