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Aeroflot Countering Bribery Allegations

By Roland Oliphant

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Aeroflot said it will file a countersuit for slander and defamation against a U.S. tour company that has accused the airline of bribery and extortion.

Los Angeles-based Riviera Travel & Tours filed a suit for financial and repetitional damages amounting to $3.4 million against the Russian airline and two of its U.S. representatives, Andrei Novokshonov and Alexei Alexandrov, on Feb. 2, Vedomosti reported Thursday.

"It is clear that Riviera Travel & Tours' claim is an attempt to disguise the agency's own fraudulent actions against Aeroflot in the period 2005 to 2009," the state-controlled airline said in a statement released Thursday.

Riviera, which held exclusive rights to wholesale sales of Aeroflot tickets on the West Coast of the United States for that period, claims airline representatives demanded kickbacks for each ticket sold, under threat of losing the contract.

The suit includes a claim that Aeroflot's U.S. chief Anatoly Delovery, who is not named as

a defendant, told Riviera's president Karen Tumanian that "Moscow didn't give you the contract for your beautiful eyes. Either Riviera gives us a kickback for each ticket sold, or we will take your contract from you," according to details of the complaint published by the Courthouse News service.

Riviera claims its unwillingness to pay the bribes led to Aeroflot refusing to serve Riviera ticket holders who showed up to board flights at Los Angeles Airport. The airline demanded that the passengers pay again on the grounds that the travel agent had not transferred the original payment to the airline.

The dispute between the two firms has been brewing since last fall. Aeroflot filed its own suit against Riviera and Tumanian in a California court in October 2011, saying Riviera systematically defrauded it under the exclusive wholesale agreement.

The airline claimed the travel agency continued to sell Aeroflot tickets and illegally appropriated the resulting revenues, costing the airline $315,000, even after it was excluded from Aeroflot's booking system in 2010.

In an apparent attempt to head off any damage to its reputation from the case, a source at Aeroflot told Vedomosti that the company would "personally fire" the managers and even insist on them being sent to prison if there turned out to be any truth in Riviera's claims.

But that would not be enough to avert "significant reputation damage in both the United States and Europe" should guilt be proven, Kirill Markin, an analyst at the Investcafe analytical center, said in a note Thursday.

Maintaining a crystal-clear reputation is critical to the airline's efforts in the U.S. market as it seeks to post ADRs and improve its attractiveness to foreign investors, Markin said, and the affair could have a negative effect on the value of the company's depository receipts.

"There are two risks here; there's a criminal liability if it turns out your employees have been extracting bribes; and it would open the way for civil cases as well," said Vasily Vasilyev, a lawyer at the Yukov, Khrenov & Partners law firm.

But he added that the airline would be unlikely to let the dispute end up in court unless it was pretty sure of its case.

"In my experience, in a case like this if there's any real risk you'd seek to find a negotiated settlement before it goes to court — for reputation reasons as much as anything else," Vasilyev said.

The financial risk from the $3.4 million suit is "relatively small" and unlikely to impact Aeroflot's share price, said Vladimir Dorogov, a transportation analyst at Alfa Bank.

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