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Taxes and Rules Block Business Aviation in Russia, U.S. Lawyer Says

By The Moscow Times

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GENEVA — Russia, long touted as an engine of growth for the stuttering global business aviation industry, needs radical changes in its taxation and regulatory system if it is to fulfill that promise, a U.S. expert said.

But the downbeat assessment from Moscow-based lawyer Derek Bloom was challenged at the industry's European showcase gathering EBACE by Russian sectoral leaders who argued that reform was coming but could only be achieved gradually.

"Business aviation in Russia has tremendous prospects for growth if the government removes a series of regulatory and tax impediments to the importation and operation of business aircraft," Bloom said.

Further, the legal system did not encourage confidence among foreign aircraft financiers to extend credit for planes to be used in Russia because of concern — shared by Russian owners — "about selective enforcement of the law," he added.

Ideally, Bloom told an EBACE panel on the issue, Russian authorities should also actively promote the industry, which creates billions of dollars of wealth worldwide in plane-building, selling and support services.

Major manufacturers in the sector, such as Canada's Bombardier, Brazil's Embraer and France's Dassault, as well as smaller firms, have been looking to the potential of the vast Russian market to boost sales after a four-year slowdown.

But the manufacturers, and Russian buyers, have been deterred by the 18 percent value-added tax on business aircraft added to customs duties on the larger planes that are needed to operate over the country's huge territory.

The focus at this year's 13th Geneva EBACE is on finding new markets to kick-start the industry, which has been struggling to restore a semblance of the boom decade from the late 1990s that ended with the financial crisis of 2008/09.

Some companies are looking at Africa's growing economies — encouraged by the formation last year of a continental business aviation association — and Asia, but once-rapid growth in China has also been slowing.

Western analysts and Russian industry insiders say that some 90 percent of the foreign-built business jets owned by Russians are registered outside the country, while only 29 such jets are registered in Russia.

This means, said Bloom, that Russian-owned jets registered outside the country and foreign-operated planes flying into Russia will continue to face onerous conditions when they provide much-needed services to Russian firms wanting to move their executives and staff to distant locations.

But Viktoria Goreva of the Rusjet company, which is owned by Russia's dominant Vnukovo airport near Moscow and operates from there, argued that both foreign and Russian firms which wanted to operate from inside the country could do so with "a little effort."

And Nikolai Kondratyev of the Russian United Business Aviation Association, or RUBAA, said recent government reforms had eased the situation for the sector, adding: "We can't bring about change quickly. It must be step by step."

RUBAA itself has been criticized by some foreign and domestic operators for failing to campaign forcefully for abolition of the VAT, which imported business planes in the European Union are not subject to.

Industry analysts say this could reflect a concern to leave the field open for a domestic business aircraft industry to develop, almost from scratch, and to allow Vnukovo to maintain its dominance among business airports.

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