

Client Update

Bailout Plan of the Russian Government: Initial Measures in Support of Aviation Industry

MOSCOW

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The last ten months have been a true test for the Russian economy. The depreciation of the Russian ruble, limited access to finance and a decline in passenger traffic have made it even harder for the aviation industry.

On March 14, 2015, in an effort to support the market, Russian Prime Minister Dmitry Medvedev signed Government Decree No. 225 improving the terms on which subsidies are provided to Russian leasing companies for the acquisition of aircraft.

WHO CAN APPLY FOR SUBSIDIES?

- Russian leasing companies — in respect of aircraft:
 - with a capacity of at least 52 seats or a maximum take-off weight of at least 20 tonnes;
 - produced after January 1, 1999; and
 - registered with the Russian state register of civil aircraft.
- Russian leasing companies and aircraft manufacturers — in respect of Russian aircraft simulators.

WHAT IS SUBSIDIZED?

The subsidies aim to partially compensate applicants for interest payable in respect of loans obtained from 2008 to the present (and those to be obtained throughout the rest of 2015) from Russian banks to acquire qualifying aircraft for subsequent lease to Russian airlines or to acquire Russian aircraft simulators.

The subsidies also apply to operating leases, whereas previously only finance leases qualified for the subsidies.

WHAT IS THE SIZE OF THE SUBSIDIES?

- In respect of loans obtained before January 1, 2015, the subsidy amounts to 0.9 of the refinancing rate of the Central Bank of Russia (the “**CBR**”) (currently 8.25% per annum), or 0.9 of the interest rate on the loan, whichever rate is lower; and
- In respect of loans obtained on or after January 1, 2015, the subsidy amounts to 0.9 of the key interest rate of the CBR (currently 14% per annum), but no more than 0.9 of 14% per annum, or 0.9 of the interest rate on the loan, whichever rate is lower.

Previously, the subsidy was calculated solely by reference to the refinancing rate. As a result of these changes, the actual amount of the subsidy has increased as the key interest rate is significantly higher than the refinancing rate. For example, the size of the subsidy on a loan with an interest rate of 14% has increased from 7.425% to 12.6%. The subsidies are payable quarterly.

WHAT IS THE ANTICIPATED IMPACT OF THE AMENDMENTS?

According to the Russian Government, these amendments are aimed at supporting Russian aircraft manufacturers by facilitating aircraft production and sales, in particular, the Sukhoi Superjet 100 aircraft.

Despite these measures, Russian leasing companies still have limited access to funds, which affects their ability to arrange financing of new aircraft deliveries, while Russian airlines are more often looking to reduce their fleets and optimize fleet efficiency, rather than to acquire new aircraft.

In addition, in the course of its accession to the WTO, Russia undertook to subsidize the leasing of aircraft regardless of their country of origin (see our client update dated December 6, 2012). Therefore, the subsidy program should, in theory, be available to foreign-manufactured aircraft. However, the requirement to maintain Russian registration may limit the ability of leasing companies to take advantage of the subsidy program in respect of foreign aircraft.

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Please do not hesitate to contact us with any questions.