

The Russian Market: Opportunities for the U.S. Aerospace Sector

The Russian and U.S. Aerospace Sectors Are Positioned to Be Partners in Progress

Russia's interest in modernizing its civilian aircraft fleet provides opportunities for U.S. exporters of jets and aircraft parts. Additionally, U.S. aerospace firms depend on Russia for raw materials and components, and some firms complement the work of their U.S.-based engineers with Russian engineering talent.¹

Russia Is a Promising Market for U.S. Passenger Aircraft

Although growth in U.S. aircraft exports to Russia slowed amid the global economic crisis, growth has been impressive in recent years, and future exports are likely to be driven by Russia's demand for new aircraft. **Russia is expected to need some 650 new airplanes over the next two decades²**, creating long-term opportunities for U.S. exporters to supply Russia with top-quality passenger jets.

- U.S. aerospace firms exported nearly \$176 million worth of aircraft, spacecraft and parts to Russia in 1H 2010. Prior to the recession, these U.S. exports to Russia had grown an average of 137% annually between 2004 and 2007 to reach a peak of more than \$754 million before declining to \$462 million in 2009.³
- Russian airlines increasingly choose **Boeing** aircraft over Russian-made planes.⁴ Boeing has fulfilled more than **\$5 billion worth of contracts** in Russia⁵, and in mid-2010 the company won a \$4 billion tender to supply at least 50 midrange jets to Russian Technologies State Corporation.⁶ Boeing previously signed deals to export several 787 Dreamliner jets from the U.S. to Russia⁷ and to supply 747s to a Russian cargo carrier.⁸
- Benefits of commercial aircraft sales to Russia flow down to other U.S. firms such as **General Electric**, which provides engines for Boeing aircraft.⁹
- In 2009, Russian aircraft builder Irkut Corp. selected U.S. firms **Pratt & Whitney**, **Rockwell Collins** and **Eaton Aerospace** to provide components for a line of passenger jets to be launched in 2016.¹⁰

Russia's WTO Accession Will Open Up Additional Doors to U.S. Exporters

- Following WTO accession, Russia's tariffs on aircraft will fall from 20% to 7.5%, creating additional export opportunities for U.S. aerospace groups.¹¹
- In 2009, Russia permanently abolished its 20% import duty on aircraft designed for fewer than 19 passengers¹² and at least temporarily cancelled duties on aircraft with fewer than 50 seats or more than 300 seats¹³, which is good news for makers of small corporate jets and large passenger planes.
- U.S. manufacturers of parts for civil aircraft will also benefit from Russia's WTO commitments – tariffs on aircraft engines will be reduced to an average of 5%.¹⁴

The Russian Aerospace Sector Holds Significant Direct Investment Potential

Russia's natural and human resources attract direct investments that bolster the Russian economy while supporting the state-side work of U.S. aerospace companies.

- Active in Russia for more than 30 years, **Boeing** has invested \$3.6 billion in its Russian projects and plans to invest another \$27 billion in Russian titanium production and design and engineering services by 2040.¹⁵ **These investments support the work of U.S.-based Boeing manufacturers.**
- Boeing operations in Russia include a joint venture with Russia's VSMPO-Avisma to produce titanium parts¹⁶; a state-of-the-art research and design center in Moscow; and a consulting role supporting the Sukhoi Company's development of its Superjet-100.¹⁷
- New Mexico-based **Eclipse Aerospace** has received \$205 million in financing from Russia's development bank to build five- and six-seat twin-engine jets in Russia using components imported from the U.S.¹⁸

¹ Arkady Ostrovsky, "Russian Aviation Woos Foreign Investors," *Financial Times*, August 23, 2006.

² Vladislav Borodulin, "Business Jet Market Brief 2010," U.S. Commercial Service, August 2010.

³ U.S. International Trade Commission Interactive Tariff and Trade DataWeb, Total U.S. Exports to Russia, (HTS-88), 2000-2009 and 1H 2010, by FAS Value.

⁴ Andrew E. Kramer, "Aeroflot Sheds Its Soviet Legacy and Turns to a Western Fleet," *New York Times*, July 29, 2009.

⁵ «Боинг в России», The Boeing Company Website, [http://www.boeing.ru/website_26/pages/page_7422/uploads/Boeing%20final%20email%20\(2\).pdf](http://www.boeing.ru/website_26/pages/page_7422/uploads/Boeing%20final%20email%20(2).pdf), (accessed August 19, 2009).

⁶ «Remarks by President Obama and President Medvedev of Russia at the U.S.-Russia Business Summit», White House Transcript, June 24, 2010.

⁷ «Russian Airline to Buy 22 Planes from Boeing», *New York Times*, June 10, 2007.

⁸ «Boeing Inks Volga-Dnepr Deal», *Bloomberg*, March 13, 2007.

⁹ «GE», General Electric Company Website, http://www.ge.com/innovation/timeline/eras/recent_developments.html, (accessed November 19, 2009).

¹⁰ «Irkut Corporation Selecting Systems for MC-21 Program», Irkut Corporation Press Release, December 10, 2009; «Eaton Gains Contract on Russian Aircraft», *Mississippi Business Journal*, August 31, 2009.

¹¹ Office of the U.S. Trade Representative, "Non-Agricultural Goods Market Access," Fact Sheet, November 19, 2006.

¹² «Russian Govt Permanently Abolishes Duty on Small Aircraft», Prime-Tass English-Language Business Newswire, May 6, 2009.

¹³ Sergei Blagov, «Russian Agriculture Minister Announces Plan to Cut Meat Imports' Market Share by 2012», *BNA International Trade Daily*, September 22, 2009.

¹⁴ «Non-Agricultural Goods Market Access», Office of the U.S. Trade Representative, November 19, 2006.

¹⁵ «Боинг в России», The Boeing Company Website, [http://www.boeing.ru/website_26/pages/page_7422/uploads/Boeing%20final%20email%20\(2\).pdf](http://www.boeing.ru/website_26/pages/page_7422/uploads/Boeing%20final%20email%20(2).pdf), (accessed August 19, 2009).

¹⁶ Anastasia Ustinova and Lyubov Pronina, «Boeing's Russian Titanium Venture with VSMPO Begins Production», *Bloomberg*, July 7, 2009.

¹⁷ «Боинг в России», Boeing Company Website, [http://www.boeing.ru/website_26/pages/page_7422/uploads/Boeing%20final%20email%20\(2\).pdf](http://www.boeing.ru/website_26/pages/page_7422/uploads/Boeing%20final%20email%20(2).pdf), (accessed August 19, 2009); «Boeing and Sukhoi Announce Expanded Agreement», M2 Presswire, June 11, 2007.

¹⁸ «Eclipse Aviation and ETIRC Aviation Gain Approval and Financing for Russian Production Facility», *Eclipse Aviation Corporation Press Release*, September 23, 2008.