

20th Annual Aircraft Transactions Forum

Getting Deals Done in China

James E. Cooling
Kathleen H. Breckenridge
Cooling & Herbers, P.C.
1100 Main Street, Suite 2400
Kansas City, MO 64105
PH: 816-474-0777
EM: jcooling@coolinglaw.com



The aviation policies and procedures regulating the purchase and sale of aircraft in China present unique considerations for both Buyers and Sellers. Today, we will discuss negotiating, structuring and closing aircraft transactions in China.



Negotiating the Deal

- Understanding Cultural Differences
 - Trust
 - It is important to have someone on your team that knows and has the trust of your Chinese Buyer or Seller
 - Communication
 - Although many businesspersons in China speak English, do not expect that communication will be easy
 - The highly technical nature of the transaction communications and the “lost in translation” factors can be enormous
 - Teaming up with a bilingual Chinese aviation consultant, attorney or broker can be an enormous help



Negotiating the Deal (Cont'd)

- Time considerations – for aircraft to be placed or maintained on China's "B" Registry
 - Regulatory/Certification
 - Type Certification and/or Supplemental Type Certificates: up to 2 years
 - Regulatory/Operational
 - 4-12 months for certification process even if aircraft is already type certified in China
 - Governmental-permission required from government to own and import a business aircraft that will be registered on the Chinese registry
 - It is helpful if there is a Chinese law firm familiar with aviation involved that can advise the Buyer on regulatory and financial issues both pre and post closing



Negotiating the Deal (Cont'd)

- Financial Considerations
 - Cultural sensitivity to getting the “best possible deal”
 - Tax issues- there is a 23% VAT/import tax on business aircraft imported into China and placed on the “B” registry
 - Chinese Foreign Exchange Restrictions limit Chinese Buyer’s ability to move funds overseas for an aircraft purchase



Structuring the Deal

- Three ways for a Chinese Buyer to structure ownership and use of the aircraft
 - Mainland Chinese Civil Registry
 - Temporary Offshore Registration
 - Permanent Offshore Ownership and Registration



Mainland Chinese Civil Registry

- PRO:
 - allows for greater ease of operation between cities within China
- CON:
 - Longest and most complicated process
- May be accomplished with offshore ownership if aircraft is placed on a Chinese charter company's air operator certificate
 - still may have certification issues related to type certification or supplemental type certification and/or financial considerations



Temporary Offshore Registration

- Can be used while the owner is completing the certification/regulatory process and then later moving the aircraft to the Chinese registry
- Facilitates a used aircraft purchase
 - the non-manufacturer Seller will not be willing to extend the time for closing so that the Chinese certification process is completed



Permanent Offshore Ownership and Registration



- Works for Chinese aircraft that will be mainly used in international operations
- There are fewer restrictions on foreign civil aircraft for international flights operating into and out of the big cities in China

N-Registered Aircraft Based in Beijing



Closing the Deal

- Buyer's perspective



- Must understand the status of type certification and supplementary type certification issues if the aircraft will ultimately be placed on the Chinese registry
- Must identify an appropriate offshore registry for either permanent or temporary registration of the aircraft after closing and engage with local providers for deregistration/registration of the aircraft
- Should determine the need for an Export Certificate of Airworthiness

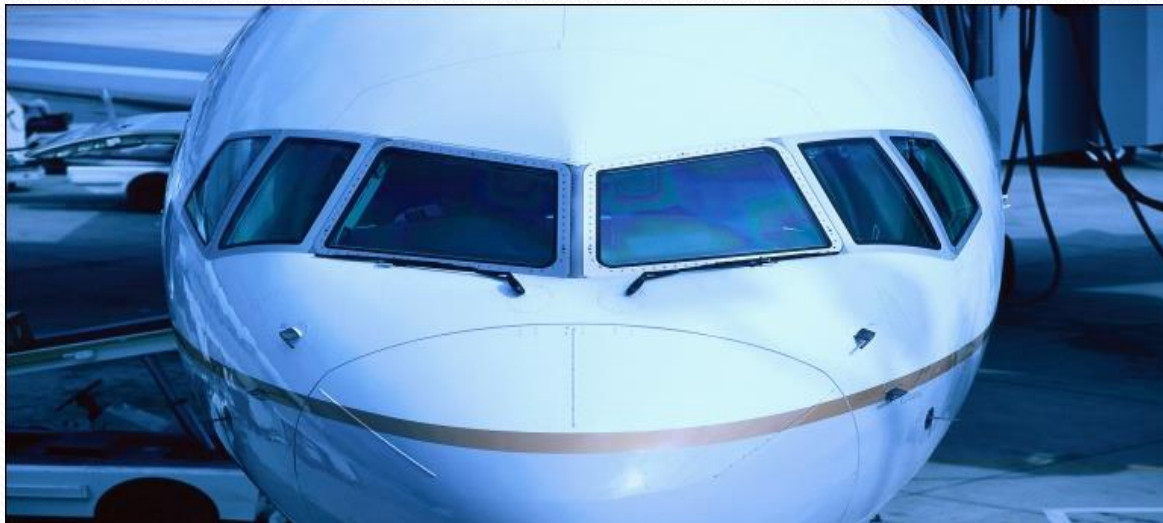
Closing the Deal (Cont'd)

- Seller's perspective
 - May need to provide an Export Certificate of Airworthiness
 - Will want to obtain receipt of escrow funds prior to deregistration of the aircraft from the U.S. registry at closing
 - Need to ensure that any responsibility for conformity, inspection or alteration is the responsibility of the Buyer and will take place after closing
 - Need to ensure that Buyer is responsible for any customs export of the aircraft after closing



Closing the Deal (Cont'd)

- Both parties will want to be sure that any tax issues have been addressed and that a tax friendly location for closing is chosen based on agreement of both parties.



THANK YOU!

**James E. Cooling
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