Prospects of Russian industrial development on the global market (the case of business aviation industry)

Anna A. Dokukina¹,
¹ Plekhanov Russian University of Economics

Abstract. The global macroeconomic environment continues to be uncertain with the U.S. economy treading fastidiously on its recovery path, the Euro-zone debt crisis refusing to abate, and the most emerging markets attempting to stoke up economic growth momentum with a slight shift in overarching focus from merely combating inflation to adoption of a more balanced approach.

The significance of Business Aviation as an important part of national economies and a tool for the progress of entrepreneurship that provides an efficient management of large and medium-sized businesses was recognized by international business community long ago. Under the influence of crisis this sector has been treading cautiously on the recovery path over the recent years. Market participants, including Russian players, in the meanwhile, are working significantly towards building capacity for a potential demand.

The paper is devoted to the role of BA as a part of the civil aviation. It deals with the economic recession that had a strong negative impact on the demand for business jets. Pronounced decrease in demand occurred in North America and Western Europe – the two largest geographic markets for business jets – and its disproportional affect on the market of light and medium-sized jets are discussed. Finally, the study concerns opportunities for Russian BA on the Global Market.

Keywords: global economic challenges, industrial development, business aviation industry, prospects of Russia.

JEL Codes: O10, O14, R41

1. Introduction

The global financial crisis caused impacts on almost each and every industry of the world. The key businesses which were showing good positions and were experiencing high development faced negative factors.

Being one of the most important parts of global production and services Business Aviation (BA) also got affected heavily by the crisis. The sector, that has been ever representing the high developing potential, encountered drop in growth rates and huge losses. In accordance with the reports on the Global Business Aviation Industry², the global economic meltdown of 2008 registered a 3.4% decline in aircraft deliveries to 672 units as well as a moderate drop in industry billing to $18.9 billion for 2012. [5]

In particular, the global recession had a substantial effect on the demand for business jets: that effect was felt most deeply in the market for light jets in the United States and, to a lesser extent, in Europe. U.S. purchases of very light jets were particularly hard hit by the recession and the accompanying financial crisis, as the smaller firms that tend to purchase these jets faced declining revenues and found it difficult to borrow from commercial banks. These companies postponed the purchase of new business jets and, in some cases,
cancelled pre-existing orders\(^3\). Fractional ownership firms, which had in the past driven market growth even during recessionary periods, also held back on purchases of new jets, uncertain of future demand for their services. Order cancellations, particularly among manufacturers of very light, light, and certain medium to midsize jets (those priced between $4 million and $25 million) increased, as did the inventory of used business aircraft\(^4\). By contrast, the sale of larger business jets (those priced above $25 million), continued to rise during the period sustain sustained partly by consumer demand in the emerging markets as economies of these countries were less affected by the economic crises\(^5\). According to some industry analysts, these events resulted in a bifurcation, or division, in the market for business aircraft, in which demand for smaller business jets trended downward while demand for larger aircraft trended upward.

At the same time, the BA sector even being heavily impacted when the global crisis hit in 2008-2009 became stabilized in 2010-2011, helping to catalyze trade and investment\(^6\). Overall, BA has generated essential and sustainable employment, and promises to be an important contributor to a further economic recovery\(^7\).

Concerning the current development of BA industry in Russia it is characterized as fairly positive. However, a high degree of uncertainty is quite obvious. Besides, number of publications and up-to-date market analyses are rather limited to have an objective overview of BA topic.

All in all, in Russia so far there has not been conducted a systematic and comprehensive market research of BA industry. But then, there are some expert opinions concerning the nearest future of Russian companies and their abilities to compete with foreign representatives of this market.\(^7\) In general, the main problems are related to the macroeconomic situation, on the one hand, and absence of the state long-term development strategy of the industry, on the other hand. Additionally, the lack of effective management and decision-making process on the micro level is also mentioned.

Thus, the study as a basis of this paper is devoted to the role of BA as a part of the civil aviation. It deals with the economic recession that had a strong negative impact on the demand for business jets. Pronounced decrease in demand occurred in North America and Western Europe – the two largest geographic markets for business jets – and its disproportional affect on the market of light and medium-sized jets are discussed. Finally, the study concerns opportunities for Russian BA on the Global Market.

The paper presents the part of the research aimed at the following main points:

- effect of crisis on BA Global Market;
- peculiarities and tendencies of on-demand air transport services formation in Russia;
- problems and obstacles of Russian BA market development;
- prospects of Russian BA on the Global Market.

The main findings are connected with the outlook for Russian BA industry. One of the most important issues is to determine the vector of development of Russian business aviation from the long term perspective of integration in the Global Market. Russian air space can and should be utilized by on-demand air travel. Moreover, huge prospects are proved by some factual data such as the average annual growth rate of

\(^{3}\) USITC, September 28, 2011, 44 (testimony of Robert Morin, U.S. Ex-Im Bank) and 166–67 (testimony of Ed Bolen, NBAA).


\(^{5}\) USITC, September 28, 2011, 202 (testimony of Richard Aboulafia, Teal Group Corporation).


business air transportation in recent years, which was about four times higher than the similar indicators of civil aviation in general.

2. Industry key features

According to the International Business Aviation Council (IBAC) BA is “an integral sector of aviation which concerns the operation or use of aircraft by companies for the non-scheduled carriage of passengers or goods as an aid to the conduct of their business, flown for purposes generally considered not for public hire and piloted by individuals having, at the minimum, a valid commercial pilot license...”

Planes and helicopters manufactured for the BA market are called business jets. They differ from the civil aircrafts primarily in the higher level comfort. It should be noted that till recently a clear and unambiguous definition of the “Business Aviation” concept could not be found even in the International Civil Aviation Organization (ICAO) collections. The point is that this concept exists only as a subsector of civil aviation. And approximately half of this subsector is flying by the rules for commercial airlines, with operator certificate (this part is called Aero-taxi); the other half is flying by the general aviation rules (this refers to the corporate carriers). Even here, the distinction is rather unclear. [2, 8]

BA as a form of the global air transport network can compete with scheduled transportation and charter flights. The main sphere of business aviation is on-demand air travel and corporate transportation. [3]

In the first case, the use of aircraft is associated with the business representatives including owners of the aircraft and individuals who are able to pay for personal air transport service to specialized carriers. Often such charter airlines or aero-taxi operators are small family-owned companies, which own a fleet of one or a few inexpensive aircraft. Their services are popular among organizations of a small business sector, retail, insurance agents, doctors, lawyers, and state officials. These planes can be also exploited for individual tourist trips or even in the emergency evacuation of sick and wounded. [10]

Corporate transportation involves the operation of aircraft carrying both personnel and property. In such cases fleet often operated not only in corporate interests, but also on a commercial basis for charter flights.

So, business jets are used by individuals, corporations, and leasing firms as tools to enhance business productivity by transporting employees, customers, suppliers, and, to a lesser extent, parts or other assets quickly, often to locations not easily accessible through commercial airline service. Other advantages of business jet travel comparing to commercial airlines are connected with employee time savings, increased worker productivity, protection of intellectual property by permitting private communications en route, and improved customer interaction and support. To meet the specific needs of customers, business jets are designed and produced in an array of sizes, capacities, and capabilities, ranging from small-cabin jets designed for traveling short distances too much larger capacity jets with transoceanic capabilities.

An important feature of BA is the ability of its aircraft to use confined areas of some airfields, sometimes with poor coverage, as well as the airports in small towns where due to their low commercial viability general airliners are not provided at all or performed with large intervals.

Running through all forms of BA are the principles of flexibility and responsiveness, and for many fliers it is nothing less than business-critical. Unlike scheduled air services, BA is specifically tailored to the needs of the client. Statistics observation finds, for instance, that “96% of city pairs served by business aviation have no daily scheduled direct connections. The remaining 4% represent however more than 1/3 of business aviation traffic in volume”10. While these routes may not be considered viable by scheduled airlines, they are clearly important to business aviation users and the companies they represent. BA allows operating the flight on any required routes, regardless of the length of transfers or overnight stopovers, and to avoid visits to

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busy hub airports. Other main differences and features in service of BA flights can be shortly described as following:

- irregularity of business flights that leads to operational changes of arrival and departure time or route changes;
- necessity of operative changes in the schedule of aircraft maintenance;
- difficulties of communication between English-speaking flight crews and airport staff;
- raising safety standards of aircrafts and passengers;
- special requirements for the onboard catering provided to passengers and crew members, etc.

3. Abstract of the history and current development of the global BA market

The BA history began in the 20s of the 20th century. By the end of the Second World War BA industry began to develop rapidly in response to the creation of international corporations.

In different periods of market development (since 30-s of the 20th century) air transportation companies were created, merged and absorbed by other companies. As a result, such large aircraft manufacturing companies like Gulfstream Aerospace Corporation, Cessna Aircraft Company, Boeing Business Jets, Bombardier Aerospace, Hawker Beechcraft Corporation, Airbus S.A.S, Dassault Aviation and Embraer have reinforced their positions on the market of business jets.

Between 1985 and 2012, more than 97000 business jets of various models and configurations were produced globally\(^\text{11}\). It should be noted that out of the 97000 planes on the BA market approximately 15500 business jets were exploited for commercial purposes\(^\text{12}\). Other part of business jets are small planes used by agricultural aviation, emergency medical care, rescue, police, and business jets, which are privately owned and are not used for commercial aims.

Currently the market of business carriage saw the process of expansion of air transport services of higher comfort, or so called «Executive Shuttle Service». More and more airlines appear in this segment to organize and carry out flights on airplanes with VIP class salons. It is, as a rule, corporate airlines fleet owners, which could provide a flexible and convenient pricing policy for clients as well as to provide a high level of service and responsiveness. The service guarantees the departure after three hours after application receipt. Moreover, a client is provided with booking hotels anywhere in the world, preparation of all necessary documents including visa support, and coordination of transfers. Finally, the confidentiality of services is always guaranteed. [4]

The trends indicate that on-demand air travel on business jets becomes one of the effective tools of running business and contributes to the integration of economies of many states in the system of global economic relations. As surveys show “96% is a proportion of city pairs served by business aviation had no scheduled connection. The remaining 4% represent however more than 1/3 of business aviation traffic in volume Moreover, 66% of corporate decision makers consider face-to-face meetings as critical to M&A success”\(^\text{13}\).

Table 1 presents more basic factors associated with the development the global business aviation market.

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The business jet market has grown significantly in the last two decades, driven principally by increased corporate demand for business jets and the wider recognition of the utility of business jet travel. In some cases, business aviation has become a viable alternative to commercial air transport, allowing users to travel to multiple locations in a single day, to continue working while in transit, and to reach locations that are underserved by commercial airlines. The introduction of advanced and efficient business jet models, combined with the advent of charter and fractional ownership programs, have further increased the customer base for business jets and contributed to growing global demand.

North America and Europe were the leading geographic markets for business jets in 2010, as indicated by the number of business jets operating in those markets. “North America accounted for 10854 aircraft, or 70 percent of the global fleet”, while Europe accounted for 2501 aircraft, or 16 percent. These regions were followed by South America with 984 aircraft (6%) and Asia with 844 aircraft (5%). Africa is the smallest geographic market for business aircrafts in 2010 with only 322 aircraft in operation, or 2 percent of the global jet fleet.

Growth trends in number of business jets operating globally during the period 2006–2010 highlight the significance of emerging markets. The number of business jets in Asia increased at an average annual rate of 16.2% percent, in South America by 16.3%, and in Africa by 10.5%. In Europe the number of business jets grew by 10.8% during 2006–2010, whereas in North America the size of the business jet fleet increased by only 3.2%. The predicted changes in market share for business jet over the next 20 years is associated with

Table 1. Main characteristics of world BA market

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Characteristics</th>
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<tbody>
<tr>
<td>1. Demand for business jets</td>
<td>Annual sales reaches 600-700 business jets with worth volume 9 -11 billion dollars</td>
</tr>
<tr>
<td>2. Market growth rate</td>
<td>Uneven across regions; ranges from 8 to 20% per year; Twice as fast as GDP – expected medium-term growth rate for business aviation demand at Paris-Le Bourget; 164000 persons employed in business aviation only around Europe.</td>
</tr>
<tr>
<td>3. Customers, clients</td>
<td>Government agencies, large companies and corporations, businesses representatives</td>
</tr>
<tr>
<td>4. Characteristics of products</td>
<td>Greater degree of differentiation of services</td>
</tr>
<tr>
<td>5. Market entry, accessibility</td>
<td>High barriers to entry, require large capital investments</td>
</tr>
<tr>
<td>6. Commercial viability</td>
<td>Relatively high, especially in the VIP-transport</td>
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18 International Business Aviation Council (IBAC) 2002, Policy 40-6 (20.06.2002).
19 USITC, September 28, 2011, 2-3 (testimony of Ed Bolen, NBAA). The term “business aviation,” as defined by the FAA, refers to the use of piston- or turbine-powered general aviation aircraft for business activities.
the world general trend of capital movement and increasing purchasing power from North America toward emerging countries (fig 1)\(^\text{22}\).

![Figure 1. Forecast geographic market share for business jets over the next 20 years](image)

4. **Effect of crisis on BA market and outlook for the long-term industry development**

As it has been mentioned above, the global recession that began in 2008 had a substantial effect on the demand for business jets influencing two leading markets of light jets – United States and Europe. At the same time, a bright spot is the increasing demand for business jets on the emerging markets of Asia, Eastern Europe, Latin America, the Middle East, and Africa\(^\text{23}\). In this regions business jet demand increases rapidly, though relatively small in proportion to total global demand, and will likely drive future growth of the business jet market (fig. 2.). For their part, established business jet manufacturers are poised to meet future demand growth with upgrades of existing aircrafts and the development of innovative models.

\[^{22}\] The data in this section pertain to business jets with a maximum take-off weight (MTOW) of 50,000 pounds or below. However, if business jets above 50,000 lbs. MTOW were included as part of the data, percentage growth rates by region would differ just slightly.

Overall business jet deliveries were down by 57% in 2011 from the peak of 1,121 aircraft in 2008, falling to a preliminary total of 485 aircraft. Deliveries in the very light business jet market segment, where HBC and Cessna were principal players until Embraer’s entry in 2007, fell by 71% from the 2008 peak of 371 aircraft to a preliminary total of 106 aircraft in 2011 (fig. 4.). In the light jet segment, deliveries fell by 45% from the 2008 high of 427 aircraft to 204 aircraft in 2010, but turned around in 2011 and grew by 26% percent to a preliminary total of 225 aircraft. The very light and light market segments represented 78% percent of HBC’s deliveries and 89% of Cessna’s deliveries of the subject business jets in 2010, the latest available full-year data. In the medium to super midsize category, where Bombardier and Dassault are the principal players, deliveries fell by 52% from 323 aircraft to a preliminary total of 154 aircraft in 2011.
2011

The global crisis made business aircraft manufacturers to reduce their staff. Thus, in December 2008 the largest company Cessna announced the reduction of 500 employees, and in January aircraft manufacturer fired another 2000 employees. Gulfstream Aerospace Corp. has cut 2700 jobs, a Hawker Beechcraft by the end of 2008 has reduced its staff by 2200 people.

The drop in demand for the purchase of new aircraft is associated with a particular scheme of order and purchase from manufacturers. The fact is that in the process of new aircraft acquisition not only the producer and the end consumer are involved, but also financial and consulting institutions that finance the purchase. Fulfillment of credit programs become more complicated or even come to nothing in the period of financial crisis. Banks increase credit rates due to the threat of non-payments or complicate the procedure of credit arrangements.

Traditional business jet customers (besides airlines companies) are brokers who bought planes for resale through various credit lines. This situation led to the cancellation of the order of new business jets up to 65-70%. As a result of the cancellation of orders by end customers (airlines and individuals) the number of already made but not sold-out aircrafts also increased. Similar changes are occurring on the service market as well as in the sector of private aviation. Moreover, in connection with the expected drop in traffic, sale proposals of excessive fleet on the secondary market increases, which is determined by the high operation cost of private jets.

Secondary market of airplanes is the market of the aircraft, which had expired factory warranty, i.e. from three to five years old. In 2008 the total growth of offers on the secondary market amounted to approximately 70%. The sales proposals of business jets in the period from 2008 to early 2009 on the secondary market in the United States increased from 1140 before 1813 (59%) and in Europe from 355 to 732 (51%).

By the start of the crisis in 2008 hundreds of models which would satisfy the demand of customers of different income levels was offered. However, the recession creates a mismatch of BA market supply and customers demand.

Nevertheless, expert opinions for BA industry prospects are quite positive. Basing on statistics the future outlook for the long-term market drivers of business jet industry growth is solid. These market drivers include: wealth creation, increasing business jet penetration in emerging economies, globalization and air market accessibility.

Manufacturers’ forecasts for new business jet deliveries during 2011–2030 indicate a continued shift in market demand toward the developing economies. At the end of this period, North America will likely account for only 40% of new business jet deliveries worldwide, with the remaining 60% of new business aircrafts destined for markets outside the United States and Canada. For example, China and Latin America are forecasted to account for respectively 10% and 9% of new business jet deliveries over the next 20 years, while Russia and India will each account for roughly 6% of such deliveries. Europe will remain the second-largest market for business jets during 2011–2030, with an estimated market share of 17%.

As for the future competitiveness of the business jet industry it may be influenced by changes in such factors as regional demand, new entrants into the industry, workforce characteristics, government regulations pertaining to the environment, airspace usage, and aircraft user fees.

All in all, as it was noticed, the BA sector being affected by the global crisis managed to consolidate a position. According to Rob Wilson, president of Honeywell Business and General Aviation “…over the medium term, a return to historical growth conditions supported by globalization, wealth creation in developing nations and new aircraft development should boost orders and support accelerated growth beginning mid-decade. Despite the economic challenges our industry has been dealing with for the past 40 months, we believe some progress is being made”\textsuperscript{29}.

5. Peculiarities and tendencies of air transport services formation in Russia

Despite the fairly positive appraisals of BA development in the world including Russian market, today there are a number of problems restraining development of BA airlines in Russian Federation. First of all it is connected with lack of BA concept itself in domestic aviation.

According to the Air Code of the Russian Federation\textsuperscript{5} (article 20), aviation is divided into:

- civil aviation;
- state aviation;
- experimental aviation.

Thereby, existing regulations does not set appropriate rules to define the BA market, and do not solve the problem of separation the considered segment of the whole system of Civil Aviation. Thus, today, actually being the BA carrier, airlines obey the rules and requirements of civil aviation.

Russian BA industry appeared in the early 90s together with the formation of actual national business. Until the early 2000s, although the market has evolved, growing about 10% annually\textsuperscript{30}, it remained rather narrow segment, which counted just over a dozen companies. In the new century overheated growth of the Russian economy caused a real boom in the aviation business. Such a rise had a reliable ground – globalization and world economic growth. But a successful combination of factors resulted in a significant overheating of the market. Robust profits of enterprises, growth of large private capital and, on the one hand, the cheap dollar, and on the other hand, high oil and raw materials prices stimulate demand in developing economies. The share of deliveries to the international market in the total volume increased dramatically, which led aircraft manufacturers to an overestimation of scale and potential of geographical diversification of demand.

The global financial crisis began to make adjustments in the development of BA industry, both worldwide and in Russia. According to the reports the number of business flights in 2009 compared with 2008 reduced by 30-40%, and in money terms the volume of the market was reduced even more severe. This is due to the presence of high competition among airlines and decline in demand for business flights. This situation makes jets’ owners offer their services even at net costs, as just the maintenance and parking of aircrafts fall for owners very costly.[9]

Because of the global crisis and the subsequent reduction in demand for business transportation, the number of foreign airlines in the Russian market reduced from 200 to 40 companies by the end of 2008\textsuperscript{31}.

Traditionally, active market of business aviation in Russia has been considering as close (inside): the business owners are reluctant to reveal details about the number of flights and passengers, as well as the direction of traffic. In addition, operators of business aircrafts are not counted in the ratings of the Transport


Clearing Company (TCP) as well as between the tap and small airlines are not signed contracts for the publication of information on transportation of passengers.

Monthly approximately about 2200-2400 business flights are performed in Russia. According to some data, about 60% of them are operated by foreign companies (taking into account private and commercial flights). However, official statistics on the total number of flights of business aviation performed on the Russian market does not exist, and all information received from different sources varies widely.

Today about 158 business jets are registered in Russia. At the same time, the number of aircrafts, affiliated with the Russian owners, is more than 400 units. Thus, about two-thirds of Russian businessmen prefer to register aircraft abroad.

The majority of the aircrafts based in the European part of the country: 63% are at in Moscow airports, 23% of all aircraft are in St. Petersburg airports. The most popular routes are Nizhniy Novgorod, Samara, Ufa and Novosibirsk. 83% of business aircrafts registered in Russia are belong to companies carrying out business and charter flights as well as corporations which buys business jets for their own needs. Largest Russian companies like Lukoil, Sibneft, Norilsk Nickel, Basic Element, Rosneft have corporate aircrafts, also used for commercial purposes. Some companies create a special business unit. For example, Gazprom established Gazprom Airline (“Gazpromavia”), which being rather large business carriers, are used to carry not only the management but also to the external charter flights. 17% of business jets operated by management companies are used in the interests of individuals.

Average price of business jets operated in Russia is $18-35 million, with the majority of them are purchased on the secondary market. Here is basically Russian fleet Yak-40, Yak-42, Tu-134, Tu-154, Il-62 (some of them are improved for VIP-transportation), as well as foreign like Falcon, Hawker, Challenger, BAe, Boeing Business Jet, Embraer Legacy, Cessna, Learjet, Bombardier, Gulfstream, Dornier and others. The acquisition of foreign aircraft involves the high capital costs and investments that the majority of companies do not dispose. Therefore, the existing fleet of business jets western production includes mainly outdated machines imported to the Russian Federation. Acquisition of the foreign aircraft is associated with high capital costs and investment, which most companies don't have. Therefore, the existing fleet of BA aircraft of Western production includes mainly obsolete machines, imported into the Russian Federation.

6. Basic problems and obstacles of Russian BA market development

One of the key problems hindering the development of BA in Russia is that, from a legal point of view, at the present time BA does not officially exist as an independent type of national air transport activities. As it has been mentioned the main statute that regulates this industry in the country – “Air Code of the Russian Federation” – there is no concept of “business aviation” neither an article aimed at the interpretation of this activity. [1]

The existing sectorial documentation does not reflect special features of BA, and, therefore, BA operators have to follow the general rules developed for regular airlines or charter flights. This problem does not allow Russian BA to create equal competitive opportunities with foreign airlines and increase the efficiency and effectiveness of air transport services. So, the main challenge for development of the domestic business aviation is connected with the necessity of clear legal and regulatory framework that, in its turn, must correspond with world international standards. Meanwhile, business transportation is one of the most rapidly growing directions of the world air transport development. In this connection, Russian BA is essentially an open niche that is not monopolized by one or two large operators.

Imperfection of air legislation is the cause of many conflicts of law provisions the airlines face with in the Russian territory. It makes complicated flight and service technologies planning in accordance with generally accepted in the international practice schemes. It also does not allow certifying aircraft at their introduction into service due to the absence of clear requirements to the system of airworthiness.

Development of air transport industry in regions is seriously affected by traditional for the Russian market problems such as registration of aircraft rights, a single customs regulation, weak infrastructure, lack of personnel, etc, and, mainly, by Russian air legislation, with very limited potential for further development.

Changes on the BA market in favor of domestic airlines are associated with the solutions of the complex of regulatory development problems as well as the market regulation mechanisms of the relationship between business passengers and airlines (fig. 4).

Figure 4. Issues restrained the development of BA in Russia

7. Prospects of Russian BA on the global market

Due to geographical location and size of the Russian territory issuing the permits for overflight (the first freedom of the air) using the most direct and cost-effective routes is important for airlines of many states. In particular, the operation of the Trans Siberian route has a special interest, because it has no equivalent alternative. For example, if the length of Tokyo-Moscow-Rome through Siberia is slightly more than 10600 km, the route of Tokyo-Anchorage-Rome through Alaska is about 14000 km and the so-called southern route Tokyo-Calcutta-Bombay-Kuwait-Rome – more than 14500 km.
In exchange for the overflight right by foreign airlines over the territory of Russia using economically beneficial Trans Siberian route, the Russian airlines receive extensive privileges for passengers and cargoes transportation like the fifth and sixth freedoms of the air, which usually cause the greatest controversy in the practice of many states and granted infrequently. These agreements were the specific embodiment of one of the most important principles of modern international legal regulation of air communications – the principle of mutuality.

The operation of airlines that pass over Siberia on the basis of pooled agreements is also provided. When using the Trans Siberian airlines on the basis of pool arrangements both Russian and foreign airlines always have a fixed share of income, regardless of foreign airlines flights with landing on the Russian territory or in cases of non-stop flights. If the delivered in pool revenues of the Russian airline from the transportation of passengers and cargoes on the Trans Siberian route are less than the income of foreign airlines, the latter are obliged to pay to the Russian airline the difference with regard to conditions of pool agreement.

Granting the right of passing through Siberia to foreign airlines allows them to reduce time of flight by a few hours, thereby saving fuel. For the Russian Federation it is the flow of additional investments in the form of customs and airport fees, charges and taxes.

This issue obtained the particular relevance in time of crisis. The crisis led to a substantial decrease in demand and a growing desire to hold the positions of domestic carriers to limit leakage of funds abroad.

Airspace for vessels of BA in Russian is used by permissive principle, which implies a relatively long procedure of coordination with the structures of air traffic control and documentation. Nowadays, in most countries of the world a notification system has been introduced for flights in free zones. This system allows to any aircraft operator to takeoff immediately, just after submitting a notification about a flight to the appropriate authority of air traffic control, if the route does not cross the air space, requiring the issuing of the permit.

In Russia free air space is significantly large, but it is not structured and, as a result, used irrationally. In this regard, several changes can be considered to be introduced to current legislation [1]:

- planning and coordinating the use of airspace in accordance with the national priorities established by article 13 in the Air Code of Russian Federation;
- providing permissive or notification procedure for the use of airspace;
- control of airspace using in compliance with federal rules.

Despite the changes, Business aviation flights in Russia are still complicated due to the need of obtaining permission one day in advance for domestic and international flights. In practice, this term can be reduced through intermediary organizations up to three hours, but obtaining permission for an urgent flight is always associated with serious difficulties and additional financial costs.

For foreign operators all procedures are more complicated since it is necessary to obtain a permit in five days before the flight, change the route or to organize an additional landing is almost impossible, as it requires obtaining a new permit. Of course, this situation differs from international practice, according to which BA operators do not need to obtain any permission for any operations. The same concerns the Russian operators, who do not need any prior permission for flights outside Russia.

While increasing number of business flights and huge cash flow in the industry, there are such normative standards, which forcing BA market players to work in illegal ways, which deprives the country's budget of real income. This is a result of governmental structures, when setting relations of the BA market participants, do not implement one of the fundamental principles of management - «consumer priority».

However, experts believe that the market of business services in Russia will continue to develop steadily in the future. They predict that the business transportation may provide an income of about $300 million annually on domestic flights and about $150 million on external (as it is estimated share of the foreign companies that carry Russian businessmen in Europe and America, and operating their Shuttle services from abroad), excluding tax and employment auxiliary enterprises (airports, catering, repair, fuel supply etc.) that can also provide income to the
budget of $25-50 million», considers Evgeny Bakhtin, a Vice-President of Russian United Business Aviation Association

According to the reports issued by National Business Aviation Association (NBAA) and the General Aviation Manufactures Association (GAMA), around 1.2 million people are employed in BA industry. Totally, branches of general and business aviation generate up to $150 billion per a year.

The comparison of U.S. and Russian markets suggest itself constantly: countries are comparable in territory and population, however, the United States approach to the development of the business aviation industry is radically different, demonstrating what results it can bring.

In the USA the business aviation is not only a generator of workplaces and producer of small airports, but also this industry is responsible for the supply of new pilots in the market of commercial aviation. The system of education in US cardinally differs from the Russian (and more precisely, Soviet) one, after flight school pilot should fly off a certain number of hours in different types of small aircraft.

It turns out that Russian economy is losing on several fronts by not allowing business aviation to develop. The economy does not get those workplaces that could have. Moreover, because of the lack of qualified, well-educated and well-trained staff working with business aircrafts, the national economy misses an opportunity to develop a base for pilot development. In addition, it also affects the taxes that replenish not only the state but also the local budgets. Finally, Russia is losing potential opportunities to participate in business jets manufacturing.

Russian business aviation lacks for competent state regulation, the experience of which can be borrowed from America and Europe. The USA national law prohibited to use the airport, where there are not at least two competing companies offers private aircrafts services. In Europe the activity of the business-terminal is also regulated by the Antimonopoly legislation. In Russia, the situation is reverse: the trusting ground handling of charter flights to a single operator, airports begin to dictate the rules of the game to other market participants. Respectively, prices for airport handling in Moscow are three to four times higher than in Europe.

In Russia gradually begins to develop ground infrastructure, adapted for BA. Its development strategy can be based on the experience of creation in foreign airports joint databases and specialized units for maintenance of different types of aircraft. Of course, significant investment is required, especially to attract major airlines. For VIP transport, for example, there are specific requirements. The terminal should be small in size, well technically equipped for work of appropriate services, including customs and border police. In the airports of the Moscow air hub several VIP-terminals were built, however, they do not meet all the necessary requirements. Most of VIP flights are operated in “Vnukovo” and “Sheremetievo” airports. There are not specialized terminals and ground base in other Russian cities. Besides the quality of runways coverage at these airports sometimes becomes the reason of mechanical malfunction and failures of sensitive foreign aircrafts. [8]

Nevertheless, even taken into consideration these and other problems, the experts believe that Russia has quite a lot of preconditions for development of BA. Market potential is determined not only by huge territory. Development of market relations, introduction of new dynamically developing companies, integration of Russian business into the world economic system and joining the WTO cause increasing demand and needs of business transportation. According to the forecasts of the Business Aviation Association, this market at stabilization of the Russian economy is expected to active growth up to 30-40% per year. [6]

8. Conclusion

Creation of the long-term strategic planning concept for the development of BA should have a positive impact on the operations of airlines. It causes the increase of aircrafts registered in the Russian Federation. Obvi-

36 Volkova M. Loss of profits What loses the Russian economy without the full business aviation. JET magazine, №60, 05/06/2013, URL: http://www.jetmagazine.ru/cgi-bin/n-index.pl?mod=arts&id=56.
ously, schemes of intercommunication between the subjects of the market of the Russian Federation should be changed in the segment of commercial business flights.

Priority task for creating competitive BA industry is the improvement of legal base for the operation of business flights as well as the quality of services; expansion of the airspace use and airports in the territory of Russia, CIS and other countries, implementation of investment projects to assist domestic airlines in the acquisition and leasing of business jets; protection of their interests on the international market. etc. The tasks also are related to the development and enforcement of the highest possible safety and environmental standards adopted by European civil aviation as well as licensing flight personnel.

Finally, national legislation has an influence on BA operators. Not only are individual states responsible for issuing Air Operator Certificates, they also have an impact in location and business model decisions due to their respective taxation.

While the business jet industry is cyclical, it also has significant growth potential. The key market drivers such as wealth creation, globalization of trade, replacement demand, new aircraft programs, emerging market growth and greater market accessibility through fractional and branded charter demand are all showing positive trends.

Furthermore, the penetration of business jet fleets in many emerging markets is quite low by the moment, indicating significant growth potential as these economies are rapidly growing and are beginning to more readily accept business jets as productivity-boosting tools.

In this context, the continuous liberalization and deregulation of aviation markets, especially in the emerging countries, will provide new markets and growth potentials. Some BA players may furthermore find growth opportunities in niche markets and services.

In complementing the scheduled network the sector generates substantial economic benefits for the state as a whole, while also delivering jobs and growth directly in the communities where it is based. BA operations play a crucial role in driving demand in a much wider set of activities, including maintenance, research and development, training services and hospitality. Business aviation therefore has a key role to play in facilitating a recovery from world economic crisis, and this should be better recognized in policy formulation.

Being ambitious country Russia is able to establish the process of forming a civilized market, as there is no alternative but to integrate into the world economic system. It means that already now it is necessary to use the favorable conjuncture in the market of business air services for consolidation of positions and ensure sustainable prospects of market relations’ development in the Russian economy.

9. References


