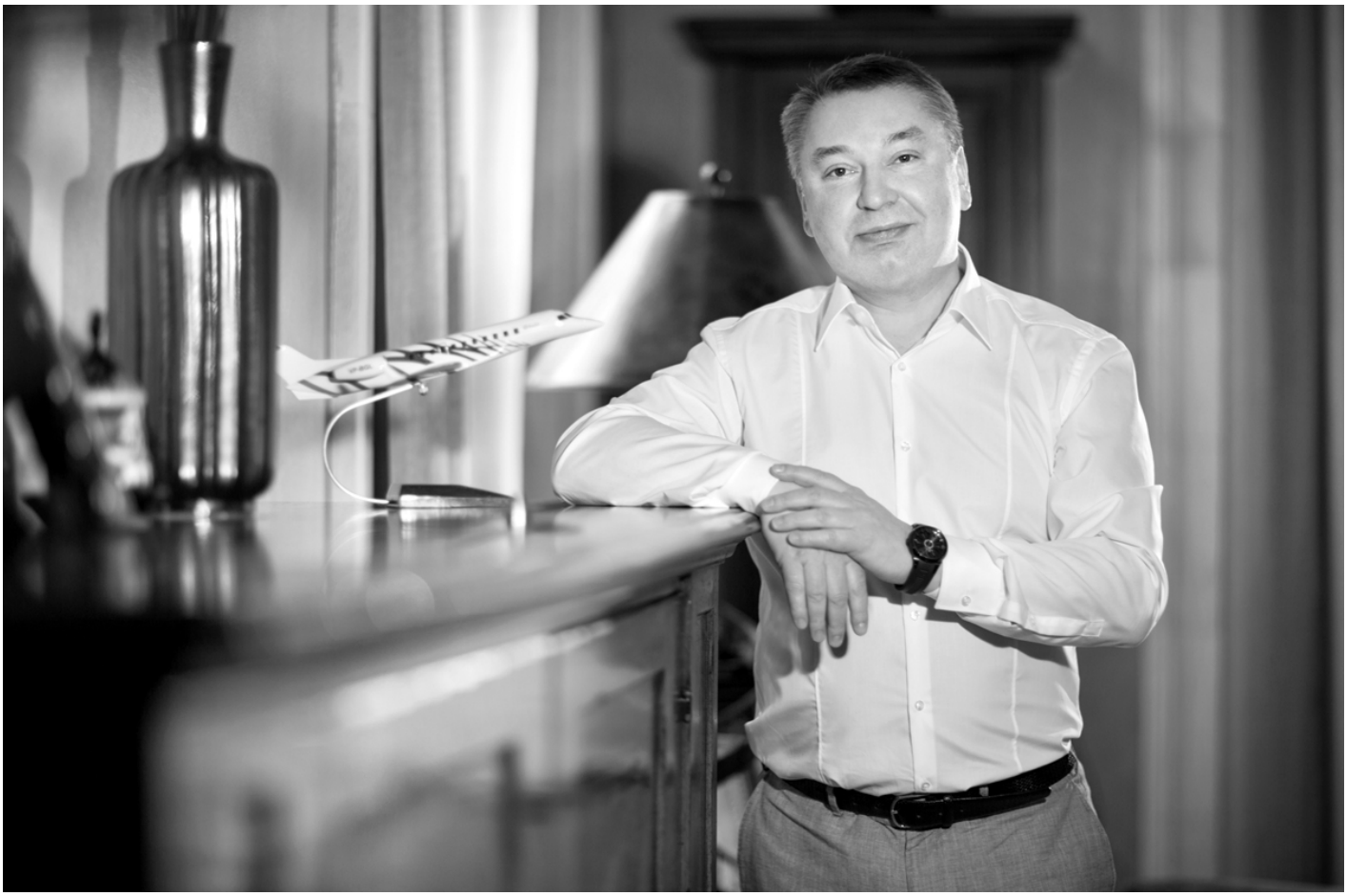
RUSSIAN BUSINESS AVIATION, ALL CATS LOVE FISH BUT FEAR TO WET THEIR PAWS

News / Business aviation, Personalities



Today we have a unique possibility to talk with Mikhail Titov, who can be considered involved in the creation of the young Russian business aviation industry which was born in Russia at the middle of ninetieth. General Manager of "RUSAERO", the largest Russian business aviation handling network company for about twenty years, Mikhail was personally involved in the creation of many businesses that have become the basis and foundation of the Russian business aviation service infrastructure. "VIPPORT" – the managing company of "Vnukovo 3" which is one of the biggest FBO in Europe as well as other bizav structures in the major airports of the country are among them.

Q. Mikhail, let's talk today about Russian business aviation. It is really hard to imagine that the industry is in fact born recently?

M.T. Yes, the Russian business aviation is around 25 years old, if you consider beginning of ninetieth as it's birthday. Everything happened for the first time ... The first arrivals in Russia showed the imperfection of flight licensing system, the absence of any special infrastructure and a complete lack of understanding of the features of business aviation. Given the strict distinction of

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airports, the first airport for business aviation became Sheremetyevo Airport, as the airport, which during the Soviet period had International Airport status . A first wave of arriving planes began, different delegation visited the new Russia to establish business contacts. So Sheremetyevo is the place where first FBO appeared, a strange word for Russia at first, meeting aircraft, organizing necessary service at the airport, provided the loan.

First small specialized terminal for business aviation passengers and crew was opened also in Sheremetyevo. In the second half of the '90s the class of wealthy people began to take shape, called oligarchs, and, accordingly, they began to get the first business jets. Aircraft acquired abroad on the "strange" schemes. Aircraft as the property recorded in the offshore companies, and "easy" countries. Formally, there was no connection between Russia and these aircraft, except frequent flights to / from Russia. It was a golden time for the speculation in aviation!

But the years passed, the market became more civilized, it became easier to get permits. Expand the geography of flights from Russia was expanding, the first professional enough network FLIGHT SUPPORT companies started to operate, having representatives in dozens of airports in Russia and CIS. Western operators and airlines were known as affiliated with the Russian aircraft owners. This is the time when first Russian business aviation companies appeared. They were small and had outdated fleet as Hokker 125 and Falkon 20. Due to the absence of any specific regulation, Russian aviation authorities were applying to these companies same requirements as for Aeroflot. Imagine custom import taxes for aircraft and VAT more than 40% of the cost of the aircraft. It is clear that if was not possible for Russian companies to compete with western competitors in such circumstances.

In early 2000s, the business was growing at a fantastic speed. At the airport Vnukovo a giant even by European standards infrastructure for business aviation began to grow, including terminals for international and domestic flights and a huge hangar complex area. Vnukovo Airport was becoming the leader in business aviation not only in Russia, but also was taking an important place among the leading European FBO. New infrastructures appear in Moscow airports Domodedovo and Sheremetyevo also just built modern complex. The crises of 2008 and the current economy’s situation of course reduces the traffic, but in general, Russian business aviation today can be considered as a separate industry, which has important place in Europe. The speed of grow and development is unique, I think not having analogues, well, except for the Chinese course. We should thank our Western colleagues, from whom we learned a lot! They in fact brought business aviation to us till it became a bit Russian!

Q. Well, what is the current structure of the business aviation industry as a part of Russian economy?

M.T. Given the history I told you about the structure was established. We have a strong component of ground infrastructures - terminals, hangars, a huge number of broker companies, very strong service structure including a flight support , catering, cleaning and others. But still a small and weak operators and airlines, as well as maintenance sector, weak regional development (comparing to Moscow). Thus the Russian part of the business is basically infrastructure, but business aircraft management remains for Western companies. Again, high import taxes and complex regulatory framework, together with the unwillingness of the aviation authorities did not allow the balanced development of business in Russia. Although there is progress.

Q. Mikhail, how can you describe the level of foreign companies investments in Russian business aviation?

M.T. That's a great question! I'm afraid that my answer will surprise you ... We can say that it is

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close to zero !!! I can think of small project of maintenance company JET AVIATION in VNUKOVO3 and ..... And apparently all ... A few years ago JETALLIANCE Austrian airline& Aeroflot project was closed, which was important at the time for Russian market. Amazing, isn't it?

Q. Amazing indeed... Can you give us more detailed analysis of the reasons of such situation?

M.T. Well, let's leave emotions apart and try to be objective. I would have split all the reasons in the two groups.

One group - is absolutely pragmatic aspects related to the legal framework, the financial and economic situation in the country, the situation on the market, business model and other obvious things.

But another group, are reasons not related to the economy in any way ... This is what we call the political risks in the broadest interpretation.

But let's begin with something, that we can name an objective analysis. So, let's create an airline and consider all the positive and negative moments.

So, we list the main difficulties in creating a commercial airline business aviation in Russia:

- A foreign party may not own more than 49% stake in Russian airline, you have to search for a reliable Russian partner;

- High customs duties on imported aircraft with maximum take-off weight of more than 20ton (20% + VAT 18%) and only 18% VAT on aircraft of less than 20 tons. At the same time, Russian aircraft competing with Western manufacturers, like SSJ only appears;

- Financial part of business start (the initial investment is very high). Staff training, leasing and import of aircraft and other overhead costs;

- The risk of failure in obtaining an airline's certificate from aviation authorities at the last moment, after very serious investment;

- The highest requirements on the number of "mandatory staff" in the airline (significantly above western requirements);

- The absence of a spare part stock and the complexity of customs clearance for spare parts received from abroad;

- Lack of service stations, and therefore much more expensive, you need for flight to Europe;

- Low business profitability with high responsibility for safety, highest level of service and features a business aviation (high urgency, geography - the whole world)

- Complex, diverse and constantly evolving legal framework;

- The risk of business interruption due to the deprivation of air operator certificate for those or other violations;

As you can see, there are of course some features but in general it is absolutely objective picture. It is essential that the aircraft imported to Russia will be more expensive to operate because of the customs duties and airlines costs higher due to overstaffing. Imagine if Russian and foreign market

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participants would be equal ...

Q. Scared to hear! Any advantages?

M.T. Of course!

Now about advantages.

- The state actively pursuing an anti offshore policy that breaks many of the ownership and operation schemes, which means there will be more imported aircraft. This means they can be operated only by Russian operator;

- The priority development of internal transportation market, where foreign carriers have number of limitations which do not exist for Russian airlines;

- A small number of active Russian airlines and imported aircraft, which makes possible to obtain a large market share if work in Russia for Western operators and airlines becomes more complicated;

- The right to participate in tenders for the transportation of major Russian companies and government (Gazprom, Rosneft and others);

- The Launch effect . As I explain it to Western partners and colleagues, the brand, which will come to the Russian first will get the JACK POT;

- Reporting as Russian companies to Russian customers can allow to put the cost of air transportation to expenses that reduce the taxable base;

And now a little bit about another group of reasons for the absence of foreign investors on Russian business aviation market, so-called political risks, we promised to discuss above.

I just want to tell a quick story.

Recently, I was helping one well-known respectable European magazine to prepare the article regarding business jet maintenance in Russia. I have prepared some materials and sent its to the author, asking him to publish only after we agree on the text, if there are any references. When I saw the article, I was horrified ... A quote: "the anonymous source said that the operating licenses are part of a corruption scheme involving people close to the government ..." "... corruption schemes don’t let to import spare parts ..." and so on. We are talking about political risks are now. Here they are, these risks, they are unfortunately more in our heads. In fact, Russia, is civilizing procedures. No need to be afraid of primitive criminals anymore, corrupt caricature, changes in the financial system and more. Thousands of foreign companies are successfully operating in Russia. Only business aviation is still waiting for her prince!

I must say that, knowing that the Russian business aviation today is not yet capable to ensure the existing volume of traffic, Russian authorities, in my opinion, are quite loyal to foreign operators and airlines in the Russian Federation. This, in my opinion wrongly lulls Western players who are actively working on the Russian market. It seems that nothing can change the trend, but let's see where the real risks are ... In determining the customs violations, for example, the provision of the Customs office of incorrect data on the order of flight, on the basis that apply zero customs duty may give rise to forfeiture ... That is the real risk, not political. So, sometime making a decision, we are guided by false promises.

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Here are a couple of important arguments, that it is time to make changes and begin to work in Russia:

- Now, when there is range of sanctions against the country, Russian government is particularly sensitive to any Western projects in Russia, very carefully protecting them;

- Work in Russia with imported planes will protect you from Western sanctions, related to operations of a number of aircraft of Russian customers;

- To work in Russia you do not need to change the owner of the aircraft for the Russian. Meaning, that the fleet operated in Russian airline could be here in the operational leasing. In other words, the ownership of the aircraft is not transferred to your Russian company. And they can be registered in any of the countries which signed the intergovernmental agreement 83BIS with Russian Federation;

Q. Yes, it is quite complicated ... But what is the feature of Russian business aviation market? Are there any drivers that can change the balance of power?

M.T. Yes, Tanya, accidentally that just some days ago, news agencies came with stunning news!

"President Vladimir Putin ordered the release of business aircraft from customs taxes and VAT"

There are no detailed comments yet, but something can be assumed. Once the main motive against aircraft import in Russia will be lost (high custom duties and VAT), it is logical that the state will require to import aircraft to operate by Russian airlines and operators. It is obvious that foreign companies flight procedures will be more carefully observed, especially in the prevention of cabotage.

So this may change the market globally with a significant modal shift from foreign to Russian airlines. However, let's see!

By the way some companies are already seriously thinking about its development in Russia!

Q. ?ikhail, now a few words about your new project.

M.T. Thank you, Tanya!

Taking this opportunity, I would like to say hello through your wonderful edition to many colleagues, friends and partners from the world of business aviation!

I hope to see you all at JetExpo in VNUKOVO 3 in September!

And in fact, my new project, BIZAV SYSTEMS provides consulting services to Western companies planning to start a business in Russia. Somewhere near this stuff, you find the banner of the company. So, welcome!

Thank you very much Mikhail! I am sure it is really interesting for our readers, see you soon in Moscow!

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