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**POLITICAL AND ECONOMICAL INFLUENCE
ON THE FUTURE DEVELOPMENT
OF THE UKRAINIAN AIR TRANSPORTATION MARKET**

The article provides Ukrainian airlines beneficiaries and fleet overview, draft new rules of granting and revocation of authority to operate air lines analyses in comparison with active rules, main problem issues of Common Aviation Area Agreement with EU analysis.

Keywords: airline, routes, economical regulation, Ministry of Infrastructure, State Aviation Administration, monopoly, common aviation area.

Statement of the problem: Political events that took place in Ukraine last six months is directly proportional impact on economic aspects of development in the country. Aviation - one of the areas which are under the constant influence of certain political forces and depends on the political direction of the country. So for the last six months, due to changes in the Ukrainian political arena, aviation events occur that affect its future development and priorities.

Analysis of recent research and publications. Political and economical impact for future development of the Ukrainian aviation industry is a subject of research of many scientists and find its reflection in the works of these scholars: Gudima R. [1], Rindich I. [2], Kosse I. and others.

Unsolved part of the problem. Aviation area as one of the most dependent from politics, rapidly respond to changes on the political front. The constant monitoring of political and economical processes in the country and assessment of the degree of its influence on all aspects of Ukrainian aviation industry is extremely necessary.

The article aimed on monitoring of actual condition of the political and economical situation in the country and its impact on future development of aviation industry.

The main material. Currently, Ukraine is on the verge of the integration process with the European Union. In the context of the entire economic system, air market of Ukraine is in process of its specific stages of operation and convergence with EU standards and norms. During 2011, the certification process according to European rules for certification of air operators JAR-OPS 1 passed 9 Ukrainian carriers DonbasAero, Air Express, Wind Rose, Bukovyna, Ukrainian-Mediterranean Airlines, Business Jet Travel, Southern Airlines, Mars LCD, ZetAvia. It is approximately one thousand aircraft in the Ukrainian State Register of Civil Aircrafts now. More the half of them is under airlines commercial passenger operation.

Examining the distribution of air transport market between Ukraine beneficiaries, we should note that about 65% of the Ukrainian market for air transport controls governor of Dnipropetrovsk region Igor Kolomoysky. Previously, he was the owner of two airlines – Donbassaeo and Aerosvit. However, they are artificially driven to bankruptcy by structure of Private. According to Kommersant sources, Kolomoysky became the owner of the UIA at the end of 2012 [3].

Continues to work and develop under the new government air carrier Urga controlled by the family of former Energy Minister Edward Stavisky. After the beginning of May "daughter" one of the largest Russian airline UTAir Ukraine stopped flights for a number of

domestic routes, quickly took its place Urga, which plans leasing of the new aircraft and development of promising areas of operations [4]. 95% of the Urga shares owned by the company Sirius 2013 of Igor Ivanchenko, is associated with Edward Stavisky, the supervisory board of the company led by his father - Anatoly Stavyskyy [5]. Fleet consists of 13 aircraft, including 8 of the Swedish SAAB.

Unfamiliar airline Silk Road, the park which has only 2 AN-12 also marked with connection of the first person of Azerbaijan, the company is the "daughter" of one of the largest Azerbaijani airline Silk Way Airlines, included in Silkway Holding [6].

Starting from 2013 new airline Yanair appears on Ukrainian aviation market. Nothing special, it is no different, except for its owner - Alexander Yanchuck, which according to Forbes [7], together with his fellows Eugene Khrapov and Peter Ivannyk were co-owners of Eastok Avia (UAE). During the spring 2009, after the conflict between partners, Khrapov was killed. After two years of lawsuits Sharjah Sharia Court found Yanchuck guilty of murder and sentenced to death. Since that time the UAE is trying to extradite businessman that based on their data resides in Germany.

In addition, own airlines have businessmen Dmitry Firtash - DF Aviation, Oleksandr Yaroslavsky - Airlines Kharkiv and Grigorishin - Constant. Other airlines belongs to the less well-known businessmen, companies and public bodies that are listed in the table. 1.

Table 1

Beneficiary and fleet of Ukrainian airlines

Airline 1	Beneficiary 2	Fleet 3
UM Air	Businessman, citizen of Lebanon Rodrigue Merhej	3 BAe 146-300
Bukovyna	Rodrigues Merhej (UM Air) father, Elias Merhej	8 DC-9-82
Wind Rose	Igor Kolomojsky	8 A320
Savi	Ex-attorney-general Gennadii Vasiliev and businessman Victor Nusenkis	2 VIP-aircraft MYSTERE FALCON 50
Kharkov Airlines	Businessman Olexander Yaroslavskii	2 Boeing 737, 1 Boeing 767
Aerojet	Odessa citizens Oleg Fridrik, Viktor Yarishkina, Anatoliy Mazurenko	3 VIP-aircraft EMB-500 u 1 SAAB 340B
Aero-charter	Ex-head of USAA Michailo Semenov	3 VIP-aircraft 2 Cessna 525B u 1 Як-40
Eleron	Ex-minister Pavlo Ignatenko	1 Il-76TD
Business Jet Travel	Larisa Dmitrieva Kiev citizen	7 charter aircrafts
Bravo	Kiev citizens Anatolii Kirashenko and Lubov Orlovska	DC-9-83
Wizz Air Ukraine	Hungarian Joseph Varadi	3 A320
Ukraine	Public Affairs Department	A319, 2 Il-62, AN-74TK-300D, 2 Mi-8VND-1
Dart	Kiev citizen Sergey Tomchani	AVRO 146-RJ, DC-9-83 and Learjet-60
Dniproavia	Igor Kolomojsky	5 EMB-145EU
Antonov	Ministry of Industrial Policy of Ukraine	12 AN aircraft with different modifications
Zetavia	Russians Igor Pavlushev and Oleg Sergeev	5 Il-76TD
Kavok Air	Kiev citizen Valerii Bedokurov	3 AN-12 and 1 AN-74
Columbus	Kiev citizens Anna Kolesnik and Tetiana Chelnokova	Charter a/c Model C90A

Cont. the table 1

1	2	3
Constanta	Businessman Konstantin Grigorishin	5 Yak-40
Maximus Airlines	Maximus Air LLC (UAE)	2 Il-76TD and 1 AN-124
UIA	Igor Kolomojsky	33 Boeing-737 u 5 EMB ERJ190
Meridian	The state property fund of Ukraine	1 AN-12BK
Motor Sich	MP from Party of Regions – Vyacheslav Boguslaev	7 AN a/c, 2 Yak-40 and 13 helicopters Mi-2
Ukraeroruh	Ministry of Infrastructure of Ukraine	
Ukraine-Aeroaliance	Euhene Marchuk – son of ex-secretary of national safety and defense	7 AN-12BK
Urga	Ex-minister of energetics Eduard Stavitski	Cessna 172R, 5 AN-26B and 8 SAAB 340B
KHORS	Sergey Tomchani, owner of Dart Airline	DC-9-83
Centeravia	Ex-president Viktor Yanukovich	Falcon-900
Chelenge Aero Ukraine	Sergiy Nikiforov - – business partner of Olexander Shepelev	Falcon-900 and 5 helicopters Bell-407
Silkway	Djahangil Askerov – president of Azerbaijan state concern Azal	2 AN-12
UTAir Ukraine	Russian billionaire, president of Surgutneftegas Volodymyr Bogdanov	8 ATR 42-300, 4 Boeing-737 and 3 CL-600
Yanair	Olexiy Yanchuk – Russian businessman	1 A320 and 2 SAAB SF340A
AtlasJet Ukraine	Atlas Jet Airlines, Turkey	2 A320

Starting from July 21, 2014 Ukrainian State Aviation Administration (USAA) proposed to change the rules of issuance and cancellation rights for operation of the Ukrainian air carriers [9]. Correspondent draft order and text of the rules was published for discussions on USAA official web-site. However, for the purpose of Ukrainian aviation market regulation, on 23.04.2013 Ministry of Infrastructure of Ukraine issued and registered by # 765/23297 The Order # 245 “About approval of the granting and revocation of authority to operate air lines” which is aimed on transparency of actions, creation of competitive environment, destruction of corruption in aviation area.

This normative act is active and has state interests in condition of transfer period to the work under requirements of the Agreement on a Common Aviation Area with EU [12]. It should be noted that appearance of the new document was after appointment as a chairman of USAA of Denys Antoniuk who worked in UIA on different positions since 1997 [8].

Authors of the new order developed by USAA in the explanatory memorandum to the draft rules affirms that “new rules directed to protect competition and the interests of air carriers” [10], but appearance on USAA official web-site of a new “Procedure for granting and revocation of authority to operate air lines” [11] is a real concern among professionals in the aviation industry within following questions:

1. Two years of mandatory losses. Reference to the draft rules, to open regular international flights the airline should fly international charter flights during not less than one year. And to open international charter flights airline should operate domestic flights not less than one year. Thus, algorithm of development of the new state airline may be look as: 1st year – only internal regular flights not less than three different routes; 2nd year – internal regular flights plus international charter flights (not less than three routes); 3rd year – internal regular flights plus international charter flights plus international regular flights. Proposed system is not including different business-models of airlines (net, charter, low-cost), fleet and aircraft size. This is considerable limitation, since today domestic net of the routes is unprofitable and used by

airlines only for transportation of its passengers to Borispol Airport with a transit to other international destinations. In this case most of aviation startups cannot survive for a long period because they will not be admitted to general market.

2. *Absence of the new low-costs. New rules restrict the work of low-cost in our market. Low-cost airlines, as a rule, operate single type of fleet with big pay-load and generate its time-table by taking in consideration of high fleet utilization. Aircraft with little capacity is necessary to operates domestic flights, so by this way, low-costs should fly with half-empty aircrafts between Ukrainian cities during the first year of operation. It is also not realistic requirement for low-cost to operate international charter flights during the year. So, after introduction of the new rules Ukraine can forget about development of Ukrainian low-costs and lower prices on airline tickets. The adoption of these rules will lead to the fact that international assignments will receive only those who perform domestic and charter flights. Thus, for example, the group Wizz Air, which operates only Airbus 320 with 180 seat capacity will not be able in the future to get new international directions from Ukraine due to operation of its aircraft on domestic routes is a loss.*

3. *Who bigger is right? Another novelty proposed by the USAA - the introduction of a system of evaluation points during assignment the carrier on destination route. Points are awarded depending on the number of the fleet, the airline staff, etc. Priority is given to carriers that have values above. So, a small company can receive only destinations routes refused by the largest airline. This approach eliminates air carrier the opportunity to be effective (ie not captured traffic volumes per one plane).*

4. *What are the rules now?. As noted above, the last time rules of assignments on routes changed in 2013. At that time changes in the rules of international assignments on routes in the Ministry of Infrastructure explained by ineffective work of the USAA. The right to issue permits took from USAA and passed the competition committee at the Ministry of Infrastructure. In the committee includes representatives of both the Ministry of Infrastructure and USAA, and to allow meetings to be attended by representatives of airlines. Appointment on international routes is carried out on a competitive basis by open vote. Existing regulations generally satisfied with carriers and generally meet international and European practice on economic regulation of air carriers. Now the key challenges associated with restrictions on intergovernmental agreements limit when all permits are used by existing carriers. But this is a matter of agreement between the two countries.*

5. *All charter flights for UIA. The major players in the charter flights market are Windrose, UTair Ukraine, Kharkov Airlines. In case of adoption of the new rules in the winter can have in Ukrainian market only one charter-carrier - UIA. Permission to operate of international charter flights is valid for one IATA season (summer from 1 April to 30 October, winter from November 1 to March 31). So it will be impossible to obtain permission for charter flights for the new season for most of the airlines due to requirement to perform domestic flights during the year, and the business model of many charter carrier do not foreseen it. So, on the market of international charter flights can stay only UIA.*

6. *All in the same hands: the hands of the USAA. A new procedure for appointing international routes provides an opportunity to leave an airlines application unanswered. Now the Commission based on the results of the application of the carrier on the route must make a decision - let fly or refuse motivated. Under the new procedure for application of the carrier can be left unanswered, so USAA may disregard any statement of any carrier without explanation. This corruption component that will not promote transparency in the appointment. The draft order provides that USAA is forming Commission on the formation and implementation of public policy concerning the operations of the routes, the composition of which is formed by the employees of the USAA, so the Ministry of Infrastructure is removed from the process of*

economic regulation. Also, in order disappeared a number of rules such as the requirement of the airlines financial stability, no debt to airports and Ukraeroruh, requirements on quality of service on board, measures departure flights without delay and others. The existing procedure more democratic, Ministry of Infrastructure during procedure of the issuance and cancellation of the rights for operation involves to the commission independent agency officials, while the new chairman of the USAA - the former top manager UIA. In such circumstances, talk about a fair and competitive distribution of routes between Ukrainian airlines is very difficult.

7. *International experience.* In accordance with European Commission Regulation 847/2004, each EU country should provide the same conditions of access for the operation of the international flights to each air operator. National rules of the assignment of the EU countries airlines to the international lines stated about the following:

- Domestic flights inside EU – complete liberalization;
- International lines without limitations – assignments can receive all carriers registered in EU countries;
- International lines with limitations – there is competition: the carrier shown under 10-15 different criteria and provides appropriate guarantees for the operation of the line frequency, level of service, etc.

Moreover, economic regulation is not in a zone of responsibility and control of state structures of the aviation authorities in the EU, USA and other developed countries, these agencies were involved only for the technical regulation of the aviation industry. For economic regulation, at the state level, the special bodies are established, that are independent from the aviation authorities, which excludes corruption component.

It should also pay attention to the fact that Ukraine is now on the eve of the signing and ratification of the Agreement on Common Aviation Area, initialing the document was November 28, 2013 in Vilnius. Analyzing this document should note that European airlines can fly between cities of Ukraine. During the transition phase of the document provides the lifting of restrictions for airlines of both parties on the number of flights and routes between EU cities and towns of Ukraine.

After complete introduction of the Agreement into force airlines European Union will perform internal transportation between the cities of Ukraine. Ukrainian airlines similar rights that allow flights between the cities of the EU do not get that generates a real concern [13].

The transition from one stage to the next transition will depend on the implementation by Ukraine of new legislation and EU regulations relating to safety, passenger rights, air traffic management and other issues related to the industry.

Conclusions. Areas of aviation commercial traffic mostly belongs to Ukraine representatives of businesses and related officials, depending on the political situation changes and the leading position of certain carriers, through political pressure on the economic regulation of the industry - hence the appearance of occasional laws aimed at monopolizing the market. In general, this situation weakens the commercial air transport industry in Ukraine and all its players. And in terms of the Agreement on a Common Aviation Area, when Ukraine assumes serious commitment to restructuring its aviation legal system to the European system and not entirely beneficial for Ukrainian airlines economic conditions, the situation can lead to disastrous consequences and total or partial loss of own aviation industry

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ПОЛІТИКО-ЕКОНОМІЧНИЙ ВПЛИВ НА ПОДАЛЬШИЙ РОЗВИТОК РИНКУ Авіаційних ПЕРЕВЕЗЕНЬ В УКРАЇНІ

В статті надано огляд бенефіціарів та флоту українських авіаперевізників, проаналізовано проект нових правил надання та анулювання прав на експлуатацію повітряних ліній, а також найбільш проблемних питань Угоди про спільний авіаційний простір з ЄС.

Ключові слова: авіакомпанія, маршрути, економічне регулювання, Мінінфраструктури, Державіаслужба, монополія, спільний авіаційний простір.

Малаховская А.В.

**ПОЛИТИКО-ЭКОНОМИЧЕСКОЕ ВЛИЯНИЕ НА ДАЛЬНЕЙШЕЕ
РАЗВИТИЕ РЫНКА АВИАЦИОННЫХ ПЕРЕВОЗОК В УКРАИНЕ**

В статье изложен обзор бенефициаров и флота украинских авиаперевозчиков, проанализирован проект новых правил предоставления и аннулирования прав на эксплуатацию воздушных линий, а также наиболее проблемных вопросов Соглашения о совместном авиационном пространстве с ЕС.

Ключевые слова: авиаккомпания, маршруты, экономическое регулирование, Мининфраструктуры, Госавиаслужба, монополия, совместное авиационное пространство.

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