

## China, Russia and aircraft finance

### *Russian Aviation*

Airshow China 2014 took place at Zhuhai, Guangdong in November 11-16. The event attracted many local and foreign participants and guests. There were many Russians at the show, including aircraft manufacturers and financiers. Ilyushin Finance Company (IFC) was among them. IFC general manager Alexander Roubtsov talked to the press recently about prospects in Asia-Pacific.

### **Is China becoming more interesting to Russian businessmen?**

Yes, certainly. The current situation is characterized by the fact that most of the Russian banks and other financial institutions are cut from the global markets by US and EU sanctions. In this situation, China's importance as one of the major financial markets, is growing. That is why the great majority of Russian banks and lessors have turned their eyes to China and Southeast Asia. My expectation is that the coming months will see an ever increasing number of meetings on the initiative of the Russian banks and lessors. Their numbers will grow by the order of times. The Russian financial institutions will be searching for some alternative funding for those airliners that have already been earmarked for delivery to Russian carriers. Primarily, this statement is to do with Boeing, Airbus, Bombardier and ATR designs. The reason is simple. Export agencies of the western countries have almost cancelled funding for the aircraft contracted by Russian customers. The only worthwhile alternative for the latter is to get the necessary funding from large Chinese banks.

We took part at the airshow in Zhuhai with a chalet. Our decision for it can be explained by the fact that IFC is one of the largest buyers for the Bombardier C Series. With these new Canadian aircraft on our order book, we have been meeting clients from Southeast Asia. IFC has also been in touch with financiers who want to take part in structuring financial packages for our airline customers. Today, I am not in a position to name certain banks or financial institutions we are talking to. I can only say that IFC has held many meetings recently, including some on the Chinese territory. For all I know, many of our colleagues, too, have been doing the same thing. What will come out of it? Let's see. But we look forward to a closer cooperation with Chinese partners.

### **Is there a hope in the hearts of the Russians?**

Oh, yes! Some sort of concern about the current situation is certainly present in the offices of Russian companies involved in aircraft finance. Airlines are also concerned about the situation. The airlines want to know whether their new aircraft be coming or not? Deals signed long ago and approved long ago should not be subjected to the newly imposed US and EU sanctions. That's the theory. The reality is not exactly that way. Decisions announced publically several months ago and earlier are now subject for change. And they change as we speak! There is no certainty whether the European community, US and Canada would stay with earlier made decisions regarding Russia. Evolution is the word to describe their policy. Sadly, this evolution

has gone the wrong way. Even though there are signs of some progress in the Ukraine – truce holds more or less. Admittedly, the situation is not stable yet. That's why the Chinese vector is going to prevail.

**You spoke in length about hired capital. What can be said about sales of Russian aircraft into China?**

To my best knowledge, Sukhoi Civil Aircraft Company (SCAC) negotiates with a number of Chinese airlines talking them into acquiring its products. IFC is ready to take part on the ways of structuring financial packages for would-be deals including those to do with the IFC quota for newly assembled Sukhoi jets. This is one of the reasons why IFC managers visit China from time to time. We need to know what sort of interest the local players have. The 2012 event in Zhuhai saw a Superjet in the static area, one in the colors of Yakutia, and since then the airline has been flying into China. So that, the Superjet is no novelty to the Chinese. In the case of Superjet, we are following SCAC's marketing policy and that of Superjet International. If there is a client for their product, we are ready to structure aircraft finance package for it. Besides, we are looking for airlines to place with them those airplanes that we are going to have in frame of our quota. There is a schedule of meetings between IFC and its clients from Southeast Asia. There will be meetings and discussions on the topic of placing eight Superjets out of our portfolio. We signed for these eight at Farnborough'2014.

**It is widely known that the Chinese banks are keen to fund local manufacturers and support sales of "Made in PRC" labelled products worldwide. Is there a chance that the Chinese banks that would team up with their Russian counterparts, will, in one way or other, fund their own industry?**

The Chinese aerospace industry has announced a great number of civil aircraft designs. Very few of those actually reached the market. At the airshows the MA-60 regional turboprop flew well. But we hear about some problems these aircraft experience in revenue service. These problems are to do with reliability. Deliveries are suspended. Sometimes we even read in the press about possible grounding of the entire MA-60 fleet.

The ARJ-21 regional jet is yet to win type certification. Is this rather long story ever going to have a happy-end? Most recently, COMAC publically displayed a central fuselage section of the C919 narrow body jetliner. That's a milestone! It provides evidence that the Chinese aerospace programs go on. Yet, there is no a mature, ready-to-use product done well and proper! There is no "made in PRC" labelled aircraft that can be acquired in numbers with high quality embedded. Sometime ago IFC considered a 19-seat commuter airplane. What a nice design! After its manufacturer had failed four times in a row to meet certification deadlines, we lost interest in this airplane.

There is one thing we have learned well. The Chinese aerospace industry suffers from a system problem: they lack a positive experience with certification of their civil aircraft designs. They can develop an aircraft and produce it in metal, but have difficulty in mastering the

process of aircraft certification. We observe that they are having the very same issue with any type of civil aircraft without exception.

**That said, is it really worth going to Zhuhai for aircraft?**

Oh, my colleagues and I have always enjoyed visiting Airshow China, taking great interest in inspecting Chinese wares on display! We have attended the show in Zhuhai on several occasions. And brought with us the Il-96, Tu-204, An-148 – samples of these designs were on display statically and in the air. I can't say these produced much impression. There were great many visitors, but mostly those seeing sides and taking fun; and few of those really interested in making business with us. IFC held product presentations for several airlines. Contacts did not follow because of a very rigid, centralized system of decision-making in the country when it comes to procurement of imported jets. That's one side. On the other: if you do not present yourself, if you do not keep presence in the given marketplace, you will never be able to sell. The Chinese market is one of the biggest in the world. Therefore, I think the Russian aircraft manufacturers and leasing companies need to maintain their presence in China.

**Should the Chinese manufacturers master aircraft certification, will IFC consider their products?**

We considered the MA-60 as well as the 12-19 seater turboprop airplane. We visited the plants manufacturing these aircraft. The issues with certification have made us postpone the whole thing for a later time. The ARJ-21 looks great, but does not interest us since we have signed for the Superjet with a similar passenger capacity. Besides, IFC portfolio also contains the An-148 and An-158 regional jets. That's why IFC does not consider the ARJ-21. Now, the C919: a machine of mystery. It is difficult to foretell what this aircraft is going to be.

A big widebody jet – the one recently announced - has even more uncertain future. What is it going to look like? What sort of design targets will the developers pursue? IFC has a vision of our own. We have carried out a big study into the market for such a widebody jet, trying to formalize requirements to it. IFC is ready to share these findings with the aircraft developers, and offer them to joint forces on shaping the future aircraft. By its complex nature, development of a wide body jet may take seven-eight years or even more. We rejoiced when heard the news of Russia and China coming to agreement on joint development of this aircraft, acronym ShFS (first letters for Wide Body Aircraft, in Russian). It is certainly a big development and a very interesting joint project.

We all need to demonstrate credibility. China's COMAC needs to do this on the ARJ-21 and C919, Russia on the MC-21. Today, Russia looks a bit stronger in this field. My country has already proved the requisite performance during the Sukhoi Superjet 100 program – this airplane has won EASA type certification. Our Chinese partners are yet to win EASA or FAA certification for the passenger jet of their own.

**Apart from China, what sort of interest do you have in the Pacific Rim?**

IFC has prepared a list of meetings for near time with potential Chinese partners and those from Malaysia, Indonesia, Vietnam, Laos, Singapore and other neighboring countries. The

Pacific Rim has been developing fast. Many carriers serve this region. Some of the local airlines have already signed for aircraft present in our portfolio. We want to talk to them. The region is served by a wide variety of banks and leasing companies that may become our partners on structuring financial packages for aircraft acquisitions by IFC. We see the need in communication, to hold discussions on how we can possibly cooperate and make business together on the projects already announced by IFC. These projects are to do with jetliners made in Russia as well as other countries. At Airshow China, we spoke to some airlines operating or willing to operate these types of airplanes, as well banks that would fund aircraft acquisition programs.

**Can a worthwhile stake in IFC be sold to an Asian partner?**

I would not exclude such a possibility. Some time ago, we held rather large number of meetings with potential Chinese investors, and touched on this matter during negotiations. The situation around a stake in IFC continues to evolve. There is an ongoing dialogue.

**You have mentioned the MC-21. Is there any Chinese connection?**

Oh, yes! Certainly, we bear the MC-21 in mind when making plans for the Asia-Pacific markets. It is too early to speak about any certain actions we are going to make, though. IFC would make a move on with active marketing for the MC-21 after the airplane begins to fly. Flight trials shall provide evidence whether the advertised performance correspond to the real one in flight tests. Aircraft on design board is one thing. That same same aircraft in the air is quite another story. The maker then applies to civil aviation authorities for certification. What figures will the MC-21 makers lay down on the table when talking to the certification body? This would make one more story!

I believe that the MC-21 is a good airplane with big future. There is no doubt about it. We need to work hard to make this airplane a reality. Lots of work lay ahead of us. The program has been progressing. Maiden flight is expected in 2015, closer to the year-end. The aircraft manufacturer - Irkut Corporation - has started making structural members for operable prototypes. Metal cuts have been made. Some airframe parts are being machined and otherwise treated. Already in the making are structural members and skin panels. To my best knowledge, Irkut will proceed with prototype assembly in late 2014 or early 2015. Let's see. I am really looking forward to the maiden flight next year!