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MACROECONOMIC REGULATION OF AIR TRANSPORTATION MARKET UNDER MODERN ECONOMIC CONDITIONS

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The article deals with modern problems of functioning of air transportation market. Macroeconomic regulation is considered as the factor having an essential influence on the state of air transportation market and the level of profitability of modern airlines. Priority directions of macroeconomic regulation from the positions of providing of the functioning of effective air transportation market are determined. Possible state participation forms in airlines activity are analysed.

Within the limits of the article special attention is paid to the problems of state risk-management in the sphere of air transportation. Main macroeconomic risks, which are necessary to be considered in the limits of modern airlines risk-management, are determined.

“Human factor” importance in providing of the functioning of effective air transportation market including the provision of aircraft activity safety is underlined. The personnel motivation problems under “force-majeure” circumstances are considered and the necessity of state and private investors’ participation in the formation of social guarantees to modern airline personnel is determined.

Keywords: *air transportation market, risk, risk-management, state regulation, profitability, safety, personnel guarantee, motivation*

1. Introduction

Specific character of modern economic conditions leaves its mark on all the levels of world economy including the system of relations existing in air transportation sphere. This dynamic branch of world economy is subjected to the influence, in the first place, of institutional subjects. States, blocks of states and international organizations are meant.

In the main predestination macroeconomic regulation is aimed of anti cyclic influence on the economy of the country under the condition of activation of risky-forming factors in the world economy. The support of stable economic growth in the country is a super task. Real economic growth, guarantee stable money circulation in the country, rational and effective employment and, at last, effective interaction with world community are macroeconomic regulators’ main problems. Air transportation market refers to most important markets in the world economy. As its element the air transportation market:

- uses common world air space;
- depends on the tendencies of development of the world economy;
- becomes more active under the condition of world economy internationalisation and consolidation of international cooperation;
- depends on market condition an main world market;
- it is greatly regulated by mega economic regulators.

In this connection the problem of institutional air transportation market regulation is actual factor and demands special consideration.

2. Modern Problems of Air Transportation Market

Investigations show that air transportation rate of development outstrips the level of business activity in the world. Thus within the period from 1985 to 2005 GDP (Gross Domestic Product) growth in the world was 3,7 %, but the volume of transportation growth in pass./km was 5,2 % [1].

Macroeconomic regulators should take into consideration main characteristics of modern air transportation market:

- high level of competition;
- high level of capital concentration and centralization of market participants;
- high level demands for securing safety in activity;
- uninterrupted implementation of capital investments;
- great influence of SRW and their implementation in market functioning;
- high level demands for personnel training and retraining process.

Macroeconomic regulators cannot avoid vivid tendency in world aviation. It is as follows:

1. Decrease of large network trunk airlines in number at the expense of their merging or bankruptcy.
2. Active appearance of low budget carriers carrying on aggressive commercial policy and forcing out network airlines from intra-regional and inter-regional lines [1].

Practice puts in the fore front the following problems:

1. Rational use of air space [2].
2. Necessity of joining producers' assets because disconnected carriers' assets are obstacles in air transport industry development [3].

Moreover ICAO points out that the countries consider air transport as a source of finance for different goals [1]. Specialists fix constant growth of air navigational duties without corresponding growth of service level; considerable financial airline expenses on aircraft certification [2]; great level of restrictions at purchasing foreign equipment etc [3]. All these positions indicate that macroeconomic air transportation market regulation demands improvement.

The results of large-scale world airline managers questioning which Sabre Airline Solutions carried out in spring 2007 confirm this [4]. The company managed to get the opinion of 197 managers from 101 world companies representing three regions with most intensive air transportations. North America was in the first region (62 men, 32% inquired); Europe, Middle East and Africa were included in the second region (72 men, 36% inquired); Asia and Latin America were included into the third region (63 men, 32%). Distribution of interrogated airlines according to their activity is given in Table 1.

Table 1. Distribution of interrogated carriers according to their business

Type of carrier	Share, %
Large US companies	9
International long-distance carriers	18
Traditional national carriers	25
Regional airlines	20
Low rate carriers	10
Companies with combined business models	18

Source: Sabre Airline Solutions [4].

We can state that research has become representative both from the geographical distribution at participants and from the point of view of interrogated carriers according to business character [4].

The answers to the question: "What factors exert influence upon the branch development?" are distributed in the following way (Figure 1).

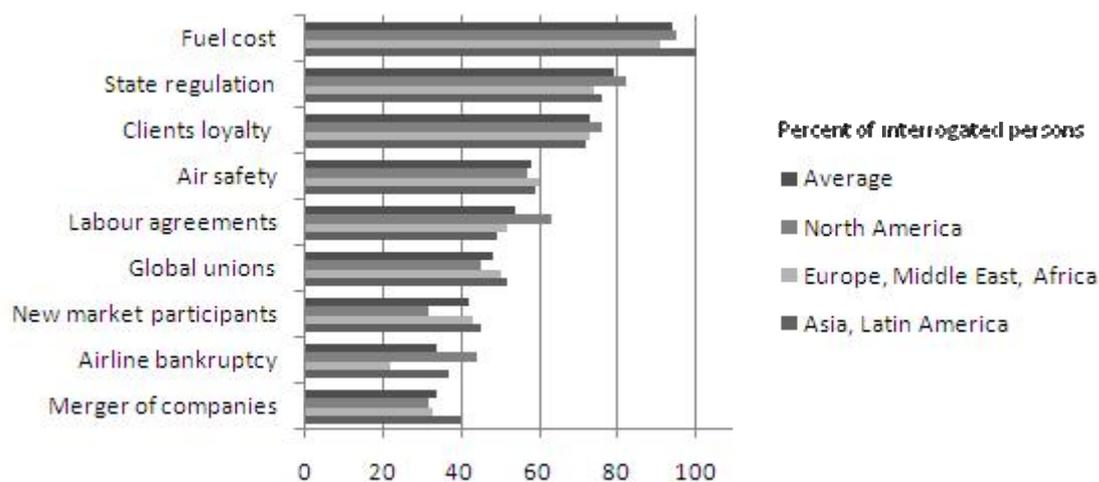


Figure 1. What factors exert important influence on the branch development?

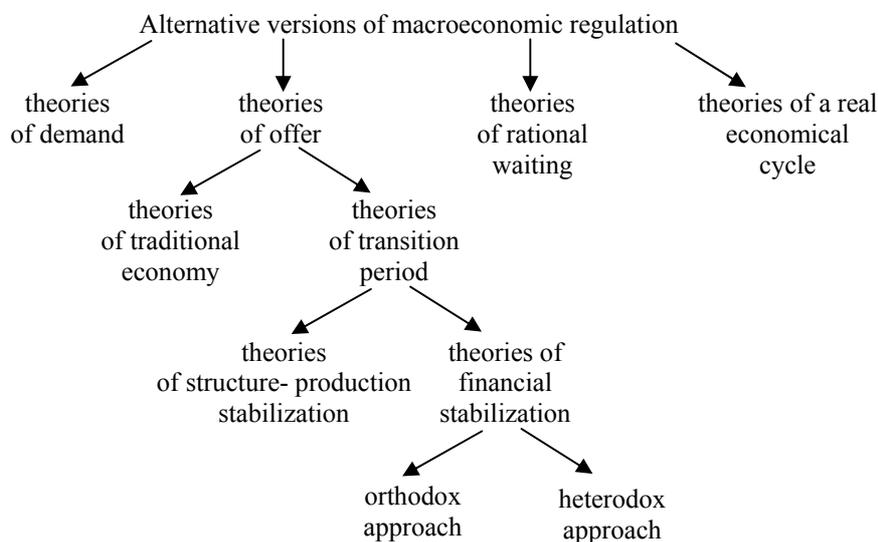
Source: Sabre Airline Solutions [4].

Fuel cost as most important factor of branch development was marked by 94 % of interrogated world airlines managers. The second factor by importance is state regulation of the carrier action (79 % respondents). 75 % of interrogated persons consider that the branch development depends on clients' loyalty. Aircraft safety questions were put on the third place in the list of factors exerting most important influence on the branch development [4].

In this case we point out that top-managers of leading airline put mega-economic factor on the first place, on the second place – the factor formed at macroeconomic level, the third place was given to mezzo-economic factor. Thus, the results of questioning indirectly confirm researcher's positions in the sphere of economic relations about the fact that under modern conditions the processes occurring on the level of state government, tendency in world economy development as a whole are of great importance for business development.

3. Directions and Forms of Macroeconomic Regulation

In any case, state regulation of macroeconomic processes must be based on a right conceptual basis. The regulators should properly put accents of making out macroeconomic policy referring to the air transportation market. Possible alternative versions of macroeconomic regulation are given in the Scheme 1.



Scheme 1. Possible versions of macroeconomic regulation

We suppose that the choice should be made to the side, firstly, the theory of offer, as a basic regulation concept. Secondly, macroeconomic regulation direction, taking into account active transforming processes in world economy (to some degree transition aspect) should be priority. In the choice of stabilization versions, it is necessary in case of activation of the transforming processes the accent should be made on structure-production stabilization leaned against qualitative effective financial instruments. The choice of financial instrument types must be rather weighed, but it is clear that in any case (both in the case of orthodox and heterodox approaches) the accent must be put on stabilization of money circulation and rate of exchange of national currency unit.

It seems that in case of correct orientation of macroeconomic regulation both air transportation market and the country as a whole will get the impulse for development and, that is rather important, will keep its stability in development.

Nowadays most important forms of state regulation of air transportation market are as follows [1; 5]:

1. Direct state participation in airlines activity, in the first place in connection with state interests to keep and promote strengthening national carrier positions.
2. Guaranteeing support of regional companies by local authorities.
3. State support of airport network as an important element of national infrastructure.
4. State participation in financing projects of airport complexes' reconstruction.
5. Optimisation of taxation processes, subsidizing and establishing the prices on the market.
6. Participation in personnel training and retraining process.
7. State risk-management in air transportation sphere.

4. Macroeconomic Risks and Risk-management of Airlines

ICAO as one of the main ways of air transportation development and their regulation calls the necessity of working out recommendations in the sphere of risk government system [6].

Therefore state regulators must pay special attention to this aspect. In this connection it is necessary in the first place to provide correspondence of state policy in the sphere of air transportation market regulation with international rules and standards. In this case international principle must be the principle of priority. This is the condition of providing necessary safety level.

At the same time it is necessary that on the airlines level in the process of government macroeconomic component of business profitability be taken into account. Within the limits of investigations of the Company Sabre Airline Solutions besides other problems analysis of the factors preventing from raising profitability of airline business under modern conditions of their development is realized (Figure 2).

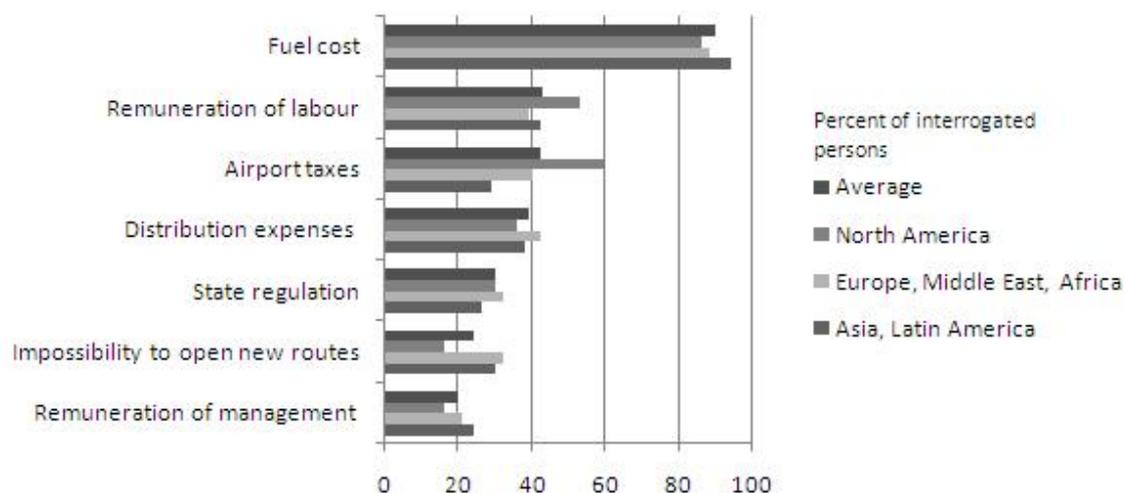


Figure 2. Factors preventing from raising profitability of airline business

Source: Sabre Airline Solutions [4].

The analysis has shown that the priority factors are as follows: fuel cost, remuneration of labour, airport taxes, distribution expenses and expenses connected with specific character of state regulation of airline market. The levels of above mentioned indices have essential distinctions in the countries of world community.

Therefore in risk-management airlines must take into consideration the presence of inter-country differences and their influence on profitability level. Aviation businessmen cannot influence these components especially in other countries; therefore, aviation business must reflect the presence of macroeconomic risks in corresponding financial calculations and risk-management. First of all, it refers to inflation risk, currency risk, risk of monetary policy changes in the country, risk of state regulation changes, and risk of country's social state.

Macroeconomic regulators must develop corresponding recommendations on accounting macroeconomic risks in airlines activity that will reflect the demands of international organizations including air transportation sphere.

5. "Human Factor" Risks of Airlines and Possibilities of Macroeconomic Regulation

Within the limits of air transportation market macroeconomic regulation "human factor" risks the level of which directly influences on the flight safety and profitability of airlines demand a special consideration.

In aviation business claims to "human factor" quality constantly grow. Firstly, claims to the quality of air pilotage for carrying out actively growing volumes of work both inside the country and abroad increase. Secondly, claims to the quality of service in conformity with the heightened service demands in the sphere of air transportation grow {7}. Thirdly, the quantity of extreme situations taking place in connection with air transportation realization increases.

Business-practice witnesses the fact, that the airlines are forced to spend great funds on training and retraining the specialists. Moreover there exists the cooperation of a number of airlines, in the first line, within the limits of air carries unions in the direction of joint financing and provision of training centres, working out curriculum with the purpose of modern and qualified training the necessary number of skilled personnel. Simultaneously the unification of the level of personnel training by airlines-participants of unions is reached [8]. Thus air-business concentrates efforts, financial are among them, in the sphere of training and retraining of the personnel that, first of all are directed on raising the flights safety level and saving expenses realization possibilities as well under the condition of capital centralization.

At the same time, general conditions of raising profitability of airlines become more complex, which is connected, as it was mentioned above, with the growth of air business costs components. Under these conditions airlines use “policy of economy” both in the sphere of capital assets’ utilization (infrastructure, aircraft, etc.) and in the sphere of cooperation with the personnel. The main problem in this aspect by aviation specialists’ opinion is the problem of service wear and consequently aircraft insecurity [5]. Side by side with this under the conditions of aviation specialist shortage and labour intensity is the reason for the adversely affecting the flight safety.

Thus under the overall growth of expenses in air business on training, retraining, stimulation and motivation of the personnel, the growth rate of their expenses does not compensate the growth rate of a man’s expenses on realization of labour functions in air transportation sphere.

We should add to this that the average age of aircraft specialists in civil aviation grows [5]. Aircraft specialists are actually strictly specialized specialists that make difficulties in their transition into other branch of economy. Some privileges in civil aviation partly stimulate the people to remain in aviation and continue working under the exiting conditions. But it is clear that the problems of civil aviation personnel motivation increase that demand solution.

Specialists in motivation’s sphere point out that necessity in safety and protection refers to man’s primary demands. On the basis of its realization, interest in labour, necessity in acquiring social status and requirement in self-realization are formed [9].

Under modern conditional civil aviation personnel, whose activity is originally connected with rather a high level of risk, do not have necessary guarantees for their own safety, such as guarantee of life saving, guarantee of health saving, guarantee of providing adequate payment to their families in case of bread-winner loss. In this connection “human factor” risks increase, which nowadays air business insure in a minimal degree.

It seems that state participation should be more active in this sphere. Within the limits of the article the necessity of widening the state participation in the process of training, retraining and changing specialty of aviation specialists is marked. The last point is mostly important as aviation specialists in case of, for example, loss of health, very often becomes “unfit”, “unnecessary” for aviation and consequently, they are lost for the society because of formerly acquired “narrow” specialty. Very often these are disciplined, responsible workers, and in case of changing specialty they can be claimed both in civil aviation and other branches. In this connection we’ll add the necessity of private airlines state stimulation, and their investments of funds in the process of personnel training. State support, in this case, promotes raising the training quality of aviation specialists and serves as the basis of flight safety increase.

As for the analysis of the state regulation problems of air transportation market it should be stressed upon that the problem of air accidents inquires quality and improvement of specially organized for these purposes independent state structures and demands a special investigation [5, 10].

At the same time the key problem under modern conditions is the participation of state and private investors in forming airline personnel social package including adequate to the character of activity of life and health insurance, granting vouchers to health centres, giving state subsidy for life conditions improvement (dwelling, transport facilities, etc.), granting privileges at getting education to civil aviation personnel family members, etc. In this case it is possible to speak about the formation of real interest in labour of airline personnel and raising flight safety level.

In case of aviation specialist’s death his family must receive adequate money compensation or payments but within a short time. In modern air business practice from the moment of air accident to the moment of receiving money compensation passes a long period of time. In a number of cases receiving money compensation is problematic, and its size is incomparable with the size of aviation specialist’s family losses.

If these problems are not solved, then in the course of time civil aviation may come across the “human factor” problems that become a real problem on the way of flight safety growth and profitability of airlines. Thus both the state and air business should be interested in solving the personnel’s problems.

6. Conclusions

Undoubtedly civil aviation belongs to the branches of great importance in the life of society. That's why the influence of the state on the development of this socially significant sphere of action must be especially weighed, rational and efficient. In the process of countries and air transportation market the development forms and instruments of macroeconomic regulation must be perfected, but in any case macroeconomic regulation must promote stability and reliability growth both in air transportation sphere and the country as a whole.

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