

**ANALYSIS OF FEDERAL BUDGET SPENDING ON FINANCIAL
AID TO NORTHERN AIRPORTS**

Moscow-2001

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Northern Airports

The Ministry of Finance of the Russian Federation requested the Fiscal Policy Center to undertake to the extent practicable (given the time limits and data, which are to be provided by relevant authorities for the purpose of this study) an analysis of the existing situation with funding of northern airports, and to propose specific measures aimed to improve efficiency of federal spending in this area in accordance with the Concept of Fiscal Policy in the field of public expenditures produced by the Ministry of Finance (MinFin, 2001). There is no mentioning in the Concept of federal aid to northern airports and only basic guidelines for improvement of efficiency of public expenditures are set forth there. Nevertheless, those general directions allowed Fiscal Policy Center consultants to undertake an initial study of the issue and to identify areas for further activities, as well as to come up with specific measures for streamlining the situation with financing of northern airports, which may be implemented in the near term.

The price of the issue. The federal government projected to spend about 2.5% of the federal budget on the transportation sector in 2001. Aid to northern airports (RUR68MM) accounts for 0.13% of total transportation expenditures (the bulk of spending – 93 percent - being devoted to road system maintenance). It must be admitted that northern airports are covered not only under “Transport” heading, but also – as far as capital expenditures are concerned – under a target investment program. If we factor in investment expenditures (RUR54MM without, or $RUR54\text{ MM} + RUR31\text{ MM} = RUR85\text{ MM}$ with, potential extra budgetary revenues) the share of spending on northern airports becomes somewhat larger, nevertheless remaining fairly small. The total (maximum with extra revenues) amount of federal budget spending on northern airports is equal to RUR153MM, which translates into \$5MM. For comparison purposes, the European Bank for Reconstruction and Development (EBRD) extended a \$3MM facility to finance overhaul of the unserviceable runway and drainage system at Khudzanda airport in Tajikistan. Although the airport is classified as international, it mostly takes care of traffic between northern and southern parts of Tajikistan, which are separated by mountains, performing in effect the function of a local airport. It may not be an appropriate example, since we do not know the exact volume of passenger flows handled by the airport, however, we do not have alternative cost estimates of repairs in airports obtained with the assistance of international experts. Anyway, support of northern airports is a minor budget item, and when one looks into the issue, a natural question arises why at all such minor sites are financed from the federal budget and whether it makes more sense to finance them under a separate program.

Nevertheless, this spending should be straightened out, if not for no other reason than because of a rapid growth of expenditures on it in recent years, at least insofar as subsidies to northern airports are concerned: in three years from 1999 to 2001 spending under “Support of northern airports” Item increased 7.5 times (from RUR9,194,000 in 1999 to RUR68,700,000 in 2001), whereas the federal budget over the same period increased only 2.07 times (see the statistics attached). Similar growth was recorded under none of the other items of federal budget expenditures on transport. Furthermore, the demand for financing of spending under the item by far exceeds the supply. To illustrate the point, Substantiation of the Amount of State Support of Federal Airports in regions of the Far North for 2001 submitted by the Ministry of Transport to the Ministry of Finance contains a reference to losses incurred by the said airports in 1999. The Ministry of Transport estimates those losses at RUR111.4 MM, and precisely the same amount was requested by the Ministry of Transport to cover losses of northern airports in 2001. In effect 2001 budget allocated RUR68 MM for this purpose.

The need for government interventions in operations of northern airports. This issue has proven to be the most difficult one, since it appeared that an officially approved list of northern airports is nonexistent. There is a list of Far North territories (and locations equated

thereto). There is a list of federal airports. However, some of the airports which effectively receive federal aid under “Aid to northern airports” Item are not federal (airports of Koryak airline, Kyzyl, some of the airports of *Chukotavia*, and Amderma), while others are not located in Far North areas (Vorkuta, Syktyvkar, Kyzyl). General considerations such as low income levels, or difficult life conditions of the population, are of no avail, since one has to differentiate between the needs of the indigenous population, which is not likely to be badly in need of interregional air travels, and those of employees of northern enterprises and companies, some of which are private (such as Norilsk Nickel), while others are public (such as Roshydromet – weather forecasting service). Attempts to understand the logic behind the choice of airports that have been receiving federal aid in recent years have led the consultants to a conclusion that most favored were apparently (1) airports providing services to seaport towns stretching along the Northern Seaway, (2) airports providing services to industrially developed towns of the North (Syktyvkar, Vorkuta), which are currently facing financial problems, as well as airports ensuring air communication with capitals of remote subjects of the Federation (Republic of Tuva and Koryak Autonomous District). Since the government seems to have been guided by several criteria in selecting airports for federal support and it is most likely that the purposes of federal support of different airports were different it is impossible to identify any universal reasons necessitating federal support. Anyway, there are numerous airports located in even more remote areas than those that are currently enjoying federal support, their financial situation being apparently no better.

We suggested several criteria for selection of airports to which the government will provide support. We may have overlooked or omitted something. Drawing a list of such airports is an obvious central government responsibility (a political objective), which means that the government is under no obligation to publicly invite bids from airports for the “northern airport” status. It has simply to decide which airports it is going to support from the federal budget based on national interests. We have proposed some criteria that can be used for selection of airports.

List of airports used for the study. Different sources provide different data on existing (registered and operating) commercial airports in Russia. It was impossible to obtain accurate information, not even from GSGA. Internet search gave us the following data.

220 Russian airports were used by air carriers for handling passenger traffic in the summer season (approximately from mid-March through to mid-October) of 2001. This information was taken from Internet pages providing details of relevant flights included on traffic plans of various Russian airlines¹. Some of those airports were used only occasionally, only a few times over the 7 months’ period. Nevertheless, if it was mentioned in flight schedules at least once, an airport was included in the list. To scale down the task and for avoidance of errors that may arise from the current practice of using different names for one and the same airport, all airports in one city were taken for a single airport. Thus, all Moscow airports (Vnukovo, Sheremetievo, Bykovo, and Domodedovo) were pooled together into one air transport center – Moscow. In some cases for lack of additional information it was impossible to find out how many airports, two or one, there were in a city. For example, for flights via Arkhangelsk the transport center of Arkhangelsk was in some instances designated as Arkhangelsk, while in other cases it was shown as Arkhangelsk (Talangi). The two airports (or two different names of one and the same airport) were merged into one for the purposes of this study. As a result of such “merges”, the number of airports (or rather, transportation centers) decreased to 205.

We believe that such “approximation” or rounding the number of airports off to the number of transport centers will not have any material effect on end results of this analysis, since our study is focused on northern airports, which handle small passenger and cargo traffic

¹ Implied here are those Russian air-carriers that sell tickets for their flights through transport agents having Internet sites. Tickets sales via Internet have recently acquired significant dimensions, with all major air-carriers and transportation agencies having their pages in Internet for distribution of tickets mostly for long-range (inter-regional), but sometimes also for local (intra-regional) flights.

volumes. In “northern” cities and townships there is normally only one registered airport, with the sole exception of Amderma and Amderma-2. These two airports will be merged into one (Amderma) for the purpose of assessment of passenger traffic intensity and flight regularity. If required (for the purposes of a more detailed analysis) they may be treated separately.

Obviously, the resulting list does not cover all existing airports (transport junctions) in Russia, but we may assume that it includes all more or less important ones. In any case left out were only those airports, which were never mentioned by air carriers in their flight schedules for the summer (May – October) season of 2001. It is not unlikely that omitted airports are either out of use altogether, or are used only in emergencies or for local traffic.

Northern airports. Since our study is primarily focused on airports located in regions of, and territories equated to, the Far North, we compiled a list of northern airports based on the general list of all airports (List-205) and the Regulation of the Government of the Russian Federation “On Approval of the List of Regions of, and Locations Equated to, the Far North with a Limited Shipping Season for Delivery of Goods (Products)” (the text of the Regulation is enclosed). There are 103 such airports, i.e. half of all airports on List-205.

It should be borne in mind that an airport may be located outside of the areas included in the list of regions of, and locations equated to, the Far North, but be the nearest one from where one can get to those regions.

To illustrate the point, there are two airports in Chita oblast: in Chita city (Chita rayon) and Chara village (Kagalarskiy rayon). Neither of the cities is among Far North areas, although in Chita oblast there are 36 territories (rayons and villages), which fall into the category of regions of, and locations equated to, the Far North. In particular, there are five villages that fall into the category of locations equated to the Far North in Kagalarskiy rayon, where Chara village is located, however, Chara itself, which has the airport nearest to those villages, is not a “northern” territory. A good part of the Republic of Altai is classified as an area equivalent to Far North regions in terms of conditions for delivery of goods, but there are no airports in the Republic itself. In any case there is not a single airport included in the flights schedule. The nearest airport is to be found in Altai Territory (the town of Biisk) and is connected to Gorno-Altaiisk, the capital of Altai Territory, by M52 highway. However, there are no areas equated to regions of the Far North in Altai Territory, and hence Biisk airport that actually provides service to the Republic of Altai, is not a Far North airport.

On the other hand, three airports from among those that have been effectively receiving financial aid from the government in recent years under “Aid to Northern Airports” budgetary item - Syktyvkar, Kyzyl and Vorkuta – are located in territories that do not formally fall into the category of Far North areas.

There are more examples of this kind. They illustrate the need for clarification of the definition of “northern airports” as a special category of airports receiving government support.

Utilization ratio of the airports included on the list was assessed in terms of two measures: the number of flights and number of passengers served. Both would require some refinement.

Number of flights served. Since the number of arrivals should be equal to the number of departures in an airport², we used only one indicator: the number of flights served. Thus, any destination along the route was considered as an intermediary one. The number of served flights should be understood to mean the number of aircraft that passed through the airport during the navigation period (or the number of flights handled by the airport).

² Correct to the number of flights ending the navigation period in an airport, where the aircraft is registered, but we disregarded this source of discrepancy between “inbound” and “outbound” flights.

Number of passengers served. In fact it would be more accurate to dub this indicator as a passenger capacity of planned flights. It is a product of passenger capacity of an aircraft making a flight multiplied by the number of flights over the navigation period. Since there are often vacant seats on a flight, the “number of passengers served” indicator tends to overestimate the actual passenger traffic. To assess the extent of such overestimation we compared our estimate of the number of passengers, which were to be carried by all air carriers operating in Russia from May to October 2001 with the number of passenger boardings as per Goskomstat data. According to Goskomstat data commercial air carriers transported the following number of passengers (MM pax):

1997	1998	1999
26	23	22

The latest update on the results of commercial airline operations in 2000 is provided in the Box (see below).

<p>Box</p> <p style="text-align: center;">Results of Russian air carriers’ operations in 2000</p> <p>The amount of cargo carried by airlines in Russia in 2000 increased year-on-year by 7.3 percent, reaching 530,000 t of cargo and parcels. This data is taken from official documents of the State Service of Civil Aviation (GSGA) of the Ministry of Transport of the Russian Federation, which were made available to AK&M.</p> <p>In 2000 Russian air carriers transported about 22 MM pax, constituting a 1.4 percent year-on-year increase. There was a minor y-o-y increase of revenue-passenger-kilometer (RPK) which amounted to 53.3 bn. There was a significant increase of the share of international traffic in total RPK figures (from 42.3 percent in 1999 to 50 percent in 2000) as per GSGA data. Besides, the scale of usage of aircraft in agriculture for chemical treatment of fields also increased by a considerable margin. Fleet utilization rates improved too. Over the year passenger load factor increased from 62.4 percent to 64 percent with commercial payload factor grown from 55.9 percent to 57 percent.</p>
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In our estimates based on the analysis of planned flights about 17 MM passengers will be transported during the summer season (May - October) of 2001. If we assume that passenger flow intensity is the same in summer and winter months, extrapolation of 7-months’ data to the entire year will give an approximate of 29 MM boardings for the whole year. Apparently, this is an overestimation by a considerable margin. Based on Goskomstat data and recent updates on the operations in the sector in 2000, maximum 22 MM boardings may be expected in 2001. If we apply the load factor at 2000 level (0.64), then instead of 29 MM pax we’ll arrive at 18.5 MM, which seems to be an underestimation. Nevertheless, for want of any better estimates, we’ll be using the data on the passenger capacity of flights (without adjustment for the load factor) as an approximate assessment of the number of passengers carried, bearing in mind that the figures thus obtained will be somewhat overestimated and in reality aircraft carry less passengers than their full seating capacity. Anyway, such an assessment will assist us in determining relative utilization of airports if we assume that figures across all airports tend to be overestimated by a more or less the same factor.

Another source of errors arising from the use of the number of passenger boardings indicator to describe the volume of air traffic stems from the fact that airplanes are used not only for passenger but also for cargo transportation. Since we do not have any data on cargo transportation routes and cargo traffic volume per route, we had to disregard the cargo traffic. For most of the airports exclusion of cargo traffic is unlikely to distort the overall picture in any significant way, since cargo accounts for no more than 1/5 of total air traffic volumes, while passenger traffic accounts for 4/5. Besides, the bulk of cargo (including parcels) is carried by passenger aircraft, with cargo planes carrying a smaller portion of the total traffic.

Nevertheless we may be unaware of some details of the pax/cargo traffic split in northern airports. Therefore, conclusions that may be prompted by analysis of passenger flows in northern airports may fail to provide a realistic snapshot of the situation.

The “number of flights served (or handled) by an airport” is going to be used as a principal indicator, while the “number of passenger boardings” indicator will be used as an auxiliary one.

* * *

Description of Airports Used for Regular Flights

The list of 205 airports involved in regular flights, although not exhaustive, is very important. Therefore the decision was made to restrict our study initially to the data on airports grouped by regions (See Table below).

The first thing one should pay attention to is that the Table does not contain all subjects of the Russian Federation. Of 88 subjects (without Chechnya) 22 have no airports (subject to all the foregoing reservations). The majority of them are located in the European Russia, although some are in the North. Here is the list:

Table. List of Russian regions having no airports of their own

1 Leningrad oblast	12 Tver oblast
2 Novgorod oblast	13 Tula oblast
3 Pskov oblast	14 Kirov oblast
4 Bryansk oblast	15 Tambov oblast
5 Vladimir oblast	16 Penza oblast
6 Ivanovo oblast	17 Karachai-Circassian Republic
7 Kostroma oblast	18 Komi-Permian AO – north
8 Moscow oblast	19 Altai Republic – north
9 Orlov oblast	20 Ust-Orda Buryat AO
10 Ryazan oblast	21 Aghynsk Buryat AO
11 Smolensk oblast	22 Jewish autonomous oblast – north

Three regions on this list: Komi-Permian Autonomous District, Republic of Altai and Jewish Autonomous oblast within their respective boundaries have areas, which are equated to Far North areas in terms of the delivery of goods. Inclusion of Leningrad and Moscow Oblasts in the list is obviously driven by their proximity to airports of capital cities, although Leningrad Oblast may soon leave the list because Vyborg rayon administration is currently attempting to raise private investments for reconstruction of a small local airfield (not currently used for scheduled flights. A public tender has been announced). However, air transport by no means is the only available option for the European part of Russia, since there are developed railroad and highway systems there. For regions, which have northern territories within their boundaries, absence of an airport may prove more critical, especially if the nearest airport is far away, and no other fast transportation means are to be found.

Table 1.
Availability of airports in subjects of the Russian Federation and extent of their use in the summer period of 2001 for intraregional and interregional communication

	RF Subject	Number of Airports	Total number of flights served	including:		Total number of passengers served	Including:	
				Intraregional flights	External (w/o internal turnover) flights		Intraregional passengers	Extraregional passengers (w/o internal turnover)
1	Republic of Karelia	1	201	0	201	6 974	0	6 974
2	Komi Republic	7	1 966	976	990	113 000	42 302	70 698
3	Arkhangelsk oblast	3	2 124	417	1 707	145 498	15 614	129 885
4	Nenets AO	2	582	32	550	40 534	1 536	38 998
5	Vologda oblast	5	623	199	424	18 703	5 983	12 720
6	Murmansk oblast	2	1 133	0	1 133	121 447	0	121 447
7	St. Petersburg	1	6 975	0	6 975	874 878	0	874 878
14	Kaluga oblast	1	10	0	10	466	0	466
16	Moscow	1	43 220	0	43 220	5 920 724	376	5 920 348
23	Yaroslavl oblast	1	133	0	133	6 915	0	6 915
24	Republic of Mariy-El	1	118	0	118	5 678	0	5 678
25	Republic of Mordovia	1	141	0	141	6 775	0	6 775
26	Chuvash Republic	1	100	0	100	3 369	0	3 369
28	Nizhni Novgorod oblast	1	965	0	965	62 476	0	62 476
29	Belgorod oblast	2	294	118	176	13 075	3 531	9 543
30	Voronezh oblast	1	427	0	427	23 849	0	23 849
31	Kursk oblast	1	46	0	46	2 222	0	2 222
32	Lipetsk oblast	1	169	0	169	5 070	0	5 070
34	Kalmyk Republic	1	218	0	218	6 527	0	6 527
35	Republic of Tatarstan	3	2 276	459	1 817	166 739	16 305	150 433
36	Astrakhan oblast	1	397	0	397	33 857	0	33 857
37	Volgograd oblast	1	1 405	0	1 405	117 445	0	117 445
39	Samara oblast	1	3 097	0	3 097	317 072	0	317 072
40	Saratov oblast	1	414	0	414	43 231	0	43 231
41	Ulianovsk oblast	1	367	0	367	17 691	0	17 691
42	Adygei Republic	1	91	0	91	4 361	0	4 361
43	Republic of Dagestan	1	669	0	669	91 610	0	91 610
44	Ingush Republic	1	246	0	246	26 877	0	26 877
45	Kabardin-Balkar Republic	1	238	0	238	27 111	0	27 111
47	Republic of Northern Ossetia	1	319	0	319	24 222	0	24 222
49	Krasnodar Territory	4	8 762	575	8 188	1 209 909	27 579	1 182 329
50	Stavropol Territory	2	2 611	0	2 611	273 582	0	273 582
51	Rostov Oblast	2	2 596	0	2 596	310 707	0	310 707
52	Republic of Bashkortostan	1	2 624	0	2 624	338 722	0	338 722
53	Udmurt Republic	1	348	0	348	23 242	0	23 242
54	Kurgan oblast	1	92	0	92	6 992	0	6 992
55	Orenburg oblast	2	574	111	462	67 879	5 349	62 530
56	Perm oblast	2	927	0	927	87 252	0	87 252

58	Sverdlovsk oblast	1	4 092	0	4 092	447 683	0	447 683
59	Chelyabinsk oblast	2	1 573	0	1 573	194 896	0	194 896
61	Altai Territory	2	651	0	651	73 432	0	73 432
62	Kemerovo oblast	2	640	0	640	104 378	0	104 378
63	Novosibirsk oblast	1	4 841	0	4 841	602 167	0	602 167
64	Omsk oblast	1	1 593	0	1 593	215 957	0	215 957
65	Tomsk oblast	4	1 711	1 157	554	100 920	45 741	55 179
66	Tyumen oblast	3	4 079	0	4 079	260 369	0	260 369
67	Khanti-Mansi AO	12	13 439	3 963	9 476	873 023	123 961	749 062
68	Yamal-Nenets AO	5	3 604	578	3 026	308 552	18 933	289 619
69	Buryat Republic	4	1 188	678	510	98 179	32 558	65 622
70	Tuva Republic	1	377	0	377	18 996	0	18 996
71	Khakass Republic	1	506	0	506	70 010	0	70 010
72	Krasnoyarsk Territory	9	6 221	2 293	3 927	632 686	97 993	534 693
73	Taimir AO	3	1 977	102	1 875	307 149	4 708	302 441
74	Evenk AO	3	213	0	213	9 123	0	9 123
75	Irkutsk oblast	9	5 269	2 276	2 993	501 303	99 871	401 432
77	Chita oblast	2	259	105	154	18 539	5 047	13 492
79	Sakha (Yakut) Republic	35	5 137	3 760	1 377	348 224	161 007	187 217
81	Chukot AO	10	998	769	230	61 238	36 905	24 333
82	Primorsk Territory	1	1 368	0	1 368	235 092	0	235 092
83	Khabarovsk Territory	12	5 406	2 815	2 591	416 215	72 779	343 436
84	Amur oblast	1	283	0	283	45 394	0	45 394
85	Kamchatka oblast	5	2 052	717	1 335	185 896	14 939	170 958
86	Koryak AO	5	842	356	486	17 521	6 052	11 469
87	Magadan oblast	2	936	410	526	104 417	19 680	84 737
88	Sakhalin oblast	6	2 122	561	1 561	217 581	26 935	190 646
89	Kaliningrad oblast	1	994	0	994	85 027	0	85 027
100	Communication with other countries	1	14 021	0	14 021	1 867 668	0	1 867 668
Total:		205	173 889	23 429	150 460	18 988 313	885 683	18 102 631

Source: calculated by authors from the data provided by companies distributing and taking orders for air tickets via Internet. Most of the information was provided by Eastline company (Domodedovo airport <http://www.eastline.ru>), Polyot-Sirena System (<http://www.polets.ru>) and others.

Table 2 features other interesting details. Regions, which have only one airport, do not use aircraft for intraregional transportation for obvious reasons. However, there are several regions possessing several airports each where local traffic accounts for over half of all flights. Thus in Tomsk Oblast there are 4 airports and about 2/3 of flights have local destinations, while interregional traffic accounts for only 1/3 of all flights. On the contrary, in other regions, despite a big number of airports, interregional destinations prevail. For instance, there are 12 airports in Khanty-Mansi AO, but interregional traffic accounts for the larger part of the flights (local/interregional ratio being about 1:2).

The number of airports in various regions differs significantly. Republic of Sakha (Yakutia) is the undisputed leader with its 35 airports. Khanti-Mansi Autonomous District and Khabarovsk Territory are the next in line with 12 airports each. But most of the regions have just 1 or 2 airports.

List of Northern Airports Compiled by Geographic Principle. Federal Subsidies to and Investments in Northern Airports.

Since the official list of northern airports is apparently nonexistent (at least no such information has been provided to us) we tried to “detect” northern airports, i.e. identify their number indirectly by establishing geographic links between airports included in List-205 and regions of and territories equated to the Far North as established in the Regulation of the Government of the Russian Federation #402, dated 23/05/2000 “On Approval of the List of Regions of, and Locations Equated to, the Far North with a Limited Shipping Season for Delivery of Goods (Products)”. There are 103 such airports, making up just half of the total number (see Table 2). Given below is the resulting list of “northern” airports identified in accordance with their geographic location.

Airports from List-205 located in regions of, or territories equated to, the Far North

	RF Subject	Airport of departure/arrival	Number of flights served	Number of passengers served
1	Komi Republic	Usinsk	288	18 197
2	Komi Republic	Ust-Tsilma	166	7 546
3	Arkhangelsk oblast	Leshukonskoye	87	4 155
4	Nenets AO	Amderma	45	2 181
5	Nenets AO	Naryan-Mar	537	38 353
6	Tomsk oblast	Kedroviy	30	1 224
7	Tomsk oblast	Pionerniy	162	5 832
8	Khanti-Mansi AO	Beloyarskiy	899	40 602
9	Khanti-Mansi AO	Beryozovo	373	12 763
10	Khanti-Mansi AO	Igrim	97	4 574
11	Khanti-Mansi AO	Raduzhniy	149	11 291
12	Khanti-Mansi AO	Sovetskiy	365	10 053
13	Khanti-Mansi AO	Urai	775	31 996
14	Khanti-Mansi AO	Khanti-Mansi	3 142	120 653
15	Yamal-Nenets AO	Krasnoselkup	68	3 195
16	Yamal-Nenets AO	Kamenniy Mys	44	2 091
17	Yamal-Nenets AO	Nadym	631	59 177
18	Yamal-Nenets AO	Salekhard	965	55 930
19	Yamal-Nenets AO	Tolka	37	1 755
20	Krasnoyarsk Territory	Igarka	291	17 790
21	Krasnoyarsk Territory	Kodinsk	192	5 773
22	Krasnoyarsk Territory	Motyghino	74	2 224
23	Krasnoyarsk Territory	Podkamennaya Tunguska	331	13 902
24	Krasnoyarsk Territory	Severo-Yeniseisk	271	9 932
25	Krasnoyarsk Territory	Turukhansk	148	7 097
26	Taimir AO	Dudinka	27	1 317
27	Taimir AO	Norilsk	1 899	303 478

28	Taimir AO	Khatanga	51	2 354
29	Evenk AO	Baikit	13	592
30	Evenk AO	Vanavara	12	590
31	Evenk AO	Tura	188	7 941
32	Irkutsk oblast	Bodaibo	352	16 903
33	Irkutsk oblast	Yerbogachen	36	1 749
34	Irkutsk oblast	Kirensk	246	11 787
35	Irkutsk oblast	Mama	74	3 538
36	Sakha (Yakut) Republic	Aikhal	86	2 232
37	Sakha (Yakut) Republic	Batagai	83	3 998
38	Sakha (Yakut) Republic	Belaya Gora	63	3 038
39	Sakha (Yakut) Republic	Verkhnevilyuisk	107	3 201
40	Sakha (Yakut) Republic	Vilyuisk	104	3 124
41	Sakha (Yakut) Republic	Deputatskiy	69	2 391
42	Sakha (Yakut) Republic	Jebariki-Khaya	6	114
43	Sakha (Yakut) Republic	Zhigansk	19	699
44	Sakha (Yakut) Republic	Zyryanka	33	1 577
45	Sakha (Yakut) Republic	Lensk	386	18 542
46	Sakha (Yakut) Republic	Magan	88	1 667
47	Sakha (Yakut) Republic	Mirniy	950	82 179
48	Sakha (Yakut) Republic	Moma	34	1 646
49	Sakha (Yakut) Republic	Nizhneyansk	24	1 138
50	Sakha (Yakut) Republic	Nyurba	88	3 179
51	Sakha (Yakut) Republic	Oimyakon	6	114
52	Sakha (Yakut) Republic	Olekminsk	127	5 834
53	Sakha (Yakut) Republic	Olenek	83	3 984
54	Sakha (Yakut) Republic	Polyarniy	344	38 449
55	Sakha (Yakut) Republic	Sakkyryr	13	610
56	Sakha (Yakut) Republic	Sangar	13	252
57	Sakha (Yakut) Republic	Saskylakh	56	2 695
58	Sakha (Yakut) Republic	Solnechniy	11	206
59	Sakha (Yakut) Republic	Sredne-Kolymsk	56	2 674
60	Sakha (Yakut) Republic	Suntar	72	3 456
61	Sakha (Yakut) Republic	Tiksi	42	2 030
62	Sakha (Yakut) Republic	Ust-Kuiga	14	665
63	Sakha (Yakut) Republic	Ust-Maya	57	2 028
64	Sakha (Yakut) Republic	Ust-Nera	33	1 577
65	Sakha (Yakut) Republic	Khandyga	18	339
66	Sakha (Yakut) Republic	Cherskiy	35	1 659
67	Sakha (Yakut) Republic	Chokurdakh	35	1 701
68	Sakha (Yakut) Republic	Yakutsk	1 818	137 995
69	Chukot AO	Anadyr	439	34 385
70	Chukot AO	Beringovskiy	26	1 227
71	Chukot AO	Providence Bay	52	2 496
72	Chukot AO	Lawrence Bay	26	1 227
73	Chukot AO	Keperveem	104	5 006
74	Chukot AO	Markovo	51	2 455
75	Chukot AO	Shmidt Cape	52	2 503
76	Chukot AO	Omolon	94	4 526
77	Chukot AO	Pevek	78	3 730
78	Chukot AO	Egvekenot	77	3 682
79	Khabarovsk Territory	Ayan	89	1 508
80	Khabarovsk Territory	Bogorodskoye	9	257
81	Khabarovsk Territory	Komsomolsk-on-Amur	145	16 320
82	Khabarovsk Territory	Mariinskoye	29	500
83	Khabarovsk Territory	Nelkan	59	1 051
84	Khabarovsk Territory	Nikolaevsk-on-Amur	493	14 777
85	Khabarovsk Territory	Okhotsk	318	9 840
86	Khabarovsk Territory	Polyni Osipenko	547	9 292
87	Khabarovsk Territory	Kherpuchi	56	967
88	Khabarovsk Territory	Chumikun	60	1 015
89	Kamchatka oblast	Nikolskoye	60	1 140
90	Kamchatka oblast	Ozyornaya	80	1 517
91	Kamchatka oblast	Sobolevo	102	2 208
92	Kamchatka oblast	Ust-Kamchatsk	177	3 744

93	Koryak AO	Ossora	263	5 576
94	Koryak AO	Palana	329	5 595
95	Koryak AO	Tighil	29	857
96	Koryak AO	Tilichiki	193	4 627
97	Koryak AO	Ust-Khairyuzovo	29	866
98	Magadan oblast	Magadan	731	94 577
99	Magadan oblast	Severo-Evensk	205	9 840
100	Sakhalin oblast	Burevestnik	90	4 320
101	Sakhalin oblast	Nogliki	59	1 005
102	Sakhalin oblast	Okha	409	19 611
103	Sakhalin oblast	Yuzhno-Kurilsk	120	5 760

The above list does not include Vorkuta, Kyzyl and Syktyvkar airports since formally (pursuant to the Regulation) these cities are not classified as Far North areas, and consequently, airports in those cities may not be regarded as “airports located in Far North areas”, although it is under this Item that those three airports received financial aid from the 2000-2001 federal budget. Overall financial aid under this budgetary item in different years was extended to the following recipients³:

Subsidies to airlines provided for in the federal budget of the following years under “Support of northern airports “ Item (RUR’000)

		1999	2000	2001
1	Dikson Joint Air Squadron	2 010,0	5 000,0	3 700,0
2	Amderma Airport	3 096,2	5 000,0	4 500,0
3	Koryak Airline	3 288,6	5 000,0	–
4	Magadan Airport	–	2 000,0	14 000,0
5	Vorkuta Airport	–	4 000,0	6 000,0
6	Kyzyl Airport	–	2 000,0	4 500,0
7	“Chukotavia” State Unitary Air Enterprise	–	9 000,0	14 000,0
8	Khatanga Airport	–	6 000,0	9 000,0
9	Tiksi Airport	–	2 000,0	6 000,0
10	Syktyvkar Airport	–	–	2 000,0
TOTAL		9 194,8	40 000,0	68 700,0

It is impossible to determine from the above table the exact number of airport recipients of such aid. For instance, Dixon Joint Air Squadron is one of them, whereas Dixon itself is not on List-205. Taimir (Dolgano-Nenets) Autonomous District Internet site provides the following information (see Box):

Box

About Dixon airport (ref. Site of Taimir Autonomous District)

... administrative center Dudinka, whose growth was spurred up in the late 30-s by the development of Norilsk industrial region, with its suburbs accounts for nearly 3/4 of the District’s population. The Northern Seaway ensures an all-the-year-round connection to Murmansk and Arkhangelsk, while the Yenisei River during the navigation season provides access to the major part of Krasnoyarsk Krai and Krasnoyarsk itself. A highway and the most northern 100-km electrified railway links Dudinka to the city of Norilsk and Alykel airport. There is another airport in **Dixon** - a local center, which is a port on the Northern Seaway and also a hydro-meteorological and hydrographic center, now nearly abandoned (of 4,500 people that lived there in 1989 barely a thousand has remained by now).

³ This data were received from GSGA. It is important to note that summing up of figures in 2001 column yields 63,700, rather than 68,700, while the budget under the “Subsidies to Airlines located in Far North Areas” provides for RUR68.7 bn, which means that there is something wrong with the figures.

Judging by the information provided by the Administration of Taimir AO there are two airports – Alykel and Dixon – in the District. However, List-205 includes 3 airports located there: Dudinka, Norilsk (Alykel) and Khatanga. Hence, there are at least 4 airports in Taimir AO. However, Dixon Squadron apparently owns (manages) 3 airports, since Khatanga airport is shown separately. Therefore, RUR3.7 bn allocated in 2001 was effectively distributed to an airline, managing at least 3 airports.

As can be inferred from List-205, Chukotka has at least 10 airports: Anadir, Beringovskiy, Providence Bay, St. Laurence Bay, Keperveem, Markovo, Schmidt Cape, Omolon, Pevek, and Egvenikot. If we assume that all of these airports are owned by “Chukotavia” then it follows that in 2001 RUR68.7 bn financial aid was assigned to 21 or 20 airports, depending on whether Amderma is viewed as one or two airports. If we treat Amderma as one airport, then financial aid should have been distributed to 20 airports, of which 7 airports – Amderma, Magadan, Vorkuta, Kyzyl, Khatanga, Tixi, Syktyvkar – received ear-marked funds in the average amount of RUR6.5MM per airport, while 13 airports received aid via airlines owning several airports each, and on average those airports received RUR1.3 MM each.

Is it fair to assume that this difference (RUR6.5 MM versus RUR1.3 MM per airport = 4.8 times) is indicative of discriminatory distribution of federal aid to airports owned by airlines or may be funds allocated to airlines are meant not for all but for some airports controlled by those airlines? It is difficult to answer this question without a further information.

Similar computations for the year 2000, given that Koryak AO possesses 5 airports – Ossora, Palana, Tigil, Tilichki and Ust-Khairyuzovo - demonstrate that budgetary appropriations of RUR40 bn were provided for 25 airports. As this happened, earmarked aid of RUR21 bn was extended to 6 airports (the same as in 2001, except for Syktyvkar. Each airport was given an average of RUR3.5MM), while aid through airlines was extended to 18 airports (the same 13 airports as in 2001 plus 5 Koryak airports, each airport given an average of RUR0.5 MM). There was a 7-times difference in 2000 between airports receiving earmarked aid and airports receiving aid via airlines.

Hence, although one cannot say for sure that we are dealing with discrimination here, airports making up part of airlines receive less financial assistance than do other recipient airports. There may be an objective explanation for it. For example, airports, which are part of the organizational structure of airlines, need financial aid on a much smaller scale (because of their small size or due to other reasons) than do spun-off airports.

Until this point we have been discussing financial aid vis-à-vis operating expenditures. The situation with capital expenditures is as follows (information on all airports was obtained from Target Investment Program in 2001 budget):

Federal target investment program for 2001

Transport: air transport

RF Subject	Airport	Investment Project	Financing, RUR in billions	Additional funding, from extra revenues
Komi Republic	Syktyvkar city airport	Runway construction	14	6
Khabarovsk Territory	Nikolaevsk-on-Amur city airport	Runway construction	4	5
Khabarovsk Territory	Bogorodskoye village airport	Runway reconstruction	4	4
Khabarovsk Territory	Khabarovsk city airport	Runway reconstruction	6	3
Stavropol Territory	Mineralniye Vodi airport	Storm protection structure	11	10
Stavropol Territory	Stavropol city airport		3	5
Republic of Northern Ossetia	Vladikavkaz airport	Runway reconstruction	14	5
Tuva Republic	Air terminal in Kyzyl city	Air terminal	5	6
Kabardin-Balkar Republic	Nalchik city airport	Renovation of the Airport international sector	5	5

Krasnoyarsk Territory	Krasnoyarsk city airport	Runway reconstruction	6	5
Sakhalin oblast	Airport in Yuzhniye Kurili rayon	Runway reconstruction	10	10
Sakhalin oblast	Airport on Sakhalin Island	Airport renovation	1,5	0,5
Sakhalin oblast	Yuzhno-Sakhalinsk airport	Runway extension	6	1
Irkutsk oblast	“Kazachinskoye” airport	Air terminal	6	
Komi Republic	Vorkuta city airport	Launching system	2	
Krasnodar Territory	Air terminal in Sochi city	Completion of construction of production facilities separated from the air terminal system, not subject to privatization	3	
Irkutsk oblast	Irkutsk airport	Overhaul of aerodrome pavement	2	
Kamchatka oblast	Yelizovo city airport	Air terminal system – boiler house with engineering lines	2	
Magadan oblast	Magadan airport	Runway reconstruction	3	
Sakha (Yakut) Republic	Yakutsk airport	Runway reconstruction	4	
Tomsk oblast	Tomsk city airport	Runway reconstruction	2	
		Air Traffic Control Facilities	12	
Total			125,5	65,5

“Kazachinskoye” airport has no formal grounds to be included in the category of northern airports since the city of Kazachinsk is not among townships of Kazachinsk-Leninsk rayon of Irkutsk oblast that fall into the category of Far North territories. Nevertheless it was rated in the category of northern airports because it obviously provides services to northern territories. Airport of Yelizovo city in Kamchatka oblast (not included in List-205) is not northern either, because neither Yelizovo rayon, nor its central city falls into the category of northern territories. However, for the same reason as “Kazachinskoye” airport a decision was made to assign it to the group of northern airports. Airports of Kyzyl, Vorkuta and Syktyvkar are marked as northern airports in the investment list because they receive grants as northern airports. If we leave only northern airports in the list the table will look as follows:

Federal target investment program: investments in northern airports, 2001 budget

RF Subject	Airport	Investment project	Financing	In case of extra revenues
Komi Republic	Syktyvkar airport	Runway construction	14	6
Khabarovsk Territory	Nikolaevsk-on-Amur city airport	Runway construction	4	5
Khabarovsk Territory	Bogorodskoye village airport	Runway reconstruction	4	4
Tuva Republic	Air terminal in Kyzyl city	Air terminal	5	6
Sakhalin oblast	Airport in Yuzhniye Kurili rayon	Runway reconstruction	10	10
Irkutsk oblast	“Kazachinskoye” airport	Air terminal system	6	
Komi Republic	Vorkuta city airport	Launching system	2	
Kamchatka oblast	Yelizovo city airport	Air terminal system – boiler house with engineering lines	2	
Magadan oblast	Magadan airport	Runway reconstruction	3	
Sakha (Yakut) Republic	Yakutsk airport	Runway reconstruction	4	
Total			54	31

In the State Service of Civil Aviation (GSGA) of the MinTrans of Russia they consider, however, that northern airports receive less investments than shown above. According to their data, in 2001 northern airports received only RUR40 MM worth of investments, with their list of recipients being much shorter.

Capital investments in Far North airports provided for in the federal budget for the following years:

	Airport	1999	2000	2001
1	“Sovetskiy” Airport, Vorkuta city	1 000	12 000	2 000
2	Syktyvkar Airport	7 000	15 000	20 000 (6 000)*
3	Kyzyl Airport	–	10 000	11 000 (6 000)*
4	Magadan Airport	6 000	6 000	3 000
5	Yakutsk Airport	–	4 000	4 000

TOTAL	14 000	47 000	40 000 (12 000)*
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*including through extra federal revenues

Source: *MinTrans of Russia GSGA data.*

The likely reason for all that is lack of an official list of northern airports, and therefore GSGA normally regards as northern only those northern airports that have by tradition (for several years) been receiving grants from the federal budget and at the same time are airports of federal importance (although the airport in Kyzyl city is not). Later in the text we'll come back to the issue of federal airports.

Let us compare the investment table with the table of grants. There are only four airports that are earmarked in 2001 budget for aid both in the form of grants and in the form of investments:

(RUR in thousands)

	Grants	Investments
Vorkuta Airport	6 000	2 000
Kyzyl Airport	4 500	11 000
Syktyvkar Airport	2 000	20 000
Magadan Airport	14 000	3 000

What meets the eye here is that in 2001 allocations for the airport in Magadan were RUR14 MM and RUR3 MM for operating expenditures (grants) and capital costs (runway reconstruction) respectively. The same is true of Vorkuta: the airport received RUR6 MM worth of subsidies for operating costs and RUR2 MM for capital expenditures (for the construction of a launching system). For the runway reconstruction in Syktyvkar airport RUR14 MM were allocated in the form of principal financing with additional RUR6 MM allocated from extra revenues. We have already mentioned Tajik airport Khudzhandu earlier in the text (it received \$3 MM from the EBRD for the runway overhaul). Isn't it likely that capital investments are being spread thin over numerous construction projects for no good reason? For lack of data we cannot answer this question. However, it is abundantly clear that investment planning should be on the basis of a long-term budgeting, with each year budget showing the amount of funding contemplated for a particular year, the percentage of completed work (or work in progress), and the total investment project value.

Suggested criteria for selecting candidate airports for provision of federal aid from the federal budget

The next question that we'll try to look into is what the choice of northern candidate airports for receipt of financial assistance from the federal budget is driven by. The Provisional Regulations of procedure for provision of subsidies from the federal budget for support of air transport enterprises based in regions of, and locations equated to, the Far North (as attached hereto) defined the following objectives of such support and established the following criteria for selection of recipient airports:

Objectives:

- Secure inseparable air connection between regions of, and locations equated to, the Far North and other regions of the Russian Federation (i.e. **securing interregional connections**);
- Secure sustainable operation of air transport in regions of, and locations equated to, the Far North (i.e. **support of infrastructure**, since funds are allocated to airports while the air transport is functioning, generally speaking, on its own);
- Hold in check air tariffs' growth to make air transport affordable for the residents of regions of, and locations equated to, the Far North that generally have no alternative means of communication (i.e. **support of individuals**);
- Create conditions that will be acceptable from an economic standpoint for air companies to make flights to and from regions of, and locations equated to, the Far

North, and control the decline and increase the volume of air transportation (i.e. **support of air companies**).

Selection criteria:

- Federal airports;
- Unsatisfactory financial position for reasons beyond airline's control (**operating at a loss**);
- Absence of, despite the real demand for, regular traffic to and from other regions of this country due to unaffordable level of air tariffs and airport services. The effective level of air tariffs and prices for airport services has reached a limit beyond which affordability is bound to drop dramatically and the traffic volume will inevitably shrink to the point of complete discontinuation of flights to a given airport (**absence of regular service**).

We'll now inquire into whether the criteria just described have been used in selecting airports for provision of financial aid (subsidies) from the federal budget.

'Northern location' criterion (not to be found on the list). It is noteworthy that there is not a single criterion amongst the existing ones that would require provision of aid only to airports located in the Far North or in areas equated to it. As has been mentioned earlier, this is a fairly valid approach. It stands to reason that aid should be extended to airports that **serve**, rather than are located in, northern territories (although the former circumstance does not exclude the latter). Reference to "uninterrupted air service between regions in, and locations equated to, the Far North and other regions of the Russian Federation" as a purpose of provision of federal aid is therefore an obvious (and fairly valid) attempt to eliminate a confusion with regard to "northern location" of airports, since there can simply be no airports in northern regions. On the other hand, referring to interregional communication as a purpose may leave airports that are used exclusively for intraregional (local) transportation outside the list of potential recipients.⁴ Leaving aside for the present a detailed analysis of other purposes and criteria, we'll concentrate on what makes an airport "federal" and as such eligible to receipt of aid from the federal budget under Item "Support of Northern Airports".

"Federal status" criterion. It should be first of all pointed out that the "federal status" criterion is not a rigorous one: The Provisional Regulations provide for a possibility of provision of support to other than federal airports under special regulations.

As of January 1, 2001 the list of airports of federal importance included 63 units (see the attached List). Of the 63 airports only one – in Penza – was not on List-205.

There appear to be only 7 federal airports located in regions of, or areas equated to, the Far North: Norilsk, Khatanga (both located in Taimir AO); Tiksi, Yakutsk (Sakha (Yakut) Republic); Anadir, Pevek (Chukot AO), and Magadan (Magadan oblast). Adding three more airports that can be arbitrarily called "northern": Kyzyl, Syktyvkar and Vorkuta, brings the total number of federal airports (quasi-federal since Kyzyl is not a federal airport) that can be considered to be the most likely candidates for receipt of federal aid, to 10. As can be seen from the comparison of the said 10 airports with those that have received actual support from the federal budget under Item "Support of Northern Airports" in recent years, aid was extended to airport Amderma and a few others making up part of Koryak airline organizational structure (5 airports), none of them being of federal importance. Among airports that presumably form part of state unitary enterprise Chukotavia two airports are federal and the other 8 are not. Dikson Joint Air Squadron presumably incorporates 3 airports, of which only one, in Norilsk, is an airport of federal importance. It can be admitted therefore that the "federal status" criteria does not seem to work, although we don't even know what the choice of airports for according them the "federal" status was driven by. In the analysis below we'll try to get to the bottom of the criteria just described.

⁴ Nevertheless, it may still be used as grounds for provision of federal aid to local airports, since they are involved in passenger transportation to local transportation junctions ensuring communication with the outside world.

One of our hypotheses was that the federal status must have been accorded to airports located in capital cities of subjects of the Russian Federation or at least in large regional cities for which air connection with Moscow is of special importance. For example, although it is the capital of a subject of the Russian Federation, Yaroslavl City is too close to Moscow for air connection with it to be of any considerable importance. On the contrary, although located not too far from Moscow, St. Petersburg and Nizhni Novgorod are, nevertheless, far enough for making air service a preferable type of transportation. Besides, we assumed that airports of federal significance must be ones, which service more flights than other airports (of regional or local importance). The above two factors seem to be interrelated.

Testing of the two hypotheses has shown that both are tenable but only to a certain extent. An attempt to rearrange airports on the existing List -205 in order of the number of flights served to verify that federal airports are all at the top of the List, has shown that the first 34 airports are indeed federal, except for the following two: Khanti-Mansi (northern) airport and Noviy Urengoy (not northern although located in Khanti-Mansi AO) airport, ranking 11th and 29th respectively in terms of the number of flights served. In addition, two more northern airports with the federal status lead the way as far as the number of flights is concerned: Norilsk (Taimir AO) and Yakutsk (Sakha (Yakut) Republic) plus “quasi-northern” airport of Syktyvkar.

List-205 rearranged in order of the number of flights served during a shipping

RF Subject	ATU Departure/arrival airport	Federal	season		Number of flights served	Number of passengers served	% of total local flights
			Northern	Tariff Regulation			
1 Moscow	16 Moscow	Fed.		Regulated	43 222	5 920 724	27,04%
2 St. Petersburg	7 St. Petersburg	Fed.		Regulated	6 975	874 878	31,40%
3 Krasnoyarsk Territory	72 Krasnoyarsk	Fed.		Regulated	4 861	573 473	34,44%
4 Novosibirsk oblast	63 Novosibirsk	Fed.		Regulated	4 841	602 167	37,47%
5 Sverdlovsk oblast	58 Yekaterinburg	Fed.		Regulated	4 092	447 683	40,03%
6 Tyumen oblast	66 Tyumen	Fed.		Regulated	4 079	260 369	42,58%
7 Irkutsk oblast	75 Irkutsk	Fed.		Regulated	3 855	422 868	44,99%
8 Khanti-Mansi AO	67 Surgut	Fed.		Regulated	3 672	335 383	47,29%
9 Khabarovsk Territory	83 Khabarovsk	Fed.		Regulated	3 602	360 687	49,54%
10 Krasnodar Territory	49 Krasnodar	Fed.		Regulated	3 539	424 399	51,75%
11 Khanti-Mansi AO	67 Khanti-Mansiisk		north		3 142	120 653	53,72%
12 Krasnodar Territory	49 Sochi	Fed.		Regulated	3 118	553 771	55,67%
13 Samara oblast	39 Samara	Fed.		Regulated	3 097	317 072	57,61%
14 Bashkortostan Republic	52 Ufa	Fed.		Regulated	2 624	338 722	59,25%
15 Khanti-Mansi AO	67 Nizhnevartovsk	Fed.		Regulated	2 517	182 275	60,82%
16 Rostov oblast	51 Rostov-on-Don	Fed.		Regulated	2 485	305 358	62,38%
17 Stavropol Territory	50 Mineralniye Vodi	Fed.		Regulated	2 092	246 923	63,68%
18 Taimir AO	73 Norilsk	Fed.	north	Regulated	1 899	303 478	64,87%
19 Arkhangelsk oblast	3 Arkhangelsk	Fed.		Regulated	1 886	136 809	66,05%
20 Sakha (Yakut) Republic	79 Yakutsk	Fed.	north	Regulated	1 818	137 995	67,19%
21 Kamchatka oblast	85 Petropavlovsk-Kam.	Fed.		Regulated	1 633	177 287	68,21%
22 Krasnodar Territory	49 Anapa	Fed.		Regulated	1 625	210 571	69,23%
23 Omsk oblast	64 Omsk	Fed.		Regulated	1 593	215 957	70,22%
24 Volgograd oblast	37 Volgograd	Fed.		Regulated	1 405	117 445	71,10%
25 Primorsk Territory	82 Vladivostok	Fed.		Regulated	1 368	235 092	71,96%
26 Sakhalin oblast	88 Yuzhno-Sakhalinsk	Fed.		Regulated	1 220	176 111	72,72%
27 Republic of Tatarstan	35 Kazan	Fed.		Regulated	1 181	106 665	73,46%
28 Cheliabinsk oblast	59 Cheliabinsk	Fed.		Regulated	1 115	144 592	74,16%
29 Yamalo-Nenets AO	68 Noviy Urengoi			Regulated	1 053	105 401	74,82%
30 Murmansk oblast	6 Murmansk	Fed.		Regulated	1 033	116 640	75,46%
31 Kaliningrad oblast	89 Kaliningrad	Fed.		Regulated	994	85 027	76,08%
32 Komi Republic	2 Syktyvkar	Fed.	north	Regulated	976	60 368	76,69%
33 Tomsk oblast	65 Tomsk	Fed.		Regulated	967	70 647	77,30%
34 Nizhni Novgorod oblast	28 Nizhni Novgorod	Fed.		Regulated	965	62 476	77,90%
35 Yamal-Nenets AO	68 Salekhard		north		965	55 930	78,51%
36 Sakha (Yakut) Republic	79 Mirmiy		north	Regulated	950	82 179	79,10%
37 Khanti-Mansi AO	67 Beloyarskiy		north		899	40 602	79,66%
38 Perm oblast	56 Perm	Fed.		Regulated	857	83 892	80,20%
39 Yamal-Nenets AO	68 Noyabrsk	Fed.		Regulated	807	81 003	80,70%
40 Khanti-Mansi AO	67 Urai		north	Regulated	775	31 996	81,19%
41 Khanti-Mansi AO	67 Kogalym			Regulated	755	88 349	81,66%
42 Buryat Republic	69 Ulan Ude	Fed.		Regulated	732	76 278	82,12%
43 Magadan oblast	87 Magadan	Fed.	north	Regulated	731	94 577	82,58%
44 Dagestan Republic	43 Makhach-Kala			Regulated	669	91 610	82,99%
45 Yamal-Nenets AO	68 Nadym		north	Regulated	631	59 177	83,39%

46 Tomsk oblast	65 Strezhevoi		Regulated	552	23 217	83,73%
47 Republic of Tatarstan	35 Bugulma			548	17 762	84,08%
48 Republic of Tatarstan	35 Nizhnekamsk			547	42 312	84,42%
49 Khabarovsk Territory	83 Polini Osipenko		north	547	9 292	84,76%
50 Nenets AO	4 Naryan-Mar		north	537	38 353	85,10%
51 Stavropol Territory	50 Stavropol	Fed.	Regulated	519	26 659	85,42%
52 Khakass Republic	71 Abakan	Fed.	Regulated	506	70 010	85,74%
53 Khabarovsk Territory	83 Nikolaevsk-on-Amur		north	493	14 777	86,05%
54 Altai Territory	61 Barnaul	Fed.	Regulated	478	66 618	86,35%
55 Cheliabinsk oblast	59 Magnitogorsk	Fed.	Regulated	457	50 304	86,63%
56 Chukot AO	81 Anadir	Fed.	north	439	34 385	86,91%
57 Krasnodar Territory	49 Ghelendzhik			436	19 077	87,18%
58 Voronezh oblast	30 Voronezh	Fed.	Regulated	427	23 849	87,45%
59 Khanti-Mansi AO	67 Nyagan			422	18 815	87,71%
60 Saratov oblast	40 Saratov	Fed.	Regulated	414	43 231	87,97%
61 Sakhalin oblast	88 Okha		north	409	19 611	88,23%
62 Astrakhan oblast	36 Astrakhan	Fed.	Regulated	397	33 857	88,47%
63 Orenburg oblast	55 Orenburg	Fed.	Regulated	393	51 969	88,72%
64 Sakha (Yakut) Republic	79 Lensk		north	386	18 542	88,96%
65 Irkutsk oblast	75 Bratsk	Fed.	Regulated	383	30 596	89,20%
66 Kemerovo oblast	62 Kemerovo	Fed.	Regulated	380	57 552	89,44%
67 Tuva Republic	70 Kyzyl		north	377	18 996	89,67%
68 Khanti-MansiAO	67 Beryozovo		north	373	12 763	89,91%
69 Ulianovsk oblast	41 Ulianovsk	Fed.	Regulated	367	17 691	90,14%
70 Khanti-MansiAO	67 Sovetskiy		north	365	10 053	90,37%
71 Irkutsk oblast	75 Bodaibo		north	352	16 903	90,59%
72 Udmurt Republic	53 Izhevsk		Regulated	348	23 242	90,80%
73 Sakha (Yakut) Republic	79 Polyarniy		north	344	38 449	91,02%
74 Krasnoyarsk Territory	72 Podkamennaya Tunguska		north	331	13 902	91,23%
75 Koryak AO	86 Palana		north	329	5 595	91,43%
76 Vologda oblast	5 Cherepovets			323	9 694	91,63%
77 Republic of Northern Ossetia	47 Vladikavkaz	Fed.	Regulated	319	24 222	91,83%
78 Khabarovsk Territory	83 Okhotsk		north	318	9 840	92,03%
79 Krasnoyarsk Territory	72 Igarka		north	291	17 790	92,21%
80 Komi Republic	2 Usinsk		north	288	18 197	92,39%
81 Amur oblast	84 Blagoveshchensk	Fed.	Regulated	283	45 394	92,57%
82 Khanti-MansiAO	67 Nefteyugansk		Regulated	273	16 270	92,74%
83 Krasnoyarsk Territory	72 Severo-Yeniseisk		north	271	9 932	92,91%
84 Koryak AO	86 Ossora		north	263	5 576	93,08%
85 Kemerovo oblast	62 Novokuznetsk	Fed.	Regulated	260	46 826	93,24%
86 Ingush Republic	44 Nazran			246	26 877	93,39%
87 Irkutsk oblast	75 Kirensk		north	246	11 787	93,55%
88 Kabardin-Balkar Republic	45 Nalchik	Fed.	Regulated	238	27 111	93,70%
89 Komi Republic	2 Ukhta		Regulated	237	15 092	93,84%
90 Buryat Republic	69 Nizhneangarsk			224	10 752	93,98%
91 Kalmyk Republic	34 Elista			218	6 527	94,12%
92 Chita oblast	77 Chita	Fed.	Regulated	206	16 015	94,25%
93 Magadan oblast	87 Severo-Evensk		north	205	9 840	94,38%
94 Karelian Republic	1 Petrozavodsk	Fed.		201	6 974	94,50%
95 Koryak AO	86 Tilichiki		north	193	4 627	94,62%
96 Krasnoyarsk Territory	72 Kodinsk		north	192	5 773	94,74%
97 Evenk AO	74 Tura		north	188	7 941	94,86%
98 Orenburg oblast	55 Orsk		Regulated	181	15 910	94,97%
99 Kamchatka oblast	85 Ust-Kamchatsk		north	177	3 744	95,08%
100 Belgorod oblast	29 Belgorod		Regulated	176	9 543	95,19%
101 Altai Territory	61 Biisk			173	6 814	95,30%
102 Irkutsk oblast	75 Ust-Kut			171	6 094	95,41%
103 Lipetsk oblast	32 Lipetsk			169	5 070	95,52%
104 Komi Republic	2 Ust-Tsilma		north	166	7 546	95,62%
105 Tomsk oblast	65 Pionerniy		north	162	5 832	95,72%
106 Komi Republic	2 Pechora			161	6 119	95,82%
107 Vologda oblast	5 Vologda			158	4 740	95,92%
108 Arkhangel'sk oblast	3 Kotlas			151	4 534	96,02%
109 Khanti-MansiAO	67 Raduzhniy		north	149	11 291	96,11%
110 Krasnoyarsk Territory	72 Turukhansk		north	148	7 097	96,20%
111 Khabarovsk Territory	83 Komsomolsk-on-Amur		Regulated	145	16 320	96,29%
112 Republic of Mordovia	25 Saransk			141	6 775	96,38%
113 Sakha (Yakut) Republic	79 Neryungri		Regulated	139	12 614	96,47%
114 Yaroslavl oblast	23 Yaroslavl			133	6 915	96,55%
115 Irkutsk oblast	75 Ust-Ilimsk	Fed.	Regulated	128	6 636	96,63%
116 Sakha (Yakut) Republic	79 Olekminsk		north	127	5 834	96,71%
117 Sakhalin oblast	88 Yuzhno-Kurilsk		north	120	5 760	96,78%
118 Mariy-El Republic	24 Yoshkar-Ola			118	5 678	96,86%

119	Sakhalin oblast	88	Shahtyorsk		118	5 671	96,93%	
120	Buryat Republic	69	Taksimov		118	5 671	97,01%	
121	Belgorod oblast	29	Stariy Oskol		118	3 531	97,08%	
122	Buryat Republic	69	Bagdarin		114	5 479	97,15%	
123	Rostov oblast	51	Volgodonsk		111	5 349	97,22%	
124	Sakha (Yakut) Republic	79	Verkhnevilyuisk	north	107	3 201	97,29%	
125	Sakhalin oblast	88	Zonalnoye		106	5 102	97,35%	
126	Chukot AO	81	Keperveem	north	104	5 006	97,42%	
127	Sakha (Yakut) Republic	79	Vilyuisk	north	104	3 124	97,48%	
128	Kamchatka oblast	85	Sobolevo	north	102	2 208	97,55%	
129	Murmansk oblast	6	Apatity		100	4 807	97,61%	
130	Chuvash Republic	26	Cheboksari		100	3 369	97,67%	
131	Khanti-MansiAO	67	Igrim	north	97	4 574	97,73%	
132	Chukot AO	81	Omolon	north	94	4 526	97,79%	
133	Kurgan oblast	54	Kurgan		92	6 992	97,85%	
134	Adygei Republic	42	Maikop		91	4 361	97,91%	
135	Sakhalin oblast	88	Burevestnik	north	90	4 320	97,96%	
136	Khabarovsk Territory	83	Ayan	north	89	1 508	98,02%	
137	Sakha (Yakut) Republic	79	Magan	north	88	1 667	98,07%	
138	Sakha (Yakut) Republic	79	Nyurba	north	88	3 179	98,13%	
139	Arkhangelskobl原因	3	Leshukonskoye	north	87	4 155	98,18%	
140	Komi Republic	2	Vorkuta	Fed. north	Regulated	86	4 135	98,24%
141	Sakha (Yakut) Republic	79	Aikhal	north	86	2 232	98,29%	
142	Vologda oblast	5	Velikiy Ustyug		85	2 554	98,34%	
143	Sakha (Yakut) Republic	79	Batagai	north	83	3 998	98,40%	
144	Sakha (Yakut) Republic	79	Olenek	north	83	3 984	98,45%	
145	Kamchatka oblast	85	Ozyornaya	north	80	1 517	98,50%	
146	Chukot AO	81	Pevek	Fed. north	Regulated	78	3 730	98,55%
147	Chukot AO	81	Egvekinot	north	77	3 682	98,59%	
148	Krasnoyarsk Territory	72	Motyginov	north	74	2 224	98,64%	
149	Irkutsk oblast	75	Mama	north	74	3 538	98,69%	
150	Sakha (Yakut) Republic	79	Suntar	north	72	3 456	98,73%	
151	Perm oblast	56	Berezniki		70	3 360	98,78%	
152	Sakha (Yakut) Republic	79	Deputatskiy	north	69	2 391	98,82%	
153	Yamal-Nenets AO	68	Krasnoselkup	north	68	3 195	98,86%	
154	Sakha (Yakut) Republic	79	Belaya Gora	north	63	3 038	98,90%	
155	Kamchatka oblast	85	Nikolskoye	north	60	1 140	98,94%	
156	Khabarovsk Territory	83	Chumikan	north	60	1 015	98,98%	
157	Sakhalin oblast	88	Nogliki	north	59	1 005	99,01%	
158	Khabarovsk Territory	83	Nelkan	north	59	1 051	99,05%	
159	Sakha (Yakut) Republic	79	Ust-Maya	north	57	2 028	99,09%	
160	Khabarovsk Territory	83	Kherpuchi	north	56	967	99,12%	
161	Sakha (Yakut) Republic	79	Saskylakh	north	56	2 695	99,16%	
162	Sakha (Yakut) Republic	79	Sredne-Kolymsk	north	56	2 674	99,19%	
163	Chita oblast	77	Chara		53	2 523	99,22%	
164	Chukot AO	81	Cape Shmidta	north	52	2 503	99,26%	
165	Krasnoyarsk Territory	72	Predivinsk		52	2 496	99,29%	
166	Chukot AO	81	Providence Bay	north	52	2 496	99,32%	
167	Komi Republic	2	Inta		51	1 543	99,35%	
168	Chukot AO	81	Markovo	north	51	2 455	99,39%	
169	TaimirAO	73	Khatanga	Fed. north	Regulated	51	2 354	99,42%
170	Kursk oblast	31	Kursk		46	2 222	99,45%	
171	Nenets AO	4	Amderma	north	Regulated	45	2 181	99,47%
172	Krasnodar Territory	49	Yeisk		44	2 091	99,50%	
173	Yamal-Nenets AO	68	Cape Kamenniy	north	44	2 091	99,53%	
174	Sakha (Yakut) Republic	79	Tiksi	Fed. north	Regulated	42	2 030	99,56%
175	Yamal-Nenets AO	68	Tolka	north	37	1 755	99,58%	
176	Irkutsk oblast	75	Yerbogachen	north	36	1 749	99,60%	
177	Sakha (Yakut) Republic	79	Chokurdakh	north	35	1 701	99,62%	
178	Sakha (Yakut) Republic	79	Cherskiy	north	35	1 659	99,65%	
179	Sakha (Yakut) Republic	79	Moma	north	34	1 646	99,67%	
180	Sakha (Yakut) Republic	79	Zyryanka	north	33	1 577	99,69%	
181	Sakha (Yakut) Republic	79	Ust-Nera	north	33	1 577	99,71%	
182	Tomskobl原因	65	Kedrovyy	north	30	1 224	99,73%	
183	Khabarovsk Territory	83	Mariinskoye	north	29	500	99,74%	
184	Koryak AO	86	Ust-Khairuzovo	north	29	866	99,76%	
185	Vologda oblast	5	Vytegra		29	857	99,78%	
186	Vologda oblast	5	Kichmengskiy Gorodok		29	857	99,80%	
187	Koryak AO	86	Tighil	north	29	857	99,82%	
188	Taimir AO	73	Dudinka	north	27	1 317	99,83%	
189	Chukot AO	81	Beringovskiy	north	26	1 227	99,85%	
190	Chukot AO	81	Lawrence Bay	north	26	1 227	99,87%	
191	Sakha (Yakut) Republic	79	Aldan		25	615	99,88%	
192	Sakha (Yakut) Republic	79	Nizhneyansk	north	24	1 138	99,90%	
193	Irkutsk oblast	75	Kazachinsk		24	1 131	99,91%	

194 Sakha (Yakut) Republic	79 Zhigansk	north	19	699	99,92%
195 Sakha (Yakut) Republic	79 Khandyga	north	18	339	99,93%
196 Sakha (Yakut) Republic	79 Ust-Kuiga	north	14	665	99,94%
197 Sakha (Yakut) Republic	79 Sangar	north	13	252	99,95%
198 Sakha (Yakut) Republic	79 Sakkryr	north	13	610	99,96%
199 Evenk AO	74 Baikyt	north	13	592	99,97%
200 Evenk AO	74 Vanavara	north	12	590	99,97%
201 Sakha (Yakut) Republic	79 Solnechniy	north	11	206	99,98%
202 Kaluga oblast	14 Kaluga		10	466	99,99%
203 Khabarovsk Territory	83 Bogorodskoye	north	9	257	99,99%
204 Sakha (Yakut) Republic	79 Jebariki-Khaya	north	6	114	100,00%
205 Sakha (Yakut) Republic	79 Oimyakon	north	6	114	100,00%

Shown in gray in the above List are ten airports that are both northern and federal or in recent years have been recipients of subsidies by reason of being “northern” (and de facto federal). Another factor reflected in the Table has to do with whether tariffs are subject to regulation or not. You will find “regulated” against those tariffs for services that are regulated by the federal center and blank spaces against those that are not.

By and large the emerging picture is unclear. Almost all airports that appear to be most “active” and richest are federal. Among them are also a few northern airports that may possibly be poorer than the other leading airports in terms of the number of flights served in view of more difficult conditions of operation but are sure to be the richest among all other northern airports. Federal airports can also be found among less active airports, most of them being airports located in capitals of subjects of the Federation or in large transportation junctions (near seaports). There are also exceptions to this rule. For instance, the airport of the City of Kyzyl, which is northern and receives federal subsidies, is not a federal airport despite being located in the capital of a subject of the Federation. Khatanga and Tiksi located in large transportation junctions are both federal airports. However, the Table indicates that the number of flights they serve is not large and that there are many other northern airports that handle far more flights (if our source data can be relied on) and therefore have more reasons than Khatanga and Tiksi to be called federal airports.

The ‘federal status’ criterion may be expressed as follows: federal airports are normally ones that handle the greatest number of flights (traffic of passengers and goods), and are located in capitals of subjects of the Russian Federation or in the north, primarily in seaports.⁵

While northern location of an airport may well serve as a criterion for according “federal” status to it, the federal status should not be evidently used as grounds for including a northern airport in the list of federal aid recipients. In any event, more clarity should be brought into the issue.

Operating at a loss; absence of regular service. According to the Provisional Regulations, generation of losses by, and incapability of, a northern airport to improve the situation on its own serve as a criterion for making it eligible for the federal aid. We had no data about the financial results of airports. However, if one assumes that there is a correlation between the number of flights served and the amount of income generated by an airport it should be pointed out that at present federal aid is provided, amongst others, to northern airports that are by no means the poorest ones.

In any case, airports of Norilsk, Yakutsk and Syktyvkar belong to the group of 34 Russian airports handling the biggest number of flights that are, among other things, scheduled and included in the plans of travelling agencies distributing air tickets via Internet. However, all airports, without exception, on List-205 have scheduled service. Having said that, the frequency of flying may be different for different flights. It should be also borne in mind that information on regular local flights may be incomplete in the database available to us: local northern airports may be very intensively used in local communication with no related information available in the Internet.

⁵ For instance, Dudinka is also a seaport. However, the airport there has not been accorded the status of “federal airport”.

We've failed to carry out a detailed analysis of every airport currently assisted by the federal budget to find out why they operate at a loss. It should become a target for a more in-depth study. However, some of the facts obtained from Internet are rather disturbing.

They have to do with the airport in the township of Khatanga that receives federal subsidies and is located in the region of Taimir AO with the population of 12,000 people. The airport is mentioned in the Internet almost as frequently as the other northern airports taken together. It turned out that the airport has been selected by travel bureaus offering extreme tourism services to their clients: tourist trips to the North Pole. The itinerary is very popular not only with Russian citizens but also with tourists from the countries of nearer and farther abroad. Tourist groups are formed in Moscow and St. Petersburg. Some of the tours are for 10 to 14 days. Others are short, taking only 24 to 27 hours. The price per one person is quoted by all travel agents in dollars and varies between \$6,000 and \$11,000.

Box

Unusual tourism in the Far North

Once a year in spring a small township of Khatanga in Taimir turns into a polar tourism center. Among frequent visitors are famous travelers, clergymen and politicians. At present an Arab sheikh is staying there. Lately, the heir to the British Crown Prince Charles came there on board his own airplane. All of them are driven by the desire to get to the North Pole. The number of guests coming to Khatanga every spring exceeds the number of rooms in the local hotel. People getting together there are so mixed and speak languages that are so diverse that local residents call them "snickers" in jest.

Khatanga has become a place that is the easiest to get to the center of the Arctic region from. Back in the early days of exploration of the North polar explorers developed an unparalleled itinerary that included landing on the world's only ice airdrome in the sea that may receive heavy transport airplanes. Pilots dubbed it in jest "Borneo".

VLADIMIR OVCHINNIKOV, Khatanga air squad leader: "No one in the world has ventured to build such an airdrome. No one in the world can find ice that would stand fast under any weather conditions and not cave in under an ANTONOV-74".

In the past it would take travelers several months, sometimes at the cost of their lives, to get to the Pole. Now it takes from Khatanga to the North Pole only three hours by airplane and one more hour by helicopter.

If the weather is good, a helicopter takes off Borneo almost immediately and soon lands on a drifting ice-floe virtually two steps away from the terrestrial axis. A satellite navigator shows the location of the Pole with a high degree of precision.

No sooner have tourists taken photos and drunk traditional champagne than the floe drifts away and one has to find where the Pole is anew.

VICTOR BOYARSKIY, professional traveler: "Everything is close at hand here. Time per se as well as time zones make no sense here. People can hug one another and go round the world together".

Many tourists would like to walk along the terrestrial axis for some more time but in half an hour the helicopter turns on the engines: the weather here tends to change very quickly and it is important to leave before it is too late. The journey for which many of the tourists traveled thousands of miles by air is coming to a close. Meanwhile the weather is getting warmer on the Pole going up to -18°C: spring has reached even here. Very soon ice will be melting, and the "road" to the North Pole will be closed till the next spring.

News of the world of travels and adventures /04.05.2001/

We have so far failed to find out how popular this kind of tourism is and to what extent it would have allowed to cover losses generated by other types of airport activities if tariffs for services to "hard currency" flights had not been regulated by the government. However, it should be explored in the longer run. It is apparent, however, that other northern airports will hardly be able to improve their financial position through extreme forms of tourism, because for all the popularity of the itinerary there will hardly be enough tourists to keep busy all northern airports. For Khatanga airport, however, this kind of business may become an important source of extra revenues. Anyway, at present the government regulates prices for Khatanga airport services. Moreover, as follows from the latest regulation of the Ministry for Antimonopoly Policy that refers, amongst others, to Khatanga airport, airport charges are established at one and the same level for all flights, since "hard currency" flights are local, not international.

Many airports, small and large alike, are lured by the prospects of hard currency earnings. The prospects of providing refilling services to flights going from North America via the North Pole are appealing to many northern airports. Whether their hopes for becoming rich can or cannot realistically come true in the short run is hard to say⁶, but one should take into account the possibility for generating such extra revenues in determining the makeup of northern airports.

⁶ It is likely that modern airplanes flying by the above route don't need any refueling and that no reserve airdromes are needed on the way either. However, we cannot say that for sure.

Box

Getting off to a good start

Starting from February 1, 2000 four cross-polar air routes going through the Russian territory have been opened for regular flights.

According to chief of a department of the State Service of Civil Aviation (GSGA) Yuri Averianov American companies United Airlines (Chicago – Hong Kong flight, 7 times a week) and Northwest Airlines (Detroit – Beijing, 4 times a week) have already started flying by those routes. From March 1 they will be joined by Continental Airlines that will fly from New York to Hong Kong 7 times a week. Air navigation services to foreign air carriers generate on average \$70 per 100 km for the State Corporation enterprises.

Airports in Irkutsk, Bratsk, Khatanga, Mirniy, Neryungri, Nizhnevartovsk, Norilsk, Pevek, Tiksi, Yakutsk, Novosibirsk and Krasnoyarsk are indicated as emergency airdromes in the Russian section of the cross-polar routes. According to chief of a GSGA department Viktor Galkin, so far there have been no technical need for the use of any of the foregoing airports as reserve airdromes because airplanes in use in foreign air companies (at present Boeing 747-400) don't require such airdromes along the newly opened routes.

At the same time Russian airports for obvious economic reasons are very interested in attracting foreign air carriers. For instance, Krasnoyarsk airport and air company KrasAir have already announced their plans of active participation in the program of use of the above routes.

Lack of alternative types of transport. From the information about Taimir AO given above we know that the most northern electrified railway connects **Norilsk** with the seaport of Dudinka that is all year round connected by the Northern Seaway with Murmansk and Arkhangelsk and by the Yenisei river during shipping seasons with the main part of Krasnoyarsk Territory and the City of Krasnoyarsk.

Federal road M56 going to Tynda from where one can get to any part of this country by rail crosses the City of **Yakutsk** located in the navigable part of the Lena River and equipped with a river port.

The only motor road connecting **Vorkuta** with Syktyvkar is of low grade (with hampered traffic), but in addition to the airport there is also a railway service. **Syktyvkar** is connected with the rest of Russia by the federal motor road and railway. Besides, going down the navigable river Vychegda one can get from there to the Severnaya Dvina River. In encyclopedic reference book *Russia* it is referred to as an “important transportation junction (with a railway station, river port, 3 highways and an airport)”.

A federal motor road and a railway cross the City of **Kyzyl**. There is also a river port on the Verkhniy Yenisei River (connecting it to the Yenisei River and Krasnoyarsk).

Magadan is a big seaport. There is also a federal motor road there.

Pevek and **Anadyr** are both seaports. There are also motor roads there but of low grade (without solid pavement).

Khatanga and **Tiksi** are also seaports, although Khatanga is more of a township than a city. There are no roads there (neither motor roads, nor rail) but the whole purpose of their existence is to serve navigation by the Northern Seaway. Therefore, by origin they are transportation junctions that on top of all have airports.

There are five airports in **Koryak AO**. However, the size of regional economy is very small. There are neither seaports, nor roads, nor navigable rivers there. There are virtually no residents there either, with the population being only 31,000 people. Transportation is primarily by sea and air and also sledges drawn by reindeer or dogs.

Hence, there is always an alternative to air transport although territories may differ widely in their openness to transport and it may take up to several weeks to get to the nearest transportation junction (Petropavlovsk-Kamchatskiy) from an out-of-the-way township of Koryak AO.

In any case lack of alternative types of transportation cannot and does not seem to be a criterion used in practice for selecting potential candidates for federal support, such selection being apparently driven by some other considerations.

What decisions should be made to make the selection of airports for federal assistance more transparent?

In the foregoing we have tried to show that northern airports receiving support from the federal budget for the last several years fail to meet any or at least some of the criteria set out

in the Provisional Regulations on provision of state support to northern airports. Then why has been financing provided to them and not to other airports?

Authors of the Provisional Regulations have, on the one hand, proclaimed national goals of state support to Far North regions (ensuring inseparable connection of those areas with other regions of this country) and individuals (ensuring affordable prices on air tickets) and on the other, they have promised to help (by ensuring acceptable economic conditions for) air companies as well. On the other hand, the Regulations read that air companies (airports) shall themselves submit their financing requests to the GSGA of the Ministry of Transportation. Airlines shall provide necessary information about themselves, work out plans of financial rehabilitation (although to be selected as candidates for receipt of financial assistance they are supposed to prove that none of their attempts to improve their financial position has been successful and that they have exhausted measures to do so) and submit them as a package to the GSGA of the Ministry of Transportation for consideration. The Provisional Regulations set out a list of required documents and filing dates enabling a request to be examined for inclusion in the budget for a year to come.

And what happens if an enterprise fails to provide all of the information required or to meet the established deadline? It will be punished: the government will deny it financial support but in so doing it will fail to achieve the policy objective of ensuring inseparable connections between regions and affordability of air tickets for individuals.

We think that the government should not make success or failure of its policy dependent on thriftiness or carelessness of airlines or airports' administrations. Airports are undeniably public entities, but at the same time they are enterprises and as such should be commercially oriented and in providing their services aim at profitability. One shouldn't hope that the only way enterprises will choose to improve their financial position will be to ensure an uninterrupted communication between Far North areas and the mainland. Many airports living through financial constraints have been nurturing projects of attracting foreign airplanes and seek financial support both from the federal center and their regional administrations to reconstruct runways for receiving foreign planes. Care for the residents comes through in references to that if it grows rich, an airport will be able to create many new jobs and thus do good to the area's economy, this kind of reasoning being absolutely valid for an enterprise working for profit.

Box

Provision of services to foreign flights and development of non-aviation commercial activities as a means for airports to improve their financial standing

Barnaul:

Aviainvest Research Center and *Sibaeroproekt* Institute have confirmed the validity of an earlier chosen strategy of Barnaul International Airport development that includes efforts to attract investments, major upgrades of facilities to the internationally accepted level, measures to attract more air carriers and increase traffic, development of services and non-aviation commercial activities that will enable the airport to raise additional revenues for development purposes. *AMI-Center, February 2001.*

Siberian Federal District: heads of administrations of constituent Territories and Oblasts are supposed to work out a transportation development program for Siberia. In the third quarter the program will be submitted to the Russian Government to become a basis for disbursements of funds from the federal budget to regions in 2002 for solution of regional transportation problems.

According to the program major efforts in Irkutsk oblast will be focused on air transport development. Today a "go-ahead" has been given to transcontinental flights across the Arctic region, with 500 flights made last year. Russia provides navigation services but for lack of properly equipped airports airplanes don't make any landings in Russia now. To solve the problem three international airports will be built in Siberia. The largest – a modular system with customs terminals – will be located in Novosibirsk. Two support airports will be built in Krasnoyarsk and Irkutsk. Renovation of the existing airports in the above-mentioned cities will require about RUR3 bn.

"REGIONS.RU / Russia. Regions" March 22, 2001.

Irkutsk: A new runway construction project for the airport of Irkutsk was submitted to the regional administration. The contemplated 4,200 m long runway will allow Irkutsk airport to receive and release airplanes of any class, whereas the existing 2,600 m long runway is not long enough to land Boeings and other big airplanes. The cost of construction of the new runway is estimated at \$ 140 MM. According to project manager Yuri Miropolski, the new runway will make Irkutsk airport attractive to foreigners for the following reasons. A stopover in Irkutsk will allow them to save flight time, fuel, and type of airplane (instead of four-turbine they will be able to use two-turbine planes) and increase freight-carrying capacity (reduced fuel reserve will enable them to increase the volume of cargo). At present up to two hundred airplanes fly over Irkutsk daily. Availability of two runways meets foreign requirements whereby airports have from two to five runways. Cooperation with foreign airlines will have a meaningful favorable impact on city and region's economy.

Examples given in Box 3 for the most part refer to airports that formally do not belong to the category of northern ones. However, all of them are located in, or provide services for the needs of, regions incorporating northern territories or territories equated to them.

Therefore, if it is committed to ensuring an inseparable connection between Far North areas and other regions the government should not leave policy development with airports. Airports may find another way to improve their financial health (for example, by providing services to foreign airplanes or doing non-aviation business for profit) and will not apply for financial support for provision of services to northern territories. It is up to the Government to decide which regions it wants to support and why (for what purpose).

For instance, **the government may want to help the population of Far North areas.** But do the people really need it? Is the government sure that if subsidies paid for air tickets for ensuring connection with the mainland were distributed to residents in cash the people wouldn't spend it on something more important for them? If the right to free (or subsidized) travel by air were given "in kind", as in the case with the right to free travel by rail (once in two years) for pensioners and other eligible groups, people would indeed be flying more. However, they will do that in order not to miss the privilege rather than because long distance travels top the list of their vital needs. By granting privileges of that sort we would in effect induce people to fly more and concurrently subsidize (indirectly) air carriers that would enjoy an artificially supported solvent demand for their services. Is this an efficient form of public expenditures? Is this higher mobility of the population justifiable or really needed from a social perspective?

It is not unlikely that for certain groups, such as families that would like to move to the mainland but cannot afford to buy air tickets, the above-mentioned privilege is quite justified. At present a program is being prepared (in cooperation with the World Bank) to relocate people from Far North areas. Provision of those privileges on a one-time basis under that or any other similar program would make a lot of sense.

Another instance of where provision of in-kind privileges to individuals could be justified are federal servants working in the Far North.

Box

Federal servants working in the Far North: Amderma

In Amderma township there is Amderma Hydro-meteorological Center having 50 people on the staff. Except for hydro-meteorologists and the military there is no one else living in the township. In other words, the population of the township consists of only public sector employees receiving their wages from the federal budget. Average wages at the meteorological station amount to RUR2,000 - 2,500 (as of July 2000; the above amount includes northern allowances). Many of the Center employees have not been on vacation for several years in a row. The Center cannot be shut down since it is used for measuring various weather parameters for making weather forecasts. *Sevhydropromet* that the Center is reporting to could install an automated station instead but it does not have the required \$30,000 and therefore has to keep 50 employees up in the North.

Sevhydropromet has a total of 30 minor stations along the White Sea and Barents Sea coasts and on Arctic Ocean islands. A few years ago there were 46 stations. Further reduction is impossible. 30 stations is a limit beyond which sound weather forecasts become unfeasible. There are 4 to 5 people employed at every station.

Nenets AO turned its back on Amderma since there are only federal servants living there (in addition to meteorologists there are servicemen in Amderma), leaving it to the federal center to care for its people.

Pravda Severa, "Nenets District turned its back to Amderma", July 17, 2000.

Naturally, the above example cannot serve as grounds for maintaining an airport (or even two airports) in Amderma. However, it has shown that an employer should provide allowances in cash or in kind (air tickets) to its employees working in the Far North, such allowances to be stipulated in a labor contract and financed not as support of northern airports but through a relevant agency (*Roshydropromet* or the Ministry of Defense in case of allowances for the military). The simplest calculations have, by the way, shown that the annual public cost of 50 people receiving RUR2500 per month at Amderma station (see the Box above) is RUR1.5 MM which makes \$50,000 at the exchange rate of RUR30/\$. Hence, replacement of those people by an automated station could allow saving of funds and reduction of the need for local airport services.

In earlier years there were instructions in effect whereby those working in the Far North were eligible for a free ticket to the place of vacation. We've failed to find out whether those instructions are still effective and whether they apply to all of the employees of arctic stations

and other northern territories. If they are still valid it is important to find out whether compensations paid to employees of various federal branches in the Far North are big enough for them to buy a ticket to the place of their vacation at established time intervals. If they are not, an additional study has to be undertaken to find out whether those recipients are the only or main users of air transportation services in a given territory and whether providing them with air tickets (with expenditures to be compensated to the GSGA) or cash for purchasing air tickets at full cost will make it possible to discontinue payment of subsidies to local airports. In any case it hardly makes sense to subsidize both federal employees and airports if the former are the only users of airport services (for “northern allowances” in the new Labor Code see below).

In case of assistance to local residents it is important to decide what should be considered to be the most **efficient** way of provision of such assistance from a **social perspective**. Is it really necessary, given the existing financial constraints, to help, for example, Koryak AO population, which is only 31,000 people, with about half being aborigines who are not likely to be desperately in need of making long distance travels (although definitely require medical and emergency care in case of unforeseen events and connection with the mainland)? Won't it be more reasonable to invest funds in a financially constrained airport located in a large city with the population of a bigger size?

The opinions on that score may vary.

Box

About social efficiency

The State Service of Civil Aviation of Russia (GSGA) identified three Siberian airports of strategic importance that will be given financial support from the federal budget: in Novosibirsk, Krasnoyarsk and Irkutsk. “The government has selected from among Siberian airports those whose support is most important from a social standpoint. They are the largest and “busiest” airports in the region”, said to *Izvestiya* Vladimir Zatsyuk, secretary of GSGA Board. A similar approach will be taken not only in Siberia but in the whole of Russia”.

19/04/2001, *Izvestiya*

The next question to be answered is whether or not the real goal pursued by the government is to render assistance to the **production sector**. This idea has involuntarily come to our mind when in the list of federal aid recipients we came across airports in Vorkuta and Syktyvkar and airports in cities and townships located along the Northern Seaway. The Northern Seaway is used for supply of goods to northern territories, therefore support of airports in seaside cities may be an indirect form of subsidies for such supplies or all traffic along the Northern Seaway.

In any case air transport is an element of industrial rather than of social infrastructure although it also plays a social role especially under unforeseen circumstances for rescue of residents or crews of vessels sailing along the Northern Seaway. We don't have the data of sociological surveys of air passengers about the purpose of their trips: business or vacation (or personal matters) and it is very unlikely that such surveys have ever been undertaken. However, it will suffice to look at where passengers tend to fly to realize that the majority goes on business trips. Therefore, an employer, whether the federal government or a private (joint stock) company, should compensate for the cost of those trips. (We have already mentioned it in passing earlier in the text where we were saying that the federal center should take the trouble to pay for air tickets of its employees going on vacation from where they live in the Far North). As may appear from fragments of information scattered in Internet, the social role of northern airports, if separated from business needs, consists not so much of ensuring connection with the nearest big city for residents of northern townships so that they can solve their everyday problems⁷, but rather of providing access to townships and seaports for federal services in case of emergency. But this is not a foregone conclusion. However, in selecting candidate airports for provision of federal aid one should take into account, amongst

⁷ In some of the RF subjects such as Yamal-Nenets AO, Chukot region, and Khanti-Mansi AO intraregional air passenger traffic is heavy enough. However, some of the airports (Chukotavia) receive federal support that is probably used to some extent for subsidizing local flights, whereas others do not.

others, the need for ensuring access for federal services (the Ministry for Emergency Situations) to northern territories in case of emergency.

Besides, the fact that some northern airports continue to receive aid from the federal budget from **force of inertia**, just because they have always received aid from the federal center, should not be overlooked either. For instance, the following explanation was given for the need to support two northern airports in the Executive Summary of 1995 Federal Budget:

Box

On funding of former military airports

[1995 budget]... has a provision in the amount of RUR3.7 bn for maintenance of Amderma and Dikson airports located in the Far North in view of discontinuation of funding of those airports by the Ministry of Defense after withdrawal of the troops.
(1995 Budget. Index)

Another example of “inertia” funding is given in the Box below:

Box

Federal airport becoming local

[Of four runways in the jurisdiction of Krasnoyarsk interregional territorial aviation branch of the Ministry of Transportation – Norilsk, Krasnoyarsk, Severo-Yeniseisk and Khatanga].... Khatanga runway is in the worst shape. In earlier days a modern runway capable of handling any airplanes was being built there. It was planned that transit airplanes would be landing there for refueling. Nowadays the airport is providing services to small rayon with the population of 12,000 people. For example, there are only two flights a week from Krasnoyarsk to Khatanga. Formally Khatanga continues to be an airport of federal importance although in actuality it is a local airport. Therefore there can be serious problems with runway repairs. Everything in the Far North is subsidized, and no one can do without the center’s assistance.

Viktor Osipov – Chief, Krasnoyarsk interregional territorial aviation branch of the Ministry of Transportation

Lastly, there can still be one more reason why the federal center is interested in support of northern airports: their **strategic importance** for the State. Naturally, we’ve failed to obtain data that prove (or refute) the above assumption, except for the information about Dikson and Amderma (see Box 5 above) from where military units are known to have been withdrawn. It is not unlikely, however, that those airports that have changed “cap” and become civil aviation facilities preserve their military potential (as reserve airports), and their future fate should be decided on with due regard for that potential purpose of their use.

Title to airports should be clearly divided between the federation, regions and localities. Consideration should be given to letting some of the airports go private (or joint stock or leasing them out on a long-term basis). It is not unlikely that the infrastructure is falling apart in at least some of the airports precisely because of lack of real owner. For instance, the airport in Khatanga is in a very poor shape but, as has been shown earlier, has a good commercial potential. Travel agents could possibly invest their funds into it but the airport is in federal ownership, which may to a certain extent discourage the flow of investments from that source. Some information indicates that investments in Alykel airport would have been easier for Norilsk Integrated Works if it were its owner or lessee, since the airport is mostly used by Integrated Works’ workers and specialists.

Russia has already gained experience in privatization of airports: Magadan airport went joint stock back in 1998 (except for facilities that are not subject to privatization), although 51 percent of shares in a newly established joint stock company are held by the State.

New Labor Code and benefits for northerners travelling to the place of vacation. The Draft Labor Code that has passed the first reading in the State Duma retains many of the benefits for residents of northern territories, in particular, compensation of expenditures on relocation to the permanent place of residence and reimbursement of costs of travel and luggage transportation to the place of vacation. One may agree or disagree that the government undertakes to establish benefits for employees in the private sector as well. To see this, note that the Labor Code requires Norilsk-nickel to pay for travels of its workmen to

the place of vacation. Most probably, Norilsk Integrated Works has already been doing that. If not, it can simply change the existing wage structure by pooling “northern vacations” into a separate line and reducing the other wage components without increasing the wages (total wage fund). Our primary focus should be on public rather than private sector. Therefore, in view of the approval of the Labor Code in the first reading it is of major importance for the purpose of this overview that the above benefits unconditionally apply to workmen receiving their wages from the federal budget. The question arises as to whether the government has the right to shut down an airport that provides services to federal employees and use instead only helicopters to ensure connection with them? For instance, there are many hydro-meteorological stations in the North, each employing 4 to 5 people but it will hardly make any sense to maintain an airport for each of them. Besides, North Pole is not mentioned in the List of northern territories. We also have (or had?) a station in the South Pole. Should employees working in those extremely difficult conditions pay for their travels and wait for the government to later reimburse their expenses or should the government ensure their travel to the place of vacation?

We suggest that the government ensure travels from northern territories to the place of vacation or permanent place of residence at the end of their assignment for federal employees who are salaried from the federal budget. The expenses should be managed through federal agencies in whose pay those employees are, rather than through “Transport” Section of the Budget. Whether the existing practice of subsidizing both individuals and airports should continue will apparently be decided on a case-by-case basis, depending on federal choice of northern airports and who those northern airports will provide services to: primarily federal employees (as in Amderma case) or primarily private sector employees (as in Norilsk case).

Northern Seaway. If our guess is right and in selecting northern airports the government is indeed driven by the desire to support the Northern Seaway infrastructure, the case for establishing a separate federal program to deal exclusively with the Northern Seaway and related northern airports servicing the Seaway needs becomes stronger. The pivot of the program could be contracts with northern seaports on provision of services to the Northern Seaway (at present the government is covering seaport losses originating from maintenance of icebreakers but gives no assignments to ports to use those icebreakers for maintenance of the Seaway).

Establishing a separate program for the Northern Seaway could provide an example of an interdepartmental approach to achieving government policy objectives and help ministries and departments gain experience in cooperating with each other and help the government gain experience in managing interdepartmental programs.

For some of the airports that are regarded today as northern other grounds for provision of state support will have to be found, should the above option (Northern Seaway Program) be approved.⁸

Should the current policy of subsidizing northern airports continue? Let’s assume that purposes of state support of air transport are valid (in all respects). Then it should be remembered that financial aid is provided exclusively to airports, this having a direct impact only on the size of airport charges. The share of airline costs related to those charges went down from 61.5 percent to 45.6 percent (on average for Russia as a whole; GSGA data).

The above reduction should be attributed exclusively to the impact of a changed price structure in the wake of 1998 crisis, not to higher amounts of funding of northern airports from the federal budget, because the overwhelming majority of airports received no funding whatsoever. It should be also taken into account that as a result of almost tenfold (7.5 times) growth of federal budget expenditures on keeping air tariffs down over the last 3 years and a higher growth of aviation fuel prices in Far North airports the share of costs related to airport charges for air companies operating in the Far North has gone further down and may now be below the average level. Growth of federal budget expenditures on this spending item will contribute to a further reduction of this portion of air carriers’ costs.

⁸ There is information that the seaport in Amderma has been shut down.

Growth of financing (taking place today) will therefore cause every subsequent ruble of subsidies for Far North airlines to have a progressively small influence on the relative size of air tariffs and hence on volume of air traffic. It can thus be inferred that the existing policy objectives are not fully met and that federal budget expenditures under Item “Subsidies to air transport enterprises located in Far North areas” are not efficient enough.

Whether the existing arrangement for subsidizing northern airports should continue to apply as it is or be changed for at least some of the airports should be decided in the context of a broader reform of public (government-controlled and other) enterprises.

.....

Comments not related to airports

- (1) **Map.** Consultants ran into an unexpected problem when attempting to find a map of the transportation system of the Russian Federation. Many official documents, including those devoted to its development refer to the transportation system but we have failed to find a map showing motor roads, navigable rivers, Northern Seaway and airports (air communication). We believe that transportation development in the Russian Federation requires a system-based approach and that government policy making in this area (for road, sea, river and air transport) needs at least maps showing the whole system of transport corridors. An order for such a map probably has to be made.

Box
Fiscal Policy Center attempts to find a map of the transportation system of the Russian Federation Of all earlier published maps that we got hold of a map (attached hereto) from the Military Officer Atlas (Military Topographic Department, Moscow, 1984) was the only one showing all transportation routes except for pipelines. Although it is outdated, the map allowed us to take a totally different look at transport accessibility of various territories. When asked about more up-to-date maps of Russia’s transport system similar to the one we showed them (Military Officer Atlas), salesman (Bookstore <i>Atlas</i> on Kuznetskiy most street in Moscow) replied that it must have been taken from the Military Officer Atlas and that similar maps were never published in the past or nowadays and they doubted very much that we would be able to find anything of the sort.

- (2) **Goskomstat and MinFin.** We believe that Goskomstat and MinFin should work in closer cooperation with each other. The Ministry of Finance spends substantial funds on maintenance of federal and territorial motor roads, icebreakers for servicing the Northern Seaway, hydraulic works on navigable rivers, and air transport, but Goskomstat publishes no data on the length, or condition of appropriate routes or on how actively they are used. Lack of data on actually performed transportation work precludes the analysis of efficiency of public expenditures. What makes it all the more important is that MinFin’s Concept of public expenditure policy lays special emphasis on evolution to target-program based financing. Such an evolution is indeed necessary but appropriate mechanisms (audit procedures, reporting requirements vis-à-vis actual results of government financing in case of expenditures other than those that have been traditionally considered to be of social importance, such as the number of students or treated patients) are yet to be developed. But the situation in the country has changed. As a result of transition to the market-based economy support of many sectors (or subsectors) of the economy has to be given up and, on the other hand, an increasing support has to be given to others. Objective information about performance of those sectors is basic, if we are to make justified decisions. The breakdown of public expenditures per sectors and subsectors projected by MinFin should apparently be aligned with that used by Goskomstat for presentation of statistical reports. The same is true of the Ministry of Taxes and Duties and Treasury (whose data are generally beyond reach).

- (3) **Northern territories.** Regulation of the Russian Government N 402 of 23/05/2000 “On approval of the list of regions of, and locations equated to, the Far North with a limited

shipping season for supply of goods (products)” identifies northern territories and territories equated to northern ones depending on which rayon’s jurisdiction they fall under. However, the administrative-territorial division of territories within subjects of the Federation is a responsibility of regional governments (according to the Russian Constitution). To the best of our knowledge no problems have arisen so far from that the federal Regulation established a list of Far North territories while subjects of the Federation established new boundaries of the administrative-territorial division, with the federal Regulation becoming null and void. Nevertheless, such subfederal decisions may be a problem, and therefore the situation should be straightened out. Especially as it is impossible to find out whether an airport falls into a category of northern airports without appropriate maps and it is impossible to get in Moscow regional maps showing administrative division into rayons. On top of it subjects of the Federation may at any time choose to change intraregional administrative-territorial boundaries. With regard to northern airports the solution is quite simple: the federal government should at its own discretion make out a list of airports that it will consider to be northern, regardless of the existing administrative-territorial division. However, the list of “northern” territories is used not only for the purpose of identifying “northern” airports. Therefore, more thought should be given to it.

Furthermore, for granting “northern” pensions a different list of northern territories seems to be used, not the one that is set out in the latest regulation establishing the list of northern territories in terms of difficulty of access thereto.

Recommendations

1. A distinction should be made between the list of federal airports (airports of federal importance) and the list of northern airports (small, remote, seaport airports or airports selected for some other reason) that will receive federal support. The list of northern airports should be proposed by the federal government (GSGA) and approved by the State Duma since those airports are financed from the federal budget and have to do with budget appropriations. The federal government should determine selection criteria at its own discretion in line with the state policy and independently of airport administrations. For 2002 it could use a list of 10 airports that are already rated in the class of “northern” airports. However, the list needs to be updated to identify airports that have actually been receiving subsidies and incorporated in airlines.
2. It is apparent that tariff regulation in case of rich and actively used airports and poor northern airports aims to achieve different objectives. But the Statute of the RF Ministry for Antimonopoly Policy and Support of Entrepreneurship (as approved on July 12, 1999) reads that one of the overriding goals of the Ministry is not only to prevent monopolistic activities, but also support the development of entrepreneurship. What gives us concern is that among (not only northern) airports providing services at prices regulated by the government there have been identified at least 10 airports that are closed, or practically standing idle or involved in insolvency proceedings (Balakovo, Yeniseisk, Ivanovo, Kirov, Naberezhniye Chelni, Penza, etc.). Is it fair to assume that price demand for air service is inelastic to such an extent that the government has to regulate prices? Does the government incur any liability for airports whose tariffs it was regulating going bankrupt? We couldn’t find answers to those questions, but the government should secure itself against potential claims of bankrupt monopolies in the future and clarify the issue. The proposal boils down essentially to that the Ministry for Antimonopoly Policy should not regulate tariffs on services of northern airports. It is reasonable either to accord a status of public institutions to airports or make contracts with them on provision of services, and make payments for those contracts from the federal budget. There are other alternatives too (see Northern Seaway Program below).
3. A list of northern airports should be made up subject to the Arctic region development concept, outlooks for the use of the Northern Seaway, aviation development concept, Russia’s strategic interests and other factors described above. Consideration should be

given to whether a separate federal program can and should be set up to deal with the Northern Seaway and some of the related northern airports.

4. Title to airport property should be divided between the federation, regions and local authorities. Title to airports that are neither federal nor northern (see 1 above) should be transferred to regions (localities). The first step should be an immediate withdrawal of airports from the corporate structure of airlines.
5. In respect of every northern airport (i.e. remote small airports that are supposed to be fully or partially financed from the federal budget) consideration should be given to providing them with a status of public institutions authorized to engage in commercial activities (to this end change their financing arrangement to the one based on revenue and expense budgets, decide on who should be an owner: Roshydromet, Ministry for Emergency Situations, etc.) or letting them retain their current status of state unitary enterprises or enterprises making up part of state unitary air enterprises. This issue should be addressed within the framework of a broader reform of public institutions and state (unitary, public and other government-controlled) enterprises.
6. Northern airports generate no profits, receive subsidies from the federal budget and are likely to maintain accounts in commercial banks. For transparency of their revenues and expenditures to be improved airports should change their status (at least some of them should be turned into public institutions with accounts to be managed through the Treasury), although this problem should be addressed within the framework of a broader reform of public institutions. In the course of the broader reform it should also be decided which airports should continue to receive subsidies in accordance with the current arrangement, which airports will from then on be funded based on expense and revenue budgets (on account of becoming public institutions), and which airports will become regional property or turn into nonpublic enterprises.
7. In respect of airports that will be transferred to regions it should be clearly stated that financial assistance from the federal budget would be extended not to airports per se but to those subjects of the Federation where per capita revenues (in terms of all relevant factors) are sufficient to make them eligible for federal aid.
8. In respect of airports that the federation is unable to support and that regions refuse to assume (such as Amderma) the responsibility for a final decision (to lay up, shut down or continue to finance) should rest with the federal center.
9. Northern allowances to employees have a direct bearing on subsidies to northern airports. Financial wellbeing of northern airports will depend on what the Labor Code establishes in relevant provisions. For example, if the federal budget pays for travels of northern pensioners to and from the place of vacation (we came across such proposals) many northern airports will be able to improve their financial position and stop being subsidized. However, it doesn't mean that the federal budget will stand to gain from it. In any event it is clear that federal institutions (agencies) should pay the costs of travel of their employees to and from the place of vacation or provide them with equivalent tickets.

Conclusion

The consultants did not set themselves the task of furnishing answers to all the questions. In view of limitations imposed by the time available and problems with obtaining information through official channels rather than providing answers we are raising questions that a more detailed research into the problem is called upon to answer. That was the task set to us by the Ministry of Finance in respect of northern airports.

Appendix 1. List of Northern Territories

Approved by Regulation of the
Government of the Russian Federation
N 402 of May 23, 2000.

LIST

OF REGIONS OF, AND LOCALITIES EQUATED TO, THE FAR NORTH, WITH SHIPMENT OF GOODS (PRODUCTS) POSSIBLE ONLY WITHIN A LIMITED TIME-PERIOD

All islands in the Arctic Ocean and Arctic Ocean seas as well as islands in the Bering Sea and Sea of Okhotsk

Republic of Altai: Kosh – Agach and Ulagan rayons,

Bolshoi Yaloman, Ineghen, Iodro, Inya, Kara-Koby, Kayarlyk, Kulada, Kupchehen, Malaya Inya, Maliy Yaloman, Ozyornoye, Yelo and Boochi villages of Ongudai rayon; Biika, Daibovo, Kanachak, Kayashkan, Kurmach-Baygol, Novo-Troitskoye, Suranash, Chuika and Yailyu villages; Maiski and Talon townships of Turochak rayon; Verkh-Anui, Beliy-Anui, Vladimirovka, Verkh-Muta, Verkh-Yabogan, Kaisyn, Karakol, Kelei, Kozul, Korgon, Kyrlyk, Mendur-Sokkon, Ozyornoye, Oro, Sanarovka Turata, Tyudrala, Ust-Muta, Yakonur and Yabogan villages of Ust-Kansk rayon; Bannoye, Verkh-Uimon, Katanda, Karagai, Kurdyum, Multa, Sugash, Talda, Tikhonkaya, Tyungur, Ogniovka, Berezovka, Kaitanak, and Murgala villages; Ak-Koba, Gagarka, Zamulta, Kucherla, Marolovodka and Saksabai townships of Koxsin rayon

Buryat Republic: Barguzin rayon (except for Barguzin and Ust-Barguzin townships), Bauntovsky rayon (except for Bagdarin township), Yeravninsky rayon (except for Sosnovovo-Ozyorskoye village; Kurumkanski rayon (except for Kurumkan village); Muiskiy rayon (except for Tonnelny, Severomuisk and Taksimo townships); Okinskiy rayon, Severobaikalski rayon (except for Nizhneangarsk, Kichera and Noviy Uoyan townships)

Republic of Karelia: Pudozh rayon, Kalevala ethnic district, Valaam township of Sortavala City administration and Valdai township of Seghezh City administration

Komi Republic: Vuktylski, Izhema and Inta rayons (except for Inta City); Pechora rayon (except for Pechora City and Izyayu, Kadzherom, Kozhva, Synya townships); Troitsko-Pechorskiy rayon (except for Troitsko-Pechorsk City); Usinsk and Ust-Zilemskiy rayons

Tuva Republic: Kaa-Khemskiy, Mongun-Taiginskiy, Tandinskiy, Tes-Khemskiy, Todzhinskiy and Erzinskiy rayons

Sakha (Yakut) Republic: all rayons and populated areas, except for Aldan rayon and Neryungri City

Krasnoyarsk Territory: Boguchanskiy, Yeniseiskiy, Kezhemskiy, Motyghinskiy, Severo-Yeniseiskiy and Turukhanskiy rayons; Igarka and Norilsk Cities

Primorskiy Territory: Krasnoarmeiskiy and Terneiskiy rayons

Khabarovskiy Territory: Amurskiy, Ayano-Mayskiy, Verkhnebureinskiy (except for Chegdomyn and Noviy Urgal Cities), Nikolayevskiy, Okhotskiy, Poliny Osipenko, Tuguro-Chumikanskiy and Ulchskiy rayons

Amur oblast: Beregovoi, Bomnak, Gorniy, Kirovskiy, Oktyabrskiy, Snezhnegorskiy, Khvoyniy, and Yasniy townships and Novovysokoye of Zeiskiy rayon;

Zlatoustovsk, Koboldo, Mariinsk, Ogodzha, Olginsk, Selemdzhinski, Stoiba, Tokur, and Ekimchan townships and Ivanovskoye village of Selemdzhinski rayon; Ust-Nyukzha and Ust-Urkima villages of Tyndinskiy rayon; Ivanovskiy and Maiskiy townships of Mazanovskiy rayon; Uralovka village of Shimanovskiy rayon; City of Zeya

Arkhangelsk oblast: Verkhnetoemskiy, Lenskiy, Leshukonskiy, Mezenskiy, Pinezhskiy, Primorskiy and Shenkurskiy rayons

Irkutsk oblast: Katangskiy, Bodaibo, Kirenskiy

And Mamsko – Chuiskiy rayons; Boyarsk, Zhemchugova, Markovo, Omoloi, Orlinga, Tarassovo, Tayura and Turuka townships of Ust-Kut rayon; Karakhun, Naratai, Ozyorniy, Pervomaiskiy, Tynkob, Khvoyniy and Yuzhniy townships of Bratsk rayon; Vershina Khandi, Verkhnemartynovo, Yermaki, Karam, Karnaukhova, Korotkovo, Kutima and Poperechnaya townships of Kazachinsko-Leninskiy rayon; Vershina Tuturi, Tyrka and Chinogda townships of Kachugskiy rayon; Alygdzher, Verkhnyaya Gutara and Nerkha townships of Nizhneudinsk rayon

Kamchatka oblast: Aleutskiy, Bystrinskiy, Milkovskiy, Sobolevskiy, Ust-Bolsheretskiy and Ust-Kamchatskiy rayons

Magadan oblast: all rayons and populated areas

Murmansk oblast: Lovozyorskiy rayon and Terskiy rayon (except for Umba City)

Sakhalin oblast: Kurilskiy, Noglikskiy, Okhinskiy, Severo-Kurilskiy and Yuzhno-Kurilskiy rayons

Tomsk oblast: Aleksandrovskiy (except for Strezhevoy city),
Bakcharskiy, Verkhneketskiy, Kargasokskiy,
Kolpashevskiy, Molchanovskiy
Parabelckiy and Teguldetskiy rayons;
The city of Kedroviy

Tyumen oblast: Uvatskiy (except for the city of Uvat), Tobolskiy
And Vagaiskiy rayons

Chita oblast: Dogopchan, Naminga, Nelyaty, Sredniy Kalar and Chapo-Ologo villages
Of Kalarskiy rayon; Zelyonoye Ozero, Krasniy Yar, Tungkochen,
Uldurga, Ust-Karenga and Yumurchen villages of Tungokochenskiy rayon; Gulya,
Zarechnoye, Moklakan and Srednyaya Olekma villages of Tunghiro-Olekminskiy rayon;

Bolshaya Rechka, Konkino, Menza, Semiozyoriye, Ukyr and Shonuy villages of Krasnochikoiskiy rayon;
Argut, Bolshiye Boty, Verkhniye Kularki, Gorbitsu, Luzhanki, Manghiday, Nizhniye Kularki, Starolonchakovo, Ust-Nachin and Ust-Chornaya, Chalbuchi, Shilkinskiy Zavod villages and Ust-Karsk township of Sretenskiy rayon

Komi-Permian Autonomous District: Gainskiy, Kosinskiy and Kochevskiy rayons

Koryak Autonomous District: all rayons

Nenets Autonomous District: all rayons

Taimir (Dolgano- Nenets) Autonomous District: all rayons

Khanti-Mansi Autonomous District: all rayons and populated areas, except for the cities of Kogalym, Langepas, Megion, Nefteyugansk, Nizhnevartovsk, Nyagan and Surgut

Chukot Autonomous District: all rayons

Evenk Autonomous District: all rayons

Yamal-Nenets Autonomous District: all rayons and populated areas, except for the cities of Labytnanga, Muravlenko, Noviy Urengoi and Noyabrsk

Jewish Autonomous oblast: Oktyabrskiy rayon

Appendix 2. Procedure for provision of subsidies to northern airports
(Provisional) Regulations of procedure for provision of subsidies from the federal budget for support of air transport enterprises located in regions of, or locations equated, to the Far North

1. General provisions

1.1. These Regulations have been developed in accordance with the following regulatory acts:

- Budget Code of the Russian Federation N145-FZ put into effect on 31/07/98;
- Law of the Russian Federation N150-FZ “On Federal Budget for 2001” approved on 27/12/00;
- Statute of the Ministry of Transportation of the Russian Federation N1038 approved on 30/12/00.

1.2. The Regulations define purposes and principles of provision of subsidies from the federal budget for support of air transport enterprises located in regions of, or locations equated to, the Far North in 2001.

1.3. Subsidies shall be provided to airlines (airports) in strict conformity with the terms and requirements established herein.

2. Purposes and Principles of Provision of Subsidies

2.1. Subsidies are provided for the purpose of:

- Ensuring uninterrupted air communication between regions of and territories equated to the Far North and other regions of the Russian Federation;
- Ensuring sustainable operation of air transport in regions of and territories equated to the Far North;
- Restraining growth of air tariffs for making air transport affordable for the population in regions of and territories equated to the Far North, where there are generally no alternative means of communication;
- securing appropriate economic environment for airlines to make flights to regions of and territories equated to the Far North, preventing decline and building up volumes of air traffic.

2.2. State support from the federal budget is normally provided to airports of federal significance.

For airports of lower level significance the said support is provided pursuant to special directives of the Russian Government or at the expense of regional budgets.

2.3. Subsidies are allocated within limits of budgetary commitments established by the “Law on 2001 federal budget” for a particular year with a quarterly breakdown.

3. Basic terms and conditions for obtaining subsidies

3.1. Airports should be included in the list of airlines (airports) entitled to subsidies from the federal budget if:

- unsatisfactory financial position observed in the previous and continuing in the current year at the time of filing of appropriate documents had occurred for reasons beyond airline’s control, and measures taken to eliminate those reasons were exhaustive but failed to improve airlines financial situation;

- there is no, despite real demand for, regular communication with other regions of this country due to unaffordable level of air tariffs and airport service prices;
 - the effective level of air tariffs and prices for airport services has reached a limit beyond which affordability is bound to drop dramatically and the traffic volume will inevitably shrink to the point of complete discontinuation of flights to a given airport.
- 3.2. Consideration of proposals on provision of subsidies to an airline (airport) from centralized funding sources by the State Service of Civil Aviation (hereinafter referred to as GSGA) of the Ministry of Transportation of Russia and allocation of subsidies shall be on the following terms and conditions:
- an airline (airport) has submitted a proposal on limitation (stabilization) of growth of airport charges and tariffs for terrestrial services approved by the MAL of Russia and aviation fuel prices, subject to that:
 - operating expenditure increase from the earlier effective level does not exceed a region-wide consolidated inflation index for a relevant period;
 - financial position in the past reporting period as reflected in submitted documents is unsatisfactory, while its actual operating costs were incurred by an airline (airport) on a fair basis, at a reasonable rate and correspond to the existing volume of traffic;
 - an airline (airport) has a plan of actions for financial rehabilitation developed and approved by the management for the next year (Appendix 1).
- 3.3. For the amount of subsidy to be determined an airline (airport) shall furnish information provided for herein.

4. Procedure for determination and approval of the amount of subsidies

- 4.1. An airline (airport) claiming a subsidy from the federal budget shall develop and submit to GSGA of the MinTrans of Russia documents in accordance with the attached list (Appendix 2):
- annually before May 1 for inclusion in the draft budget **application**;
 - annually before December 1 for determination of the amount of subsidy.
- 4.2. A decision on provision and amount of a subsidy for an airline (airport) subject to approved budgetary appropriations for state support of airports located in regions of, and locations equated to, the Far North is to be made by the First Vice Minister of Transport of the Russian Federation, being a CEO of GSGA of the MinTrans of Russia, and brought to recipient's notice before the beginning of a current financial year.
- 4.3. An Airline (airport) concludes a contract with GSGA of the MinTrans of Russia (Appendix 3) on the use of financial aid aiming to help the airline (airport) achieve stable financial position, including through measures designed to increase the volume of service provision, cut down costs and expand the scope of non-core activities.
- 4.4. An airline (airport) before the end of the month following a reporting quarter shall submit to GSGA reporting information, as prescribed in the concluded contract, based on its quarterly performance.
- 4.5. After consideration and analysis of the information on airline (airport)'s performance GSGA of the MinTrans of Russia is entitled to review during a quarter the quarterly breakdown of the provided subsidy.

5. Conclusion

- 5.1. Airlines (airports) shall bear responsibility for filing of timely and accurate data to GSGA of the MinTrans of Russia.
- 5.2. GSGA of the MinTrans of Russia shall be responsible for taking decisions justifiable from an economic standpoint and timely execution thereof, except in force-majeure circumstances.

- 5.3. GSGA of the MinTrans of Russia shall be entitled to discontinue financing of an airline (airport) in the event of:
- failure to comply with the terms and conditions hereof;
 - cutting down of budgetary appropriations as a result of a federal budget adjustment for a relevant year.
- 5.4. Sanctions can be employed against airlines (airports) violating financial discipline (using state support funds for unauthorized purposes) in accordance with the legislation currently in force.
- 5.5. These Regulations shall be effective for the period of 2001 and may be extended subject to the law on the federal budget for the next year or amended in case of circumstances not taken into account herein.

Appendix 3. Foreign experience in providing public subsidies to air transport enterprises

Canada

There are 726 certified airports in Canada (versus about 500 in Russia). The Ministry of Transport of Canada owns, operates and finances 150 certified airports, ranging from the international airport in Montreal to unpaved airports. Most of airports in Canada are owned and operated by local (regional) authorities.

The major portion (94 percent) of passenger and cargo flows is handled through 26 airports making up the backbone of the nation's airport network known as the National Airports System (in Russia 34 most actively used airports the majority of which fall into the category of federal airports service 78 percent of the total number of air flights). Airports forming part of the National System cover their operating costs from their earnings and are not subsidized by the federal government. At the same time substantial federal resources are used for support of a big number of small (remote) airports providing services to only 6 percent of passengers.

At present a state program of development of the national airports system has been adopted and implemented in Canada. According to the program the federal government will continue to regulate (in particular, tariffs charged by) 26 national airports and retain its title thereto, but in so doing will lease those airports out to territorial branches of the civil aviation. Those local operators will finance and operate airports granted to them on lease. Title to airports falling outside the national system but hitherto owned by the federation will be transferred to regions. Canadian public policy vis-à-vis airports is hence providing for:

- government regulation of operation of the national airports system to ensure its long-term security, efficiency and reliability;
- payment of costs of use of airport services by users, such as air companies and eventually passengers rather than all Canadian taxpayers (national airports are not subsidized).

The federal regulation of regional airports was eventually abandoned because practice has shown that airports owned by territorial, regional and local authorities are more profitable and better in identifying and fulfilling local needs than are federal airports. It is evidenced both by the experience of four existing branches of civil aviation and numerous local airports that have from the very beginning existed without any federal support.

As this happens the federal budget will continue to provide financial assistance to remote airports securing all-year-round transport communication with populated areas, which can be reached only by airplanes and for which such communication is of vital importance.

In early 80-s the Canadian Government decided to liberalize government control in the field of civil aviation. Subject to relevant legislative acts, major principles of liberalization policy (abandonment of the practice of awards of government contracts on air transportation, but leaving in place licensing and tariff regulation) adopted by the Government have been in full measure implemented in regions of Southern territories of Canada that have clearly defined boundaries (see the attached chart).

In so doing the government has acknowledged the need for continued regulation of air communication for northern and remote regions of Canada that have a vital need for services of civil aviation as a basic means of transportation there.

In practice government regulation of northern airports in Canada boils down to provision of direct or indirect financial aid to civil aviation enterprises of northern regions upon request of the Ministry of Transport that is supposed to prove in its application that a local air communication plays a key role in a region and cannot support itself on its own. Government contracts on northern air transportation will be awarded so far, as is practicable, through tenders.

Major principles of deregulation of air transport applied in Southern territories of Canada will gradually be rolled on to northern territories as well. Nevertheless, government regulation will continue, since:

- air carriers willing to obtain a government license for northern transportation shall comply with certain requirements of safety and insurance of flights;
- an applicant will be denied issuance of a government license for northern transportation if an air transportation service applied for may do damage to the local transport in general. Requests from other air carriers, local authorities, etc. may serve as grounds for such a refusal. Such requests shall convincingly show that a new service, if introduced, will be detrimental to, and destabilize, the operation of local air transport (to put it differently, preference is given to local air carriers);
- a government license establishes restrictions on types of air transportation (scheduled and charter flights) and specifies routes, points along the route, schedule of or intervals between flights;
- tariffs for air services in northern territories shall be established at air carriers' discretion subject to changes if found to be unjustified (government regulation of prices on air tickets).
- An air carrier shall publicly inform about discontinuation or reduction of the scope of air services no later than two months in advance.

Thus, the government in Canada subsidizes remote airports and awards contracts on northern flights. In so doing in its contracts on northern flights the government primarily establishes intervals between flights rather than prices, however, it sees to it that the prices don't become prohibitively high. Subsidies to airlines may be direct (subsidies for keeping prices down) and indirect (granting of tax benefits).

USA

The U.S. Program of mandatory air communication with small populated areas that was launched about 15 years ago guarantees regular air flights to populated areas coming within the program's scope. The purpose of the Program is to establish mandatory air flights to and from small, mostly out-of-the-way townships at affordable prices for consumers while providing air carriers with an opportunity to generate sufficient income to continue their commercial activities at minimum costs for the U.S. Government. The Program was implemented against the background of the process of deregulation of air companies whereunder air carriers enjoyed discretion in deciding on which markets to go for without any prior authorization from the government. It meant that many of the small townships could have been left without regular flights if there were no program of protection of and government guarantees for such flights. The Committee for Civil Aviation as a federal agency that was earlier in charge of regulation of air companies was authorized to set up a program of mandatory flights and control how it was implemented.

The Program covers the whole country, however, in case of Alaska special criteria and approaches apply to selection of eligible populated areas in view of difficulties of access to, and small size of the population of, the state. The Program of mandatory air flights for Alaska includes populated areas that had regular flights established for them before the deregulation process, involving at least one but not more than two air-companies.

As populated areas often need more flights in summer months when construction and fishing are in progress than they do in winter there are two timetables established for each populated area: one for the peak summer months and the other for a non-peak season with generally less flights. To achieve the set objectives 17 regional terminals were selected in Alaska, each of which was connected with a larger distribution center that ensured access to the main transportation system.

As the program of mandatory air communication was launched almost at once with the process of deregulation of air companies in the U.S. a number of small local air carriers were given the right to make regular commercial flights and invited to participate in the Program.

To this end concerned air carriers were to come up with proposals on how to service northern terminals with and without federal subsidies. Many air companies in their strive for expansion of their activities and making regular air flights volunteered to service remote townships without any subsidies whatsoever. To a certain extent it has become possible because those flights were already partially paid for, since the U.S. Postal Service pays for conveyance of goods by mail. As goods conveyed by post prevail in northern air carriage only a small number of populated areas in Alaska employ the services of air carriers subsidized from the federal budget.

Two-year contracts were entered into with air carriers that were awarded subsidies for air transportation. Bidding air carriers were supposed to submit proposals on transportation by means of airplanes of different passenger capacity. Every bidder had to calculate the amount of a subsidy required to ensure a particular traffic volume and come up with an estimate of its income and expenses, including a 5% profitability ratio, with a breakdown per items for several years ahead. Thereafter an air carrier and Department of Transport had to agree about an exact sum of the subsidy that would have to be provided to the former, should it be selected for provision of air services. The final choice of an air carrier rested with the Department of Transport that would take into account its own opinion and recommendations of the state authorities and administration of a particular township. A lowest-price bidder would not necessarily be awarded a contract: a decision would be taken in favor of those air carriers that were offering the best scope and quality of services with the minimum amount of aid from the federal budget.

The size of a subsidy is normally established on the basis of the length of a route and capacity of an airplane contemplated for use on the route. For instance, for a 9-seater airplane chosen for a route of 120 miles long, a return journey making up 240 miles, an air carrier will get \$1022 per flight given the subsidy size of \$0.47313 per passenger-mile ($=120 \times 2 \times 9 \times 0,47313$). In case of a smaller capacity airplane chosen for the same route the carrier will get a smaller amount of subsidy.⁹ Decisions are made on a case-by-case basis, subject to particular conditions and recommendations of local authorities. The Committee is doing its best to treat air carriers fairly and at the same time guarantee the required service provision to local residents. The Department of Transport will then issue an official document containing a detailed information about tender results and subsidies awarded to the winners.

Subsidized air carriers make out and submit invoices to the Department of Transport once a month. Before approving transfer of moneys to the carrier the Department of Transport shall analyze the received invoices to make sure that provided air services meet the criteria set out in the official document on the choice of an air carrier.

Under conditions of deregulation air carriers enjoy a complete freedom of action in the market, and any carrier may enter the market and compete with a subsidized air carrier. For most flights within Alaska boundaries the Government relies on carriers that receive no federal subsidies whatsoever. Anyone can enter the market. However, a carrier providing services to a particular populated area may be disallowed to terminate service provision on the assigned route without a prior written notice. Once served, such a notice triggers off mechanisms of protection of residents' interests. A subsidized air carrier may assume that it offered services at an underestimated price as a result of either underestimation of projected expenses or overestimation of expected earnings and therefore intends to terminate a two-year contract. A subsidized air carrier shall deliver 180 days prior notice. During the 180-day period it is supposed to continue provision of services within the scope stipulated in the contract, while continuing to receive a contractual amount of subsidy. As this happens consideration will be given to whether terms and conditions of the contract can be reviewed and alternative compensations provided. For example, if a carrier delivers in due time a

⁹ Recalculating the above for Russian conditions gives us the following: 120 miles is equal to about 200 km. A subsidy is \$0.47313 per passenger-mile, i.e. in terms of a ruble equivalent it is about \$57 or RUR1700 (at RUR30/\$1 exchange rate) per ticket. It stands to reason that without the information about ticket prices charged by local airlines we can hardly draw any conclusions but can at least get an idea of the extent to which northern air service is subsidized by the U.S. Government.

termination notice and can prove that there are objective causes for the growth of its costs or reduction of income from air service provision its losses will be compensated by the government.

Unsubsidized carriers shall also serve notice but 90 days prior to the date upon which termination is to take effect. During that period they are not allowed to discontinue regular service of assigned routes. Meanwhile the Committee will invite bids for servicing of the route. It is not unusual for an air carrier that has served notice of termination of servicing an unsubsidized route to successfully bid for and win a contract on servicing the same route, which therewith has become subsidized.

Air carriers intending to obtain subsidies from the government shall undergo a special test to prove their financial soundness and ability to do business.

In addition, all carriers receiving subsidies from the government shall submit on a regular basis to the Department of Transport statistical reports and financial statements for the DoT to be able to take decisions on the required traffic volume. A 19-seater local airplane will not be subsidized if a 9-seater airplane is sufficient to meet the needs of a township.

In 1984 provision of air services to 35 populated areas in Alaska required a little more than \$4.5 MM of government subsidies. At present the amount of subsidies for air service provision to 29 populated areas is less than \$2 MM. In addition to Alaska there are 79 more populated areas covered by subsidized air services, with an annual amount of subsidies provided for servicing of all of those townships and villages constituting about \$27 MM.

When the Program of mandatory air communication just started the number of personnel involved in Program implementation across the country was about 40 people. Today 12 people manage the Program, which keeps overheads at a minimum level, with the number of populated areas covered by the Program of mandatory air services exceeding 700.

Source: this overview of international experience is based on information provided to the Fiscal Policy Center by the Ministry of Transport of the Russian Federation.