



Russia 2013: Opportunities in the Helicopter Market

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Brief Market Overview

The Russian helicopter industry is represented at Heli-Expo 2013 by the state corporation Russian Helicopters Holding Company, consisting of five helicopter assembly plants, two design bureaus, two component product plants, one helicopter repair/overhaul company and one helicopter service company providing aftermarket services in Russia and abroad. Russian Helicopters Holding completed consolidation of the Russian industry in 2010 and now represents an entire model range. Their famous models include the “Mil” and “Kamov” civil and military helicopters, which are widely used in Latin America, Europe, Central and South Africa, and South-East Asia. The United States purchased Mi-17 Russian helicopters for special transport assignments and combat operations in Afghanistan. Russian Helicopters’ strategy is to reach 15% of the global helicopter market by 2020 versus the current share of 5%. Currently, helicopter production in Russia registers a 20-30% growth annually.

Despite stable and positive growth dynamics in global markets, Russian Helicopters Holding has not sufficiently diversified its model range towards more light and medium helicopters. According to 2009 market data, the domestic Russian market is dominated by 70% heavy helicopters, 22% medium and 8% light helicopters. As newly developed and tested Russian light and medium helicopters are not yet in serial production, opportunities are available for suppliers of Western made helicopters. Russian helicopter operators are actively buying Eurocopter, Augusta Westland, Bell and Robinson. Sikorsky Aircraft has shown interest towards entry into the Russian market, but their market niche is still to be determined. The total domestic market for both Russian and Western rotorcraft, according to the private company Neftegaz-Leasing, is estimated at \$3.37 billion.

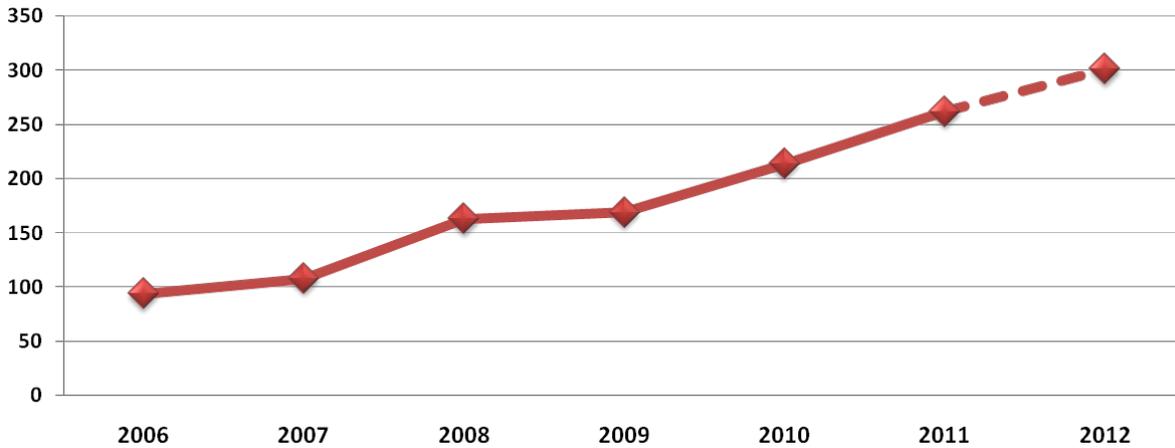
Market Demand

The forecasts of Russian Helicopters Holding indicate that the demand for light (up to 4 tons) helicopters on the Russian and world market is expected to grow. Today, light helicopters account for over 70% of the world helicopter fleet and over the last 5 years, the fleet has grown 6-fold. Experts of Russian Helicopters Holding believe that in the next 11 years both the volume and the structure of the Russian helicopter fleet will change drastically. The Russian market demand is estimated at least 1,000-1,200 light helicopters, according to Vladimir Babkin, the Russian Ministry of Industry and Trade, Aviation Industry Department Director. By 2020, light helicopters are expected to represent 50% of the Russian fleet. The demand for helicopters in Russia is being affected by the following growth factors:

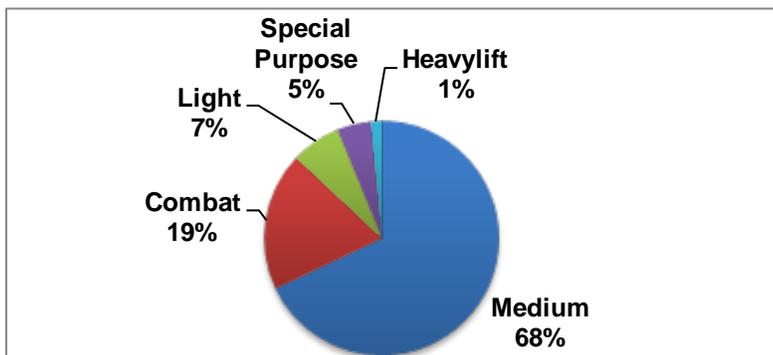
- Development of the Russian economy and the positive microeconomic trends.
- Exploration of energy resources by major Russian oil & gas corporations.
- The growing pool of well-to-do individuals who can afford purchasing helicopters for personal use.
- The planned renewal of Russian helicopter operators’ fleets.
- Transportation needs of outlying regions.
- Increased use of helicopters by police, medical and rescue services, Emergency Control Ministry.
- The presence of Western helicopter fleets and the need to source parts and components for MRO.
- Strong export orientation of the Russian helicopters industry.
- The State Arms Acquisition Program plans to acquire more than 1,000 helicopters by 2020.
- General interest of the Russian government in joint ventures with Western manufacturers.

Market Data

PRODUCTION OF RUSSIAN HELICOPTERS HOLDING 2006-2012



2011 DELIVERY DISTRIBUTION



Source: Russian Helicopters Holding Company

STRUCTURE OF RUSSIAN HELICOPTER FLEET

Russia's active commercial fleet of helicopters consists of 1,111 helicopters, including 981 Russian made and 130 Western made rotorcraft, according to January 2013 statistics of the State Research Institute for Aeronautics GosNIIGA. In 2012, 121 helicopters were added to the Russian fleet. Two helicopters were Russian manufactured, while 105 helicopters were mainly light-weight Western rotorcraft. The dominating demand for light helicopters is attributed to the Russian helicopter fleet structure, which was formed in the previous century and overbalanced towards medium Mi-8 family helicopters. Now, most helicopter operations can be managed by light helicopters.

Best Prospects

The Russian helicopter industry is not only a seller of domestically made products but also a partner for Western components suppliers. According to Russian Helicopters Holding, the European Union is one of the top priorities for Russian rotorcraft cooperation, including possible prospective deliveries and joint Russian-European projects in helicopter design and construction. Cooperation is especially important in avionics, engines and simulators.

- In the Russian light helicopters segment, the Ka-226T, a light coaxial rotor helicopter equipped with two Arrius 2G1 gas turbine engines by Turbomeca and a Russian VR-226N gearbox and modern avionics, is a unique example of a successful international cooperation with a French manufacturer.
- According to Martin Gagne, Group President of CAE, the Canadian manufacturer of simulators, “there is great potential for adoption of world-class simulation and training technologies”, He believes that “there is a win-win solution for local industry as well as CAE in this market”,
- The Mi-17 helicopters purchased by the Pentagon for the Afghan army include full Western avionics, navigation, communications, and situational-awareness equipment.

Key Suppliers

Robinson helicopters are very popular in Russia, especially among private owners, due to affordable price and ease of operation. Robinson R-44 is the most popular model. According to market estimates, Russia has a total of 150-230 Robinson helicopters. The Russian state aviation register reported 222 R-44 units registered in 2011, an increase of 35 units compared to 2010. Robinson helicopters are promoted and sold in Russia through a number of local helicopter companies, which are awarded an official dealer certificate on a yearly basis. There is no single official representative of Robinson in Russia. These companies also provide all of the after-sale support.

Eurocopter is one of the key suppliers of Western type helicopters, both in the light and medium weight segments. Eurocopter established a representative office in Moscow in 2006. Eurocopter also has a network of 14 service centers throughout Russia and the CIS countries approved by local civil aviation authorities. According to the Director General of Eurocopter Vistok (August 2012), Eurocopter represents 70% of Western gas turbine helicopters (more than 140 units) in the Russian and CIS market. In 2008, all civil Eurocopter models successfully received type certification from the Russian aviation authorities.

Augusta Westland has a long-term sales and manufacturing strategy for Russia. In a 2011 interview, Senior Vice-President of the AW Commercial Division said that AW plans to increase their market share by 40% within the next 5-10 years. He noted that AW 119Ke, AW 109 Power, Grand and AW139 are in particular demand with VIP clients and commercial operators. In the future, AW plans to move into the segment of search & rescue operations and drilling platform servicing. In June 2011, AW and Russian Helicopters Holding set up a joint venture (HeliVert) to run a final assembly plant for the civil AW 139 medium twin helicopter. The joint venture plans to assemble 15-20 AW139 annually to meet the growing needs of the civil markets in Russia and CIS countries. The first Russian-built AW139 was rolled out at the HeliVert assembly plant on December 18, 2012 to perform ground testing.

Bell Helicopters has sold more than 30 helicopters in Russia. The Russian company, Jet Transfer, is an Independent Bell Helicopters representative company, which began operations in the helicopter market in 2004. Jet Transfer covers not only Russia, but also Ukraine and Kazakhstan. The Russian industry media reports that the single-engine Bell 407 model is most popular, with 13 helicopters currently in operation in the Russian commercial fleet. The other Bell models already present in the market are Bell 206, twin-engine Bell 427 and Bell 430. The first Bell 429 light twin-engine helicopter was delivered to Russia in the summer of 2011 to be operated as a VIP transport by Chelyabinsk-based carrier ChelAvia. In 2009, the Kazan Aircraft Enterprise became the officially certified service center for Bell Helicopters with line maintenance centers in Moscow, St. Petersburg and Kazan.

Prospective Buyers

The major part of civil helicopters in Russia is involved in the oil and gas, forestry and construction sectors. Gradual development of the offshore oil and gas fields in Russia resulted in a surge of demand for helicopter transport, which in turn convinced core operators to add foreign helicopters to their current Russian made fleet (mainly the Ka-26, Mi-2, Mi-8, Mi-8AMT and Mi-171A). Gazprom Avia, a subsidiary of Gazprom headquartered in Moscow and the largest extractor of natural gas, ordered eight EC135 helicopters from Eurocopter, receiving the first EC135 with Russian made avionics in 2010.

While UTair Aviation is the largest helicopter operator for the Russian oil and gas industry, a large number of smaller operators play a very important role in oil and gas missions in Russia. For example, PANH Helicopters won the tender for helicopter support of Blue Stream for construction and operation of a gas pipeline from Russia to Turkey. Experts are discussing possible consolidation of the operator market in Russia: smaller operators find it harder to survive, which makes them interested in contracts with larger players. This type of cooperation has been used by large operators in the oil and gas sector when they have needed additional fleet.

After oil and gas missions, another important source of revenue for Russian operators are contracts with the UN on the medium Mi-8 and the heavy Mi-26, characteristically known for their large cargo capacity and capability to operate in challenging climates. In construction, another important segment for Russian operators, is the large epicenter of activity in Sochi, the location of the Winter Olympics 2014. The preparation for the Olympics includes helicopter support for the construction of ski tracks, hotels, and residential infrastructure.

Market Entry

When entering the Russian market, foreign helicopter manufacturers choose strategies varying from sales and partnerships with independent market players to teaming up with state holdings and authorities. As a first step, initial market entry can include selling helicopters in cooperation with a Russian partner (dealer). Past experience indicates that a “sold-and-forgot” attitude led to market failure for a number of brands, such as Exec, Enstrom, and Schweizer and Co. Thus, European helicopter manufacturers who have been in the market for a while have made a transition from just selling helicopters to selling their “lifecycle”, including setting up a developed maintenance infrastructure. Eurocopter has partnerships with 14 service centers in Russia and the CIS countries that are approved by the Russian aviation authorities to provide maintenance and repair for sold rotorcraft.

After gaining market experience, helicopter companies may enter into strategic partnership with local industry players. A partnership with Transas, a key Russian avionics player, was one step for Eurocopter to integrate with the local industry. Transas installed its avionics on Eurocopter's EC 135 helicopters ordered by Gazprom Avia. The EC135 with Transas avionics is now certified both in Russia and in Europe, and Eurocopter intends to continue developing their partnership with other key Russian players. Localization of helicopter production is a further step to reinforce one's market presence. In 2008, Russian Helicopters Holding entered into an agreement with Agusta Westland to create a joint venture for assembly of a twin engine AW139 in Moscow region's Tomilino. The venture was formed to satisfy the growing demand for the 15-seat utility rotorcraft – mainly VIP, corporate and offshore configured types – in Russia and the CIS countries.

The market entry strategy for manufacturers of helicopter components can include targeting Russian and Western helicopter manufacturers present in Russia. With regard to Russian manufacturers, they can contact either Russian Helicopters Holding, as the principle industry consolidating corporation, or design bureaus in charge of new product developments and individual assembly plants located throughout Russia. Given the strong export orientation of Russian helicopter manufacturing, the Russian helicopter design bureaus are interested in innovative products and cutting edge technologies. Also, orders for Russian helicopters by some foreign customers may include requests for specific Western made on-board equipment as a contract requirement. As for Western helicopters already present in the Russian market, it is worthwhile to seek out business opportunities with their Russian representative offices. Installation of on-board equipment produced by a third party will require concurrence with their manufacturing plants. Components companies can also consider Russian integrators such as Transas that use Western components and on-board equipment in their own projects with Russian and Western helicopter manufacturers. In general, a new market entrant should develop awareness of the local and the international competitors already present in Russia in order to better assess one's own chances of winning contracts.

Market Issues & Obstacles

The import duty of 20% plus 18% VAT is the principle cost for the market entry of foreign made rotorcraft. The end users have to pay the total of up to 41.6% (including the customs clearing fees) of the original price. Unlike private individuals, commercial operators can reimburse VAT, according to the Russian tax code. The import duty of 20% does not extend to foreign helicopters being assembled in Russia. For example, no import duty applies to the joint venture between August Westland and Russian Helicopters Holding to assemble AW139. With Russia's WTO

accession, the import duty (for helicopters and civil aircraft) is expected to be reduced to the average of 7.8% within the seven year implementation period from the date of accession (August 2012).

Successful penetration of Western helicopters depends upon proper certification and ensuring compliance with Russian regulatory and safety requirements. It is normally the responsibility of a Russian partner to facilitate type certification through the Interstate Aviation Committee (MAK). Russia has a dozen of established and reputable helicopter dealers who can provide assistance not only with sales and certification, but also with technical maintenance issues.

Trade Events

HELI-RUSSIA 2013, May 16-18, 2013. Location: Moscow, Russia. Website: www.helirusia.ru/

MAKS-2013, August 27-Sept 1, 2013. Location: Moscow, Russia. Website: <http://www.aviasalon.com>

Resources & Contacts

- Russian Association of Helicopter Industry (www.helicopter.su)

Mikhail Kazachkov, Chairman of the Board
info@helisystems.ru

- Russian Helicopters Holding (<http://www.russianhelicopters.aero/en/>)

Dmitry Petrov, Director General
info@rus-helicopters.com

- "Russian helicopter industry: a global player" Report – <http://www.russianavia.net/index.php#state=ReportDetail&id=89>
- Helicopters of Russia – Annual Report 2011
<http://www.russianhelicopters.aero/en/investors>

For More Information

If you wish to obtain more information on the Russian Helicopter Market and to obtain assistance from the U.S. Commercial Service Moscow, Russia please contact Commercial Officer Bridgette Clark (Bridgette.Clark@trade.gov) or Commercial Specialist Vladislav Borodulin (vladislav.borodulin@trade.gov). Phone: +7(495) 728-5235; Fax: +7(495) 728-5585 or visit our website: www.buyusa.gov/russia/en.

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