

CHALLENGES OF LAUNCHING A NEW COMMERCIAL AIRLINE IN UKRAINE

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The aviation industry in Ukraine was developing rapidly until 2022, when the airspace was completely closed due to the ongoing conflict. In addition, potential airline owners and management boards face numerous challenges in launching a new carrier, involving not only legal and safety considerations but also market competition and global trends related to sustainability.

Aviation is an essential industry for large, developed countries, enabling the rapid transport of freight and passengers, and significantly outpacing other modes of transport. It also promotes the growth of international business and attracts tourists. The aviation industry in Ukraine has faced significant challenges and development obstacles in recent years, most notably the Covid-19 pandemic and the imposition of martial law in 2022 due to the ongoing conflict across the country. This led to the complete closure of Ukrainian airspace in February 2022, effectively halting all aviation activities. Currently, discussions regarding the development of aviation-related companies are minimal, and several airlines have ceased operations due to mounting debts.

However, before 2022, Ukraine's aviation sector was competitive and relatively well-developed. It was home to numerous airlines with various business models, a growing network of modernized airports, and steadily increasing passenger and freight traffic. Several potential airlines had expressed interest in launching operations in Ukraine, but prospective airline owners faced stringent regulations and requirements. Additionally, launching a new airline involved navigating various challenges, including monopolies at certain airports, underdeveloped infrastructure, limited capacity, and fluctuating demand.

The Ukrainian aviation industry is primarily governed by international agreements and treaties [1]. The most essential ones include the Chicago Convention (1944), which established the foundational regulatory framework for civil aviation, and the Montreal Convention (1999), which outlined the fundamental rights of passengers and freight owners in the event of incidents or accidents. Additionally, several national laws regulate airfares, tariffs, security aspects, and other aviation-related issues, all ratified by the Ukrainian Parliament.

The key document concerning safety and security in Ukraine is the Law of Ukraine "On the State Programme of Civil Aviation Air Safety" (2003), along with the "Air Code" (2011). Aviation matters in Ukraine are overseen by several state regulatory bodies. The Ministry of Infrastructure serves as the primary governing body responsible for promoting and implementing state aviation policy and managing Ukrainian airspace. The State Aviation Service, an executive aviation body, is tasked with promoting and enforcing aviation rules and laws, with its main responsibilities being supervision, licensing, and ensuring compliance with regulations.

The first aspect for a potential air carrier is complying with all legal requirements and obtaining an operating license, which is issued by the State Aviation Service [2]. The applicant must own or lease at least one aircraft and hire properly qualified personnel under specific agreements, in accordance with the Labor Code of Ukraine. One key requirement is that at least 50% of the air carrier's share capital must be held by a Ukrainian entity or individual. Additionally, there is a waiting period ranging from 15 to 45 days, during which administrative procedures are completed, and the appropriate filing fee must be paid.

The main national airline of Ukraine was Ukraine International Airlines (UIA), which operated a fleet of 34 aircraft of various modifications and configurations, with its hub at Kyiv Boryspil Airport. Since its founding in 1991, UIA had the largest network across Europe. Additionally, it operated long-haul flights to North America (New York, Toronto) and Asia (Beijing, Delhi, Bangkok), using Boeing 767 and Boeing 777-200 aircraft. Before 2018, UIA was the only competitive airline, apart from a few smaller carriers with limited fleets, which led to a market monopoly and relatively high ticket prices, especially for domestic flights. Unfortunately, UIA ceased operations in 2023 due to a lack of funds and mounting debt, caused by the closure of Ukrainian airspace and the cancellation of all flights. Nevertheless, at the start of 2018, the situation began to change as several new airlines, both Ukrainian and international, entered the market.

First of all, the low-cost business model became extremely popular among budget travelers, which led to the launch of several new routes by the world's largest low-cost airline, Ryanair, founded in Ireland. Kyiv Boryspil Airport renovated the old Terminal F specifically for low-cost and leisure carriers. However, Ryanair's initial presence in the Ukrainian market was relatively small. Nonetheless, passenger interest in budget tickets was high, leading to a subsequent increase in the number of routes, and, in total, the number of flights to Ukraine reached 600 per week [3].

The second-largest low-cost airline in Europe, Wizz Air, had already made a significant impact on the Ukrainian aviation market before Ryanair's debut. Even though the two airlines operated different strategies, both focused on the capital's airports, where the main passenger turnover was concentrated. Wizz Air operated flights from Sikorsky International Airport in Kyiv, while Ryanair chose Boryspil International Airport as its primary base. This created healthy competition, as each airline targeted

different consumer groups, giving passengers more options in terms of routes, flight times, and airlines that best suited their preferences.

In addition to a number of new international airlines, several new Ukrainian carriers have entered the market. The most rapidly developing one is SkyUp Airlines, which began operations as a leisure carrier in 2018 and later expanded to become a low-cost airline offering affordable fares not only for international flights but also on several unique domestic routes with extremely low prices (such as Kharkiv-Lviv, Kharkiv-Odesa, Lviv-Kherson, etc.). This expansion has contributed to the development and promotion of domestic tourism by providing additional flights and improving the infrastructure of small domestic airports.

Bees Airlines was another promising startup with a hybrid business model, blending both leisure and low-cost carrier services. Its strategy was quite similar to SkyUp Airlines, and its route network was almost identical. The main difference was that Bees Airlines used Kyiv Sikorsky Airport as its home base. With the launch of the airline and the completion of its first flights, competition among Ukrainian airlines, particularly on leisure routes to destinations like Greece, Turkey, and Georgia, became very intense.

Table 1 shows the activity dynamics of Ukrainian and international airlines in Ukraine over a 4-year period from 2016 to 2019. This data highlights that the biggest competitor in the industry was Ukraine International, as previously mentioned, along with several international airlines that focused on specific markets, such as Turkish Airlines and Pegasus (Turkey), and Austrian Airlines (Austria). It also became evident that low-cost carriers like SkyUp and Ryanair began to rapidly increase flight turnover starting in 2018.

Table 1 – Dynamics of the most significant volumes of air services for airlines, period from 2016 to 2019 [3]

Airlines	Number of flights			
	2016	2017	2018	2019
Ukraine International Airlines	49145	57205	61691	58772
Turkish Airlines	22928	27606	29972	33716
Belavia	12796	14537	16003	18629
LOT Polish Airlines	9903	12756	15813	18449
Wizz Air Hungary	5625	8832	15251	20944
Wind Rose	3519	8162	9301	10185
Pegasus	4289	5825	7664	5569
Air Moldova	4219	5527	7224	5423
Azur Air Ukraine	4073	4607	4859	7229
Austrian Airlines	3205	3751	3687	3787
Qatar Airways	1589	1985	4673	5893
SkyUp Airlines	-	-	2411	10631
Ryanair	-	-	1728	9295

Given the competitive factors described above, it becomes clear that any potential airline owner must carefully consider the fierce competitive environment and choose an appropriate strategy and business model.

One of the key decisions for airline managers is the location of the airline's hub, or in other words, its home base. The home base influences the entire direction of the airline's strategy, which in turn guides the choice of an appropriate business model (full-service network carrier, low-cost carrier, leisure, or regional carrier), network strategy (hub-and-spoke or point-to-point), target customer audience (connecting passengers, leisure tourists, or business travelers), and more. New airlines typically choose one of Kyiv's airports as a home base due to the high passenger turnover. However, this is not the only consideration. A major challenge lies in infrastructure, as most Ukrainian airfields do not meet the EU standards required to operate regular commercial flights.

The airfield modernization program is active in Ukraine; however, due to slow construction progress and a lack of funds, the renovation has been relatively slow. The infrastructure of most airports is outdated, as the entire system was built during the USSR era. For example, due to the poor quality of the runway surface at Mykolaiv Airport, take-off and landing operations were limited to 10 per day, making it difficult to plan an efficient network for a developing or emerging airline. Consequently, the most prospective airfields were considered to be the airports in Kyiv, Lviv, Kharkiv, and Odesa, though the latter faces limitations in terms of its existing infrastructure. Additionally, following the escalation of the war, a significant portion of airport infrastructure was severely damaged or even completely destroyed in cities like Dnipro, Kharkiv, Zaporizhzhia, Mykolaiv, Kherson, and many others.

Nowadays, airline managers must also take into consideration factors related to sustainability, which include noise pollution, energy consumption, greenhouse gas emissions, and more. The International Civil Aviation Organization (ICAO), of which Ukraine is a member, promotes global compliance with regulations and standards in areas such as safety, security, technical standards, and sustainability practices [4]. Many industries, including manufacturing and transportation, have started to integrate sustainability policies into their operations to meet global social and environmental requirements and mitigate the consequences of production. Aviation is no exception, as airlines and aircraft manufacturers are required to follow specific guidelines to reduce waste and pollution during production and operation.

As part of the global agreement on aviation and climate change made in 2010, ICAO and its member states committed to achieving a 2% annual improvement in fuel efficiency and stabilizing global CO₂ emissions at

2020 levels, with carbon-neutral growth from 2020 onwards. However, this creates additional challenges for potential and newly launched airlines, as they must comply with these sustainability initiatives if their home country is a member of organizations such as ICAO, IATA, ACI, and others.

Conclusion

The process of launching a commercial airline involves multiple challenges, some of which were discussed in this article. Additionally, the aviation industry in Ukraine is currently going through a tough period due to closed airspace, damaged infrastructure, and the cessation of operations by several airlines. Moreover, the owners or management team of a potential airline will face regulatory and legal issues that must be addressed in accordance with both national and international standards. It is also essential to keep up with global trends, one of the most significant being sustainable aviation practices.

Some challenges may arise from independent or external factors, with one of the most critical being market competition. The higher the competition, the more difficult it becomes to achieve efficiency and build a strong reputation among passengers and other stakeholders. Consequently, it is crucial to choose the right strategy and business model for a new airline in order to compete and survive in the market, while also overcoming the various challenges.

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