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THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

Monday, December 2, 2002

Volume 1 Issue 9

A FOCUS ON AVIATION in the FSU and Baltics



"A picture is worth a thousand words." A better phrase may be "an atlas is worth a thousand words" for the influence the countries of the former Soviet Union have on global air traffic management.

Russia, the CIS and the Baltic States cover an enormous portion of the world's airspace — airspace that prior to the break up of the Soviet Union was largely closed to international air travel. Russia alone controls 20 times more airspace than the European Union and some 8 million square kilometers of oceanic airspace.

Modernizing the airspace over Russia, the CIS and the Baltic States is

Aviation: A PBN Core Specialty

Three New Members Add "Gravitas" to PBN's Aviation Team

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Modernization of Air Traffic Systems: Top Aviation Concern

Russia's Modernization Plans Alone Top \$10 Billion

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a huge task and one that has only just begun. By some accounts, modernizing Russia's air transportation management system will cost \$10 billion over the next 10 years.

Increasing the safety and capacity of the region's airspace is not only essential for the economies of the countries in the region, but for international air travelers between Europe, Asia and North America seeking shorter and safer routes.

Many Western aviation companies have been lured to the region, with hopes of quick cash rewards. Most have found, however, that slightly more sophisticated business models, with longer range goals and horizons, are required. The promise of substantial economic return on investment for Western aviation companies still exists, but only for those that understand the potential and unique circumstances of the region.

In this issue of Access PBN, The PBN Company's aviation consulting team provides a snapshot of the region's efforts to establish an air traffic system fully compatible with neighboring regions, and one that spurs economic development and foreign investment opportunities in the aviation and aerospace industry.

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Aviation: A PBN Core Specialty

The PBN Company has a history of helping clients in the aviation and aerospace industry. The PBN Company's aviation team includes senior partners in Washington DC, London, Moscow, Ukraine, Latvia and Lithuania as well as other consultants, such as Charles Hunnicutt, a partner in the Washington, DC law firm of Robins, Kaplan, Miller and Ciresi and former U.S. Undersecretary of Transportation in charge of international aviation.

Now, three new members bring additional "gravitas" to The PBN Company's aviation consulting group.

Dennis Cooper is The PBN Company's Director of Aviation Consulting. He joined the firm in July, shortly after retiring from the U.S. Federal Aviation Administration (FAA). Over the past nine years, he was the FAA's senior representative for Russia, CIS and the Baltic States, responsible for negotiating bilateral agreements on aircraft certification and production, airspace management and air traffic control systems improvements. He was also the U.S. government's pointperson on developing the cross polar routes over Russia.

"Dennis is unique among his peers in the field, with 30 years of aviation experience combined with 10 years of in-country responsibility for Russia, the CIS and Baltic States. Dennis adds a tremendous depth and breadth to PBN's aviation team," says Senior Vice President Alexander Shelemekh, who heads PBN's aviation team in the CIS.

Another member of the team is Valery Zhigarev, an expert with 35 years experience in designing, testing and implementing airborne

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Pictured above (left to right): U.S. Russia Business Council (USRBC) VP Karen Montagne, PBN Director of Aviation Consulting Dennis Cooper, and NITA President Sergey Pyatko at USRBC roundtable.



Pictured above (left to right): Valery Zakharin, PBN Senior Advisor; Olga Varfolomeyeva, Civil Aviation Specialist, Federal Aviation Administration (FAA), US Embassy, Moscow; James Nasiastka, FAA Representative for Russia and the CIS.

navigation and air traffic control systems. From 1993 to 1998, he was the General Director of Norden/St. Petersburg/Ramsco, a Russian-American company that designed air traffic management systems. He also worked with his U.S. counterparts on integrating GPS and GLONASS satellite navigation systems, microwave landing systems and secondary surveillance radar. While head of International Cooperation at the All-Russian Scientific Research Institute of Radio Equipment, he participated in the development of ICAO international standards for radar technical landing, navigation and air traffic control systems. Valery has a PhD and several patents in the field.

Valery Zakharin comes to The PBN Company after 35 years in the Soviet and then Russian Armed Forces. He retired in 1999 with the rank of Major General. During his military tenure, Valery helped modernize Russia's Unified ATM System and develop rules for the use of federal airspace. He also served as a key negotiator in the Open Skies Agreement and with NATO on coordinated flight safety procedures in the Partnership for Peace Agreement. In 1999-2000, Valery helped NASA to allow its aircraft and flying laboratories access to Russian airspace in order to collect valuable scientific data from the atmosphere. He is currently working on two similar projects for NASA.

"Our clients will benefit immensely from the expertise and contributions of Dennis and the two Valerys," adds Shelemekh. "We are extremely fortunate to have such top caliber professionals on our team."

Email Alexander Shelemekh for more information on PBN's aviation team: alexander.shelemekh@pbnco.com

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Modernization of Air Traffic Systems: Top Aviation Concern

Almost overnight, closed airspace was opened to international air traffic when the Soviet Union dissolved in the 1990s. With the opening of this airspace came a host of new and critically important issues, such as air safety, aircraft certification and compatibility of air traffic control systems.

A little-known fact is the remarkable effort that Russian, Baltic and CIS aviation authorities and industry undertook to maintain air travel safety while implementing early modernization efforts.

Between 1995 and 2002, more than 90 percent of the air control facilities in Russia were modernized, including the installation of new equipment and software. Similar modernization efforts were carried out in other countries of the region. Domestic aviation companies, not Western industry, were responsible for the vast majority of these upgrades.

“The transition to new international standards for air traffic control couldn’t be postponed, it had to happen virtually overnight. The high level of professionalism demonstrated by air traffic specialists in Russia, the Baltic States and the other CIS countries in meeting this challenge was absolutely extraordinary,” explains Dennis Cooper, the former FAA Senior Representative to Russia and the CIS, and now The PBN Company’s Director of Aviation Consulting.

New Air Routes Opened

Also in the 1990s, new air routes over the North Pole and the Russian

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Far East were opened to relieve congestion between North America and Asia and to offer significant fuel and time savings for international airlines. The new routes also created new air navigation revenues for the Russian and other civil aviation authorities for maintaining and upgrading their national airspace systems.

Prior to September 11th, these air routes were operating at capacity and new routes were on the drawing board. Today, volume along the routes has dropped due to decreases in worldwide air travel. But plans for new routes are on temporary hold, not permanently shelved, according to Cooper.

Next Stage of Air Traffic Modernization

Now Russia and the other countries of the region are ready to enter the next, and no doubt more challenging, stage in air traffic modernization. Russia's Ministry of Defense has estimated that its country's modernization efforts alone could total \$10 billion over the next 10 years.

The goal of the modernization effort is to increase the safety and efficiency of the air traffic system, while increasing capacity of existing and new air routes. These improvements will ensure a fully compatible air traffic system in the region that links Europe, Asia and North America.

Modernization efforts have three main components:

- Consolidation. Throughout the region, a key priority is to consolidate and reduce the number of air traffic control centers. In Russia, for example, the plan is to reduce the current 117 centers to 20 larger and more sophisticated regional centers. The Moscow Center is a top priority, with a modernization price tag of \$144 million.
- Regionalization. While each country is responsible for its own airspace, there are efforts to regionalize air traffic management operations, wherever possible. The Baltic countries have created BALNET, a joint air surveillance network, which monitors the airspace over and around Estonia, Latvia and Lithuania. Studies on advanced satellite-based technologies (CNS/ATM — see below) are underway for the Baltic States plus Poland, and a similar study is in discussion for Ukraine, Moldova, Belarus, Georgia, Armenia and Azerbaijan.
- Future Communications, Navigation and Surveillance (CNS/ATM) Technology. The difficulty of providing radar coverage for the vast Eurasian airspace has led countries of the FSU and Baltic States to aggressively pursue CNS/ATM technology. These countries, in some ways, are ahead of the rest of the world, still operating with old systems while trying to conform to new technology.

International Partnerships and Ventures

“The bottomline is that Western manufacturers need domestic manufacturers — and vice versa,” says PBN President Susan Thurman.

Russian law requires that 60 percent of major air traffic management technology be provided by Russian manufacturers. Other countries have similar requirements. Therefore, joint ventures and teaming agreements are essential for Western manufacturers to capture a share of the marketplace.

“Russian manufacturers need these partnerships to begin exporting their high-quality and extremely affordable goods and services outside the countries of the former Soviet Union,” adds Thurman. “These partnerships are win-win propositions for companies on both sides of the Atlantic. All parties benefit, prosper and grow — not only in their home markets but abroad.”

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Tariffs, Aging Aircraft and Manufacturing

Tariffs, aging aircraft and competition in aircraft manufacturing are other important issues facing the aviation and aerospace sector in the region.

Russian aircraft manufacturers, once the producers of a quarter of the world's commercial fleet, are now struggling to find a niche in the international aviation market dominated by two players — Boeing and Airbus. Tupolev, Sukhoi, Aviastar and KAPO are the leading Russian aircraft manufacturing firms. Their niche could be in the mid-range aircraft market. Russia's version of this plane costs an estimated \$30 million, roughly half the cost of Boeing's 757 and Airbus's 321.

In an effort to support Russia's struggling aircraft manufacturing industry, the government refuses to eliminate the 42 percent tariffs on foreign-made planes — making it difficult, if not impossible, to sell foreign aircraft in the market. This issue is a key sticking point in negotiations on Russia's accession to the World Trade Organization. In fact, Russia's WTO negotiators claim that the government will have to keep the tariffs in place for at least 10 years to protect the aircraft manufacturing industry.

Ironically, the efforts to protect the country's aircraft manufacturing industry could be hurting the region's airlines, all of which have seriously aging fleets. Russian airlines complain that domestic manufacturers are not producing aircraft quickly enough. They note that just seven planes were produced in 2001 — a time when passenger volume increased 15 percent. Airlines fear that they will run out of time to upgrade their fleet before new international noise restrictions go into effect by 2006.

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“Realizing aviation modernization will require a substantial financial commitment and political will from policymakers throughout the region,” says PBN’s Dennis Cooper. “Air traffic management, aircraft manufacturing, aviation security and airline operations all provide opportunities for Western manufacturers to partner with local producers to market their equipment and services.”

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A Profile of NITA: New Information Technology for Aviation

The St. Petersburg-based manufacturer NITA (New Information Technology for Aviation) is poised to expand into the international marketplace after making its mark on air traffic management in Russia over the past 12 years.

Founded in 1990 with a \$1,000 loan, NITA's founders recognized the opportunity to apply information technology to air traffic control during the closing days of Perestroika. NITA today is considered one of the most advanced air traffic control suppliers in Russia, with a proven track record of more than 100 facilities installations and prototype flight simulators for a new generation of Russian aircraft.

NITA has participated in the modernization of air traffic management systems in several regions of Russia, including Tyumen, Magadan, Krasnoyarsk, Samara and Novosibirsk and beyond Russia's borders in China, Latvia, Armenia, Azerbaijan and Georgia.

"NITA is one of the first and only truly private aviation firms in Russia," says PBN Aviation Consultant Valery Zhikarev. "The company has been too busy with domestic and regional business to look beyond its border, but now NITA is ready to offer its products and services internationally."

As part of NITA's international expansion plans, The PBN Company coordinated the visit of NITA President Sergey Pyatko to meet potential international business partners and to promote itself to the international air traffic management community at the Air Traffic Control Association (ATCA) annual meeting in Washington, DC during the first week of November. ATCA is the largest conference in air traffic management

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NITA's research and production facility, St. Petersburg.

attended by both government and industry decision makers worldwide. Mr. Pyatko was a featured speaker at the ATCA meeting as well as at a special aviation roundtable sponsored by the US-Russia Business Council.

“Walking into NITA’s research and production facilities in St. Petersburg makes you think you are in California’s Silicon Valley or Massachusetts’ Route 128 corridor,” adds Dennis Cooper, PBN’s Director of Aviation Consulting. “It is an amazing company that produces the highest quality products and services.”

Go to NITA’s website: <http://www.nita.ru/>

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News from PBN Worldwide

THOM-SUM-MIT. PBN's Senior Vice President Tom Thomson was part of a delegation of U.S. businesspeople traveling to Vilnius during the historic meetings of US President George W. Bush with the presidents of Lithuania, Latvia and Estonia on November 22-23. President Bush went to Lithuania after the NATO summit in Prague. Tom is on the Board of the US-Baltic Foundation, which organized the visit.

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VEEP. Christina Bucher is the latest PBNer to join the ranks of Vice President. Christina is serving a year assignment in Europe, where she is helping to serve the firm's European-based clients and expand PBN's presence on the continent. Congratulations Christina!

Email Christina: christina.bucher@pbnco.com

AIRBORNE. NASA has hired PBN for two projects in Russia. The firm will help NASA obtain government approval to gain access to Russian airspace for a scientific study of the earth's ozone layer, in particular the Arctic Ozone and satellite validation; and assist in obtaining approvals and providing assistance to NASA's research flight laboratory for a study focused on sea ice in the Sea of Ohotsk.

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MERGER MANIA. PBN Ukraine was retained by Mobile TeleSystems (MTS) of Russia to announce their intention to purchase a 57.7% stake in Ukraine's mobile telephone company, UMC. The announcement was made on November 5, and the purchase now must be approved by government authorities in Ukraine and the Russian Federation.

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Access PBN Photo Quiz: Find U.S. President George W. Bush and PBN Senior Vice President Tom Thomson in the photo above. The photo was taken during President Bush's visit to Vilnius, Lithuania for the Baltic Summit on November 23, 2002.

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POWER PLAY. PBN Ukraine was also retained by US-based AES, owners of the electricity generating plants KievOblEnergo and RivneOblEnergo, for government relations and communications counsel.

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RISING IN RIGA. Sarmite Zumbure has been promoted to Account Manager in the Riga office. Congratulations Sarmite!

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