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CHARACTERISTICS OF POLISH BUSINESS AVIATION SERVICES MARKET

Summary: General characteristics and development trends of Polish business aviation services market are presented in the article. The analysis presented in this paper shows rapid development of these services in Poland in the foreseeable future, stimulated by Poland's accession to the EU structures and the prospect of 2012 UEFA European Football Championship co-hosted by the Ukraine and Poland.

Keywords: Polish business aviation services market, civil aircraft for business and corporate transportation in Poland, civil aviation services in the context of 2012 UEFA European Football Championship.

1. Introduction

The sector of services, including also civil aviation services for business and corporate needs, plays an increasingly important role in the structure of gross domestic product of modern economy. Aviation transport is one of the most dynamic branches of modern transport. The number of passengers using the services of civil aviation companies grows annually. In 2008 alone, according to the reports published by the International Air Transport Association (IATA), civil aircraft carried 1 238 million passengers on international flights, with further 650 million on domestic flights and 39 million tons of cargo.

Civil aviation services catering for business and corporate needs are one of the six main segments on the market of air transportation in Poland. The remaining segments are: the 'traditional' passenger airlines, regional air transport, budget flights, charter services and air cargo. The share of business aviation services in the market is still marginal, but growing in a steady rate.

The aim of this paper is to examine a current situation in this segment of the air transportation market in Poland and to present major actors in this segment, together with the analyses of their activities, predominantly in the financing and operational sphere, as well as to present development trends on the market. For these purposes, it may be useful to start with a definition of the market.

2. Market definition

The range of services under study involves passenger transportation services catered by civil air transportation companies for business and corporate individuals. In this context, one can distinguish three business aviation companies in Poland, namely: Jet Air, Sky Taxi and Jet Service. All of the above companies were established after 01.01.2004, following the liberalization of air transportation services in Poland, stimulated by Poland's accession to the EU structures. Another important factor in the commencement of this type of service on local market was the steady growth of Polish economy in recent years.

The services under study are well complemented by similar services of other transportation segments in Poland, such as traditional airlines, road transport and rail transport, all of which cater for business and corporate needs. In other words, the services under study are characterized by large degree of complementarity.

The geographical reach of the market under study is defined by the structure of Polish airports. The largest and most important is the Central Airport Warszawa-Okęcie (Warsaw Fryderyk Chopin Airport). Other important service centres are located in ten major Polish cities: Kraków-Balice (Cracow John Paul II Airport), Katowice-Pyrzowice, Gdańsk-Rębiechowo (Gdańsk Lech Walesa Airport), Wrocław-Strachowice (Wrocław Nicolas Copernicus Airport), Poznań-Ławica (Poznań Henryk Wieniawski Airport), Szczecin-Goleniów (Szczecin Solidarity Airport), Rzeszów-Jasionka, Bydgoszcz-Szwederowo (Bydgoszcz Jan Paderewski Airport), Łódź-Lublinek (Łodz Władysław Reymont Airport) and Zielona Góra-Babimost.

The administration and supervision of the market of civil air transportation services for business in Poland is in the hands of the Civil Aviation Office (ULC) located in Warsaw. Since 01.04.2007, air traffic control and other operational tasks of passenger air transportation are managed and coordinated by Polish Air Navigation Services Agency (PAŻP), also responsible for air traffic control personnel, airspace communication, navigation services, air traffic supervision and air traffic information[1].

3. Demand analysis

In 2008, Polish aircraft carried 5.2 million passengers and 46.1 thousand tons of cargo. For the Polish business aviation sector, data from 2008 presents as follows: Jet Air company – 5.1 thousand flights, carried 32.8 thousand passengers, with 30% decrease compared to the previous year (2007) due to the termination of an agreement with Polish Airlines PLL LOT that offered a share of passenger service within the

[1] J. Neider, *Transport międzynarodowy,* PWE, Warszawa, 2008, p. 92.

PLL LOT regular flight network; Sky Taxi company – 655 flights with 5.5 thousand passengers and 100 tons of cargo; and Jet Service company – 1060 flights with 2.5 thousand passengers[2].

Polish business aviation companies cater mainly for wealthy clientele that demand timely schedule, luxury and travel discretion. Customers are mainly businessmen – board members of large companies, top managers, investors and VIPs (politicians, artists, sportspersons). Business aviation services are also popular among travel offices, event management companies and large companies of such sectors as construction and production that charter fast and comfortable flights for large groups of personnel[3].

The number of customers in the companies under study grows steadily as a result of an overall increase of wealth in Polish society, rapid development of business sector, competitive price of chartered flights and high quality of service. The latter is particularly sought after in business community that favours timely schedule, comfortable mid-travel transfers and freedom of choice in regard to destination.

In 2009, Jet Air company extended its range of services in respect to domestic flights, to cover regular flights, such as Gdańsk–Wrocław (with ticket prices starting from 250 PLN)[4]. Ticket sales are offered mainly via online service, directly from the air carrier company, but also via regular ticket agencies, such as travel offices and airline agencies. Tickets may also be ordered by phone.

Jet Service, with its standard offer of scheduled flights extended to cover chartered flights on demand, prices their services on individual basis. It must be noted, however, that the prices are not based on fixed mileage rates, but negotiated individually with the customer.

Business flights are also valued in business community for the level of passenger service offered, with top-class pilots and skilled flight attendants. Customers are offered confidentiality, comfort and ease of work (laptops and paper documents are allowed on board). Chartered company-group flights (casual passengers are not admitted) offer privacy and freedom to do business on board. Airport security and checkout procedures are individualized. Customers reach their destination directly, saving time, effort and inconvenience of standard airline transfers and crowded airports[5].

Air transport is also the safest form of long distance travel. The statistical probability of aircraft accident is by far lower than that of rail or road transport.

The demand for business transport service grows significantly during holiday periods and prolonged weekends (in particular, chartered flights to exotic vacation resorts) as well as national and church feasts (shopping and family visits).

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[2] J. Liwiński, *Polskie przewozy lotnicze 2008,* "Lotnictwo" 2009, nr 6.

[3] ww.jetservice.pl, 25.03.2010.

[4] J. Liwiński, *Aktualności cywilne*, "Lotnictwo" 2009, nr 6.

[5] www.skytaxi.aero, 25.03.2010.

4. Supply analysis

Polish market of business aviation services, as a developing market, is populated by only a few companies (Jet Air, Sky Taxi, Jet Service). Air Jet has the largest share of the market, of nearly 80%. Sky Taxi ranks second, with market share of ca. 13%, and followed by Jet Service (ca. 6%). Competition on the market is fierce. Apart from local competitors, Polish business aviation companies will soon face the pressure of their foreign counterparts (e.g. German private air transportation companies), as they finalize their licensing procedures to gain access to Polish airport facilities. There is also a strong competition from local and foreign companies operating in other segments of air transportation, especially from large commercial (”traditional”) airlines such as the Polish PLL LOT company.

The main factor impacting the supply of services on business aviation services market is the steep cost of aircraft used in this type of transportation. For example, Jet Service company offers a range of ultra-light and light business jet planes for domestic and international flights: Cessna 525 and 560, Bombardier Global 5000 and Bombardier CL 300, all of them with luxury furnishing and limited passenger space – from 4 to 10 passenger seats[6]. Business aviation aircraft has the capability to fly in and out of most airports, from large commercial airports with steep landing prices, such as London Heathrow, to small recreational aviation airstrips. Such flexibility allows the companies to benefit from landing fee differences, which are typically high for large commercial airports. Business aircraft offers quality catering and rich selection of press titles; luggage restrictions are largely alleviated. All the above features and services contribute to the high price of tickets and charter fees.

Customers of this particular segment of air transportation are also persuaded by a wide range of additional services, with the most typical being post-flight transportation and accommodation (car rental, hotel booking, etc.). Some business aviation companies organize flexible pilot training courses for corporate managers and business persons. Apart from standard scheduled flights and chartered flights, business aviation companies offer aircraft standby service, group travels, servicing of special events (trade fairs, conferences, exhibitions), integration events, cargo service and special flights[7].

Air transport is characterized by exorbitant barriers of access, the most restrictive of all sectors of public transportation[8].

The first and most obvious of such barriers is the barrier of economic and technological nature, associated with high cost of aircraft operation. The main elements of operational cost in air transport include: wages for flight personnel, materials and supplies, technical assistance and servicing, aircraft depreciation or

[6] J. Liwiński, *Polskie przewozy*...
[7] www.skytaxi.aero, 25.03.2010.
[8] J. Neider, op. cit., p. 97.

other purchase schemes, special costs, landing fees and other third party fees, cost of maintaining own representation at the airports and in local agencies, exploitation and management cost, and cost of trade (passenger service and sales).

The cost of service, management, trade and others are indirect, since they cannot be associated directly with the individual task of transportation. All the remaining cost is direct, i.e. closely related to a particular task or service rendered. These constitute 45-60% of total operational cost incurred by air transportation company[9].

Civil aviation companies were strongly affected by the ongoing global crisis, particularly through the increase of oil prices. With 100LL aviation gasoline being the most popular fuel, the fundamental element of operational cost, i.e. tanking cost, increased by a large margin. At present, according to the reports of the Association of European Airlines (AEA), the cost of fuel constitutes as much as 39% of total airline company budget. In the words of Giovanni Bisignani, IATA's Director General and CEO: "Each dollar added to the price of a barrel of oil adds $1 billion in costs to the industry"[10].

Moreover, air transportation companies need to take the utmost care of their aircraft: proper maintenance is fundamental, as potential crash would obliterate company reputation on the market. Another important barrier on the market of business aviation services in Poland is of legal character.

Provision of air transportation services in Poland is regulated by the parliament act of Aeronautics Law, July 3, 2002 (Official Gazette, 2002, No. 100, pos. 696, with amendments).

Operation of air transportation services requires proper licensing. In Poland, licenses are issued by the Civil Aviation Office (ULC), on the basis of subsequent Air Operator Certificate (AOC), also provided by ULC.

Air transport service licenses are valid for a set period of time, not shorter than 2 years and not longer than 50 years. Civil Aviation Office verifies financial standing of the licensee after one year, with subsequent inspections every five years. The license for commercial air transportation services is also the most stringent of all transportation licensing documents. According to the reports of March, 2007, the Civil Aviation Office maintained a record of 16 valid air transportation licenses, including those issued to business aviation companies – Jet Air, Sky Taxi and Jet Service.

In the case when foreign-based transportation company opts to provide air cabotage service in Poland, such a licence may be granted by the Civil Aviation Office under provisions of art. 196 of the Aeronautics Law, under reciprocity[11].

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[9] *Transport i spedycja*, red. M. Stajniak, M. Hajdul, Biblioteka Logistyka, Poznań, 2007, p. 133.
[10] J. Olechowski, *Twarde lądowanie,*,"NewsweekPolska" 15.06.2008.
[11] J. Neider, op.cit., p. 88-89.

5. Trends in the development of business aviation services in Poland – the 21st century market

Air transportation is one of the fastest-growing sectors of public transportation on the global scale, but also one of the most demanding in respect to capital expenditure and personnel qualifications. Rapid development and continuous modernization of this sector are the tasks affordable only to the most prosperous economies[12].

Air transport is also the fastest and the most expensive form of passenger and cargo transport. This type of service requires dedicated and properly adapted transfer points, referred to as airfields, airstrips or airports. Passenger services constitute the bulk of transport in this sector (ca. 70%). A large part of cargo transport includes valuables (gold, platinum, securities), life-saving medicaments and hazardous materials, stored in pallets or containers[13].

Recent years were successful for Polish air transport companies. The development of the sector ranks Poland among the leading global providers. Present situation is a result of a number of factors, but the most significant is the accession to the EU structures, offering a wide scope of multilateral cooperation in different aspects of civil aviation.

Opening Polish airspace and air transport market following Poland's accession to EU on May 1, 2004 has boosted the dynamics of development in the sector of civil aviation services. As an EU member, Poland was required to liberalize its legal provisions that regulate the access of foreign transportation companies to Polish market of air transport services, with the benefit of reciprocity.

Dynamics of air traffic increase were in part influenced by the emergence of business aviation services and noticeable demand for this form of transport. Despite dynamic development of air transport services, the mobility of Polish society in general is very low, which may suggest further increase of demand while Polish customers' affluence continues to grow.

The effects of market liberalization are also reflected in the number of aviation transport companies holding valid aviation service licenses. The number of license holders increased from 5 in the year 2003 to 15 at the end of 2006 (including business aviation companies: Jet Air, Sky Taxi, Jet Service).

The situation in the Polish sector of business aviation services is a model representation of fresh and rapidly developing market. Many companies in the sector are still struggling with unstable financial flow due to the lack of experience and consolidated position on the market. It is also worth noting that liberalization trends resulted in increased competition on Polish markets, with the impending prospect of foreign, decidedly more experienced companies entering the scene. In this respect, the marked increase of capital in Polish air transport companies should be perceived as a positive signal.

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[12] *Transport*…, p. 30.

[13] Ibidem, p. 33-34.

In the period under study, there was also a considerable increase in the Polish market of tourist services, resulting in greater demand for private charter flight orders placed by travel offices in business aviation companies[14].

6. Business aviation companies in the light of 2012 UEFA European Football Championship

Air transport is the fastest means of travel between Polish and Ukrainian cities hosting EURO 2012 football matches. At least, in theory, since a commercial flight from Gdansk to Kiev requires a transfer in Warsaw, Frankfurt or Vienna, while passengers traveling by air to Dniepropietrovsk face two transfers (one in Warsaw, the other – in Kiev). As a result, total travel time is comparable to that of rail or road transport.

The governments of both countries hosting the EURO 2012 work hard at expanding the existing flight network, but the effects are uncertain, as the decisions are not in the hands of airlines alone. There are certain legal barriers to overcome. While Polish airspace is open to international flights, the Ukrainian government insists on restrictions in the choice of air transportation companies and destination airports. At present, the only Polish airport to operate regular flights to Kiev, Lviv and Odessa is the Warsaw Okęcie airport. In the light of Polish-Ukrainian government agreements, flights from Poland may also originate from Katowice airport. The so-called 'horizontal agreement' signed in March 2008 expanded the list of authorized airports on both sides of the border (Cracow in Poland and Dnietropiertovsk in Ukraine). Moreover, the document granted the right to service the flights to all companies registered on EU markets, as well as abolished the complementarity privilege in respect to Polish companies (i.e. the obligation of sharing the service between EU and Ukrainian companies). So far, the flights on the aforementioned routes are serviced by LOT and AeroSvit Airlines, with the rest of competitors anxiously awaiting further liberalization of Ukrainian airspace.

The Ukrainian government is in the course of preparing a new strategy for the development of civil aviation. Subsequent meetings between Polish and Ukrainian authorities with companies interested in participating in the service may soon bring some tangible effects. Experts believe that Ukraine will push forward with the initiative of opening its airspace, mainly due to the country's interest in joining the EU structures. If that is the case, one may expect rapid prosperity on the Ukrainian market of aviation services, comparable to that observed in Poland since 2004. The bulk of profits will undoubtedly go to those who will be the fastest in reaching for the Ukrainian airspace (as it was with Wizzair in Poland)[15].

Business aviation companies in Poland will play an important role in servicing EURO 2012 as carriers for the most affluent football fans. UEFA reports indicate that

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[14] www.ulc.gov.pl, 25.03.2010.

[15] A. Olejowska, *Furtka na niebie*, "EUROinfrastruktura 2012" 2008, No. 6, special supplement to "Forbes" 2008, No. 6.

50% of football fans will travel to EURO 2012 cities by plane. If these forecasts prove accurate, air transportation (also in its business variety) will play an important role, especially in servicing the longest distance travels between Wrocław (southwest of Poland) and Donieck (eastern Ukraine).

Sky Taxi company has already participated in servicing private charter flights for football supporters during the EURO 2008 championship in Austria and Switzerland[16]. The company aircrafts were also chartered to service seven flights for football fans during the 2006 FIFA World Cup series in Germany. As such, Sky Taxi may be viewed as an experienced provider of this type of services.

Business aviation companies typically expand their standard offer of flights with tourist packages, such as hotel booking and organized city tours before and after the match[17].

7. Conclusion

The market of business aviation services in Poland is led by several major players catering for a large and dispersed clientele – it is a heterogenic oligopoly of supply, with a single, dominating company (Jet Air). The market is legal (transparent), with companies closely scrutinizing activities of the competitors. Information on the market is readily available through the Internet, leaflets and advertisements on the on-board press magazines. The most important player on the market is Jet Air, with Sky Taxi and Jet Service ranking second and third, respectively.

Polish market of air transport, including the segment of business aviation services, is the most dynamic market in Europe (on the global scale only China surpasses Poland in terms of civil aviation development). Apart from EU requirements of adjusting the standards and quality of services following May 2004 accession, this development is closely related to the prospect of EURO 2012 UEFA European Football Championship.

Moreover, considering the rapid economic growth of Poland, rapid creation of wealth in Polish society and relatively low (but steadily growing) mobility of general population, one may safely assume that Polish market of services under study will prove dynamic and attractive in the years to come.

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CHARAKTERYSTYKA RYNKU USŁUG TRANSPORTU LOTNICZEGO DLA BIZNESU W POLSCE

Streszczenie: W artykule autorka przedstawia ogólną charakterystykę i tendencje rozwoju rynku usług transportu lotniczego dla biznesu w Polsce. Przeprowadzona w artykule analiza tego segmentu pokazuje, że w najbliższych latach będzie on rozwijany w Polsce w bardzo dynamiczny sposób . Przystąpienie Polski do Unii Europejskiej oraz organizacja wraz z Ukrainą imprezy sportowej EURO 2012, spowoduje dodatkowe zwiększenie udziału tego segmentu w całym rynku. Zostało to zaprezentowane w artykule.