

Extending credit



CSA can no longer rely on interest-free Government loans to pay for its 737s

Western financiers continue to approach business deals in Eastern and Central Europe with caution

PAUL DUFFY/PRAGUE

IT IS FIVE years since the economies of Eastern Europe started shifting towards the styles, structures and *modus operandi* of the West, yet the problems facing Central and Eastern European airlines wishing to lease Western aircraft, engines and equipment are not diminishing. Many operators are struggling to come to terms with the change to business structures and practices familiar in the West.

Frantisek Shaby, executive vice-president for finance and planning at Czech Airlines (CSA), for example, explains how his company has had to cope with a complete breakdown of state-funded interest-free loans for fleet purchases. "It has all come to an end," he says. "Now state guarantees are not even available." He adds that, by 1992, because of the political changes in the region, followed by a severe national economic crisis, augmented by the Gulf War, CSA found itself with a new fleet of aircraft on order — two Airbus Industrie A310s, five Boeing 737-500s and four ATR 72s — but no cash to pay the bill. The Government provided an interest-free loan on that occasion, but that was the last time. Now CSA's board has approved plans for a new fleet — two 110- to 140-seater aircraft and up to six 70- to 80-seaters, but the airline will require

100% financing to buy them. At the same time, CSA will also have to face up to direct competition from leading European carriers. With the Czech market now close to deregulation, competition may be faced from new national carriers as well.

Krzysztof Ziebinski, director of marketing and sales of LOT-Polish Airlines, says that 40 years of central planning has had a substantial effect on the country's transport system. The artificially low exchange rate used to boost traffic for the airline, particularly on subsidised routes between Comecon countries. Just as the political and economic situation began to change, however, traffic, which peaked at 2.1 million passengers in 1989, fell to 1.2 million passengers by 1991 and has climbed only slowly upwards since then.

POLISH PRIVATISATION

Privatisation of Poland's airports, followed by huge investment, has resulted in substantial increases in airport costs. An investment in a new fleet of four Boeing 767s, ten Boeing 737s and eight ATR 72s, which are all leased, has created a further financial burden.

The fleet itself is only part of the cost — training crew on new systems and a public-relations campaign to inform the public about the

new-look airline (LOT) have all been needed.

Vadim Sorokim, senior vice-president of Ukraine International Airlines, (UIA) describes the first three years of the airline's existence with a witty comment: "When you're up to your neck in alligators, it can be hard to remember that your objective was to drain the swamp". He says that the odds are stacked against CIS carriers. Just now, the Ukraine Government and GPA, joint shareholders of the airline, do not have any more money to invest in the carrier, so new investors are being sought. Negotiations are in progress with the European bank of Reconstruction and Development and two other airlines for each to take a 9% interest in UIA. The airline has decided to buy aircraft only when it has funds for deposits. In the meantime, it will lease what it needs.

Erzsebet Antal, head of finance and treasury at Malev Hungarian Airlines, describes how the airline has added Boeing 737s and 767s to its fleet since 1988, with all the difficulties of financing leasing agreements. "How can the value of these aircraft be reflected in the airline's balance sheet and help to strengthen its credit status?" she asks.

From the Western perspective, there are the difficulties of assessing credit-risk ratings for companies in Eastern Europe which often have no real accounting history on which judgements can be made, and no (or poorly designed) business plans to indicate what the needs of the borrower might be. Also, the difference between the approaches of the old Comecon accounting systems and those practised in the West mean that the gap is often very difficult to bridge.

The different legal approaches in Russia and