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New Orders but No Lift for Superjet

By Maria Antonova

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A Sukhoi Superjet on display at last year's Paris Air Show in Le Bourget. **Antoine Antoniol**

Sukhoi Civil Aircraft has boosted its order book for the Superjet by about 50 percent, with 60 firm orders at Britain's Farnborough air show, but insiders said Monday that the deals were partly political and far from the number needed to kick-start Russia's aviation industry.

The government has pinned its hopes on the regional jet reviving the industry, which is in tatters after churning out several hundred planes a year during Soviet times. The first three Superjets are to be delivered to Aeroflot by December, two years late.

After last week's air show, Sukhoi has 161 firm orders and expects to have a total of 200 by year-end, company president Vladimir Prisyazhnyuk said at Farnborough.

Sukhoi will produce 50 planes per year by 2014, a figure that will gradually be increased to 70, and the project will pay for itself by 2015, Prisyazhnyuk said.

He dismissed suggestions that sales might suffer because of competition from the An-148, a

new Ukrainian-Russian regional jet.

"The market for regional jets is potentially more than 5,000 planes. There is room for everyone," Prisyazhnyuk said, Interfax reported.

Mikhail Pogosyan, head of Sukhoi holding, said at the air show that 800 Superjets would be built by 2029, taking up 15 percent of the global regional aviation market.

At the air show, Indonesia's Kartika Airlines and a new Bermuda-based leasing company, Pearl Aircraft, signed firm contracts for 30 planes each, for a total order worth $1.85 billion at catalog prices.

Gazpromavia signed a memorandum of understanding for 10 planes, while Orient-Thai Airlines signed a similar contract for 12 planes and an option for 12 more. The Thai deal is expected to be finalized by December.

The orders are welcome news after Sukhoi saw deals fall apart when Russian airlines AirUnion and Dalavia went bankrupt and the presidential administration, which has its own fleet of planes operated by Rossiya Airlines, rejected the regional jet because of the prevalence of foreign-made components.

Domestic plane maker Irkut also left the air show with a hefty portfolio of potential buyers for its MS-21 midrange plane, which is expected to debut in 2014. Malaysian investment company Crecom Bourj Resources signed a firm contract for 50 planes worth $3.4 billion, and Russian companies initialed memorandums for 46 more planes.

While the Farnborough deals hint at a long-awaited renaissance in the Russian aviation industry, insiders said the achievements are less impressive once the buyers are examined more closely — and the firm contracts with Indonesia and Malaysia appear aimed at garnering Russian military aircraft.

Kartika's contract would mean a tenfold expansion of its aging fleet, which currently consists of only two 30-year-old Boeings and a 20-year-old McDonnell Douglas MD-80 plane, according to AirFleets.com.

"Even if the company finds the money for the planes, where will it get so many additional profitable routes?" said Roman Gusarov, editor of the industry web site Avia.ru.

The Superjet deal is also the first new aircraft purchase for Pearl Aircraft, which plans to build a $2 billion portfolio by the end of 2012 with new narrow- and wide-body planes, leasing globally but focusing on European and Asian markets, according to the company's web site.

Of the non-Russian buyers in Farnborough, only Orient Thai is a well-established carrier, but it has a "mixed reputation" after several accidents, including a crash in 2007 by its subsidiary One-Two-Go that killed 90 people, said an industry expert who has worked in Asia for many years and requested anonymity to comment more frankly.

"This is not to say that the other companies will not become established names in time if financing is available," he added.

Unlike in Europe and the United States, Asian companies do not have a tradition of aircraft manufacturing and do not face government pressure to purchase locally made planes, he said. The market is also growing more rapidly because of a large number of first-time flyers, which make it similar to Russia, he said.

He and Gusarov said they found it unusual that Malaysian Defense Minister Ahmad Zahid Hamidi attended the signing ceremony for the MS-21 civilian plane purchase. The purchase was also the first for Crecom Burj Resources, a subsidiary of Crecom Burj Berhad, an investment group established a year ago.

"It's a declaration of loyalty to the Russian aerospace industry from Malaysia in order to continue receiving military planes," Gusarov said.

Many airlines are waiting for the Superjet deliveries at the end of the year to Aeroflot, which has ordered a total of 30, to gauge whether the aircraft's performance is as efficient as promised, Gusarov said, noting that the jet is already three tons heavier than planned, which equates to about 1,300 kilometers worth of fuel.

A critic of the Superjet, Gusarov estimated the total cost of the project to be at least $3.5 billion, which means that it will be "lucky to break even after selling 800 planes" — and that does not include possible fines for delivering the plane two years later than planned.

Sukhoi Civil Aircraft spokeswoman Olga Kayukova admitted to cost overruns but said the price tag was not $3.5 billion. Not including the engine, the Superjet cost $1.4 billion, with 25 percent of the amount coming from the federal budget, she said.

Sukhoi is in talks with Aeroflot about the late delivery, but "fines are not under discussion," she said.

Farnborough Orders

Buyer	Quantity	Price	Delivery Date
Superjet contracts			
Pearl Aircraft	30 planes	$900 million	2011
Kartika Airlines	30 planes	$951 million	2012-15
Superjet memorandums			
Gazpromavia	10 planes	$323 million at catalog prices	2012
Orient-Thai Airlines	12 planes plus 12 options	n/a	2011-14
MS-21 contracts			
Crecom Burj Resources	50 planes	$3.4 billion	n/a
MS-21 memorandums			
Nordwind Airlines	3 planes plus 2 options	n/a	n/a
Ilyushin Finance	28 planes plus 22 options	n/a	n/a
VEB Leasing	15 planes plus 15 options	n/a	n/a

Sources: Sukhoi, Irkut

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