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THE RISE AND FALL OF TRANSAERO AIRLINES AND THE REASSERTION OF THE RUSSIAN STATE

At 11:54 p.m. UTC on the 25th of October 2015, Transaero flight 160 from Magadan touched down at Moscow's Vnukovo Airport and taxied to the gate. As the crew stepped off onto the jet bridge, they closed the door on 24 years of aviation history: flight 160 would be the last ever flight by Transaero, Russia's oldest privately-owned airline. The next day, the 26th of October, the airline's certificate of operations was permanently revoked.

Transaero's last flight was neither the beginning nor the end, but rather the middle of a long and convoluted tale whose plot and cast of characters may never be fully elucidated. From the failed attempts to save the stricken carrier to the redistribution of its assets to the lawsuits filed against its owners, the story of Transaero's demise is as complicated as it is murky, but behind the myriad legal and rhetorical façades, a pattern can be discerned. In fact, the preponderance of evidence shows that Transaero Airlines did not merely go bankrupt, but was systematically destroyed by the actions of the state, which took control of its assets and market share not only to advance the interests of state-owned corporations, but to exact political retribution against its owners. In the process, the government utilized tactics borrowed from the shadowy world of "corporate raiding," or "reiderstvo," an anti-competitive and usually illegal practice which it had previously pledged to eradicate. The use of these tactics by state-owned corporations against a privately-owned competitor is consistent with a broader trend toward re-nationalization in the Russian economy, wherein the state has used sometimes questionable means to regain monopolistic market shares in key industries.

THE RISE OF TRANSAERO

As the economic reforms of Perestroika transformed the economy of the Soviet Union, an opportunity emerged for private entrepreneurs to enter the airline industry, which until then had been the sole purview of the state aviation company, Aeroflot. Like in other industries, most of those who took it upon themselves to start airlines already had government connections, and most of them got started by privatizing Aeroflot's regional subsidiaries. However, the very first private airline in the Soviet Union was not a former Aeroflot branch but a brand new start-up, christened Transaero Airlines.[1] Transaero was incorporated on September 30th, 1990 by Tatiana Anodina, [2] Director of the Institute for Aeronavigational Research and wife of the late Soviet Minister of Radio Communications,[3] and her son, Aleksandr Pleshakov—a pair whose extensive connections within the Soviet aviation industry left them ideally positioned to found an airline. At first, Transaero leased its airplanes from Aeroflot, but by 1993 it had begun to expand on its own, becoming the first Russian airline to operate Boeing aircraft.[2] Its readiness to import Western airplanes was not the only thing that made Transaero unique: it was also the first Russian airline to take seriously the concept of quality service, upending the stereotype of dour Soviet flight attendants and terrible food with its comfortable cabins and multilingual crews. Indeed, Transaero quickly disavowed Aeroflot and the reputation it had given to the Russian aviation industry, and in 1994, Transaero Director of Marketing Sergei Grachev said, "We refuse to hire anyone who has more than five minutes' work experience with Aeroflot."[4]

Transaero grew rapidly throughout the 1990s, both in terms of passenger turnover and

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[1] Howie, Clinton, "(Re)learning to Fly: Russian Aviation in the Post-Soviet Era," *Journal of Air Law and Commerce* 61, No. 2 (1995,), pg. 475.
[2] "OAO Aviatsionnaia kompaniia 'Transaero'," *rbc.ru*, 17 May 2013, https://web.archive.org/web/20130620020733/http://www.rbc.ru/companies/transaero.shtml.
[3] Golovanivskaia, Mariia, "General v iubke," *Kommersant,* 2 June 1999, www.kommersant.ru/doc/212547.
[4] Howie, pg. 491.

fleet size, introducing a wide variety of aircraft which had not previously been seen in Russia, including the Boeing 737, 757, and 767; and the McDonnell Douglas DC-10. Under the stewardship of the Pleshakovs, Transaero was able to weather the financial crisis of 1998 by reorienting from domestic to international routes, positioning itself as a competitor to Aeroflot, which had made a similar transition at around the same time.[5] By the mid-2000s, Transaero was again growing quickly, becoming the second largest airline in Russia, thanks to rising demand for its flights to holiday destinations in the Mediterranean and Asia. In 2010 it became the first Russian airline to operate the iconic Boeing 747, and in 2012 it announced plans to go even bigger, ordering several examples of the double decker Airbus A380, although the purchase was never completed.[6] And perhaps most remarkably, by 2015 Transaero had managed to climb to 17th on the JACDEC Index of the safest global airlines, the only Russian company before or since to make it into the top twenty.[7] Indeed, throughout its 24 years of operation, Transaero never suffered an accident or serious incident.

THE FALL OF TRANSAERO

For all its short-term success, however, Transaero's long-term business model was not sustainable. Its continuous, rapid expansion left the company without the liquidity to weather another serious downturn. When the Russian economy crashed under the weight of sanctions imposed over the 2014 Ukraine Crisis, leading to a significant devaluation of the ruble, Transaero's customer base contracted significantly as Russians became less able to afford

[5] "OAO Aviatsionnaia kompaniia 'Transaero'."
[6] Singh, Sumit, "The Rise and Fall of Russia's Transaero," *Simple Flying*, 18 May 2020, https://simpleflying.com/the-rise-fall-of-russias-transaero/.
[7] Dillinger, Jessica, "Safest Airlines by JACDEC Index," 25 Apr. 2017, www.worldatlas.com/articles/safest-airlines-in-the-world.html.

vacations abroad.[8] Unable to maintain its obligations with a lower-than-expected cash flow, Transaero quickly racked up $3.85 billion (250 billion rubles) in debt, much of it owed to state-owned banks, including the VEB group (42 billion rubles), VTB Bank and its subsidiaries (28.7 billion rubles), and Gazprombank (13.6 billion rubles).[9] Sberbank, in which the government owns a controlling stake, and Alfa Bank, which is privately owned, were also among the airline's creditors.[10]

By the second half of 2015, Transaero was unable to service these debts, and both the owners and the creditors had begun looking for a way out. On September 1st, following a meeting chaired by First Deputy Prime Minister Igor Shuvalov, it was announced that Aeroflot would acquire Transaero for the symbolic price of one ruble, a move which the Economic Development Ministry insisted would not lead to "monopolization of the air traffic market."[11] However, the following day, Transaero CEO Aleksandr Pleshakov clarified that Transaero had not initiated the consolidation offer and was pursuing two other strategies which would not lead to a merger with Aeroflot.[12] The deal was in fact arranged by the government, ostensibly in an attempt to preserve the jobs of 11,000 Transaero employees, against the wishes of company management. At the behest of the state, Aeroflot took on responsibility for Transaero's operations, injecting capital to ensure that the ailing airline "fulfilled its obligations to passengers." However, Aeroflot's attempted takeover fell through on September 28th, when Transaero's shareholders missed a deadline to submit a proposal for the merger, probably

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[8] "As Transaero fails, Aeroflot closes in on a monopoly," *The Economist,* 9 Oct. 2015, www.economist.com/gulliver/2015/10/09/as-transaero-fails-aeroflot-closes-in-on-a-monopoly.

[9] "VTB bank files US$3.85 billion lawsuit against Transaero owners," *Russian Aviation Insider,* 22 Mar. 2019, www.rusaviainsider.com/vtb-bank-files-us3-85-billion-lawsuit-against-transaero-owners/.

[10] Lossan, Alexei, "Struggling Russian airline Transaero to be declared bankrupt," *Russia Beyond*, 2 Oct. 2015, www.rbth.com/business/2015/10/02/struggling_russian_airline_transaero_to_be_declared_bankrupt_49767.html

[11] "Russian government approves acquisition of Transaero by Aeroflot," *TASS*, 1 Sep. 2015, https://tass.com/economy/817961?_ga=2.3571379.2078135706.1639527099-1394609918.1638072684.

[12] "Russia's Transaero didn't initiate consolidation with Aeroflot—CEO," *TASS*, 2 Sep. 2015, https://tass.com/economy/818141?_ga=2.16071861.2078135706.1639527099-1394609918.1638072684.

because they had no intention of actually merging with Aeroflot.[13] Another source claims that Aeroflot was hesitant to enter the deal in the first place, due to the potential difficulty involved in restructuring Transaero's "bad debts."[14] Either way, the collapse of the one-sided deal left Transaero's future in doubt.

On October 2nd, in a meeting chaired by Prime Minister Dmitry Medvedev, the government announced that Transaero would be declared bankrupt and would be barred from selling any further tickets to passengers.[15] Among Transaero's creditors, this announcement elicited mixed reactions. Noting that VTB Bank and Sberbank had filed the bankruptcy claims, Uralsib Bank analyst Dmitry Vorchik told the Financial Times, "*For the state-owned banks, it's easier to be in favour of letting Transaero go bankrupt because the state will come in to help cover loan losses.*"[16] Private lenders, who could expect to see little or no such assistance, were less thrilled, with oligarch Mikhail Prokhorov's International Financial Club[17] and Mikhail Fridman's Alfa Bank coming out against the move, which the latter called "incorrect," although it eventually joined the suit.[18]

Desperate to avoid bankruptcy, the Pleshakovs eventually found fertile ground in Vladislav Filev, owner of rival airline S7. S7 was the next largest airline in Russia after Transaero and Aeroflot and was in much better financial condition. A plan for Filev to acquire a controlling stake in Transaero was announced on October 20th, along with a plan to normalize Transaero's relationship with its creditors. When asked what the sale price would be, Aleksandr

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[13] "Aeroflot rescue of Russian rival Transaero fails," *The Financial Times,* 1 Oct. 2015, https://web.archive.org/web/20151115100952/http://www.ft.com/fastft/400961/spectre-of-bankrupcy-looms-transaero-after-rescue-plan-collapses.
[14] Lossan.
[15] Lossan.
[16] Hille, Kathrin, "High drama as Russia's Transaero edges towards bankruptcy," *The Financial Times*, 8 Nov. 2015, https://www.ft.com/content/8cb09032-84ad-11e5-8095-ed1a37d1e096.
[17] Ibid.
[18] "Al'fa-bank uvedomil o namerenii podat' isk o bankrotstve 'Transaero,'" *rbc.ru,* 2 Oct. 2015, www.rbc.ru/rbcfreenews/560e2dd59a7947491b586e9f.

Pleshakov jokingly replied that it was “substantially more than one ruble.” In an interview with RBC, he added “I prepared this agreement because, among other reasons, I didn’t want to allow the monopolization of the aviation market, so that passengers and industry workers would have the opportunity to choose between airlines.”[19] The target of his statement was evidently Aeroflot, which, despite the claims of the Economic Development Ministry, would indeed have achieved a near-monopoly over passenger air travel in Russia had it absorbed Transaero.

The day after Pleshakov and Filev announced the S7 deal, Rosaviatsiya, the state aviation regulator, revoked Transaero’s certificate of operations, effective October 26th. Rosaviatsiya said in a statement that an audit of Transaero’s books showed that it was unable to pay for maintenance, pilot training, and inspections, which endangered the safety of its passengers.[20] Russian law gives Rosaviatsiya the right to take various measures up to and including the revocation of the certificate of an air carrier whose financial situation is negatively impacting its safety standards, although in practice this right is exercised rarely, and usually only after an airline has already had an accident. The irony of the law being used against Transaero, which had been deemed the safest airline in Russia earlier that same year, was not lost on anyone.

For Transaero Airlines, the revocation of its certificate was the end—the airline could not possibly be saved. The S7 deal fell through on November 4th; even though Vladislav Filev had claimed he could restore Transaero’s operations, government officials and the airline’s creditors had publicly cast doubt on the plan, noting that the revocation of the airline’s certificate was explicitly defined as irreversible.[21] By then, the airline’s last ever flight had already landed, and Aeroflot was already carrying 90% of the passengers who had previously booked tickets through

[19] “Sovladelets S7 kupil kontrol’nyi paket ‘Transaero,’” *rbc.ru*, 20 Oct. 2015, https://www.rbc.ru/business/20/10/2015/56267dd89a7947584a39c3c7.
[20] “Rosaviatsia to revoke Transaero’s AOC,” *CH Aviation*, 21 Oct. 2015, https://www.ch-aviation.com/portal/news/41122-rosaviatsia-to-revoke-transaeros-aoc.
[21] “S7’s Filev fails in bid to acquire control of Transaero,” *CH Aviation*, 4 Nov. 2015, www.ch-aviation.com/portal/news/41493-s7s-filev-fails-in-bid-to-acquire-control-of-transaero.

Transaero.[22]

What happened to Transaero's assets following its shutdown is just as fascinating as the shutdown itself. As it turned out, Aeroflot, having previously been ordered to take control of Transaero's day-to-day operations, was able to take a very large slice of the pie. In addition to carrying Transaero's already-booked passengers through December 15th, Aeroflot initially received 12 aircraft and 56 international routes which had belonged to Transaero.[23] Many additional airplanes were seized by creditors including VEB (at least nine aircraft), VTB (at least ten aircraft), and Sberbank (at least 14 aircraft), most of which were then leased to Aeroflot within days or weeks of their seizure. According to Russian Aviation Insider, Aeroflot planned to use 24 former Transaero aircraft to jump start its new subsidiary, Rossiya Airlines.[24]

Following the shutdown of the airline and the redistribution of its assets, Transaero's owners engaged in a lengthy court battle before the company was finally declared officially bankrupt in 2017.[25]

THE MARKET AND THE STATE

The bankruptcy of Transaero Airlines took place against a background of increasing state control over the Russian economy. Transaero was originally part of the wave of privatization which occurred in the early 1990s, a vast devolution of state power and infrastructure which led to massive economic destabilization before some semblance of order began to take shape in the early 2000s. But it has perhaps not been adequately appreciated just how thoroughly Yeltsin's privatization movement has since been reversed. The share of Russia's GDP produced by private

[22] "Forbes uznal ob ot'ezde iz Rossii sozdatelei 'Transaero'," *rbc.ru*, 5 Nov. 2015, www.rbc.ru/business/05/11/2015/563bb9bc9a7947712b158b6a.
[23] Ibid.
[24] "Aeroflot confirms purchase of ex-Transaero fleet," *Russian Aviation Insider*, 21 Dec. 2015, www.rusaviainsider.com/aeroflot-confirms-purchase-of-ex-transaero-fleet/.
[25] "VTB bank files US$3.85 billion lawsuit against Transaero owners."

corporations in fact peaked at 70% in 2004 and has been falling ever since.[26] According to one study, by 2018 the situation had completely flipped, with state-owned corporations now accounting for 70% of Russia's GDP.[27] The beginning of this reversal coincided with President Vladimir Putin's initiative to restore state control over the oil and gas industry, widely considered to have begun with the Yukos affair in 2004, during which Russia's largest private oil company was broken up by the state and absorbed into Rosneft and Gazprom. Consolidation in other industries followed rapidly. In 2006, Russia restricted foreign investment in a wide range of industries deemed strategically important, and re-nationalization of key players in these industries swiftly followed. The targets of this campaign included automobile and aircraft manufacturers, which were already being consolidated under state control by the end of that year.[28] As a result, in many industries private companies must now compete against state-owned corporations in order to survive. In a 2018 article for the Foreign Policy Research Institute, David Szakonyi writes, "*[T]he most important development over the last decade has been the state's direct takeover of valuable economic assets and the creation of massive state-owned enterprises (SOEs). This (re)nationalization jeopardizes the economic viability of many private firms by concentrating wealth and opportunities in a small group of well-connected SOEs*."[29] He further adds, *"If during the 1990s business[es] feared hostile takeovers from rivals and rackets, the new threat to their business is the state itself. The private sector is not just reliant on the state for subsidies and regulation, but also actively competing with it for profits.*"[30]

The airline industry, although not explicitly included in the government's list of strategic

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[26] Liuhto, Kari et al, "Privatisation or re-nationalisation in Russia? – Strengthening strategic government policies within the economy," *Journal of East European Management Studies*, Vol. 12 No. 4, 2007, pg. 278.
[27] Szakonyi, David, "Governing Business: The State and Business in Russia," *Foreign Policy Research Institute,* January 2018, pg. 2.
[28] Liuhto, pp. 287, 290.
[29] Szakonyi, pg. 1.
[30] Szakonyi, pg. 9.

industries, has not been immune to this shift in the structure of the Russian economy. After selling off large sections of its fleet in the 1990s, the state airline Aeroflot officially reversed course in the early 2010s, beginning an aggressive campaign of expansion which continues to this day. As late as 2009, Aeroflot was still privatizing subsidiaries (notably Aeroflot Nord, now Smartavia), but by 2011 the calculus had changed. At that time Transaero was increasing its passenger and cargo turnover by 30% year on year, while Aeroflot's passenger turnover grew 24% and its cargo turnover fell 3% during the same period. The following year, seemingly in response to these market forces, Aeroflot announced an ambitious plan to increase its market share to 36% by 2015, 40% by 2020, and 45% by 2025.[31] To accomplish this, Aeroflot needed to absorb many of its competitors, and indeed by the time these numbers were published it had already begun to do so, buying controlling stakes in Rossiya,* Kavminvodyavia, Orenair, Vladivostok Air, Donavia, and SAT Airlines.[32] However, reaching the target market share would require Aeroflot to eliminate or acquire at least one of its three largest competitors: UTAir, S7, or Transaero, each of which controlled just over 8% of the domestic market in 2012.

That year, Igor Artemiev, head of the Federal Anti-Monopoly Service, said the FAS "might prohibit Aeroflot from undertaking any mergers or acquisitions in the future if its share on the domestic market exceeds 35%."[33] Needless to say, the FAS did not actually stop Aeroflot's continued growth, because by 2020 the airline and its subsidiaries represented a market share of 42.3%,[34] which in the airline industry is considered a monopoly. Much of this growth could be

[31] "Aeroflot goal of 36% Russian market share by 2015 seems achieve following string of acquisitions," *CAPA Centre for Aviation*, 11 Jan. 2012, https://centreforaviation.com/analysis/reports/aeroflot-goal-of-36-russian-market-share-by-2015-seems-achievable-following-string-of-acquisitions-65959.
[32] Ibid.
* It should be noted that Rossiya was already owned by the state before Aeroflot was granted a controlling stake.
[33] Ibid.
[34] "Aeroflot group reports 42.3% market share for 2020," *CAPA Centre for Aviation*, 5 Apr. 2021, https://centreforaviation.com/news/aeroflot-group-reports-423-market-share-for-2020-1061375.

attributed to Aeroflot stepping in to fill the void left by the collapse of Transaero.

Thus, in addition to receiving numerous passengers, airplanes, and routes, Aeroflot also benefited from Transaero's bankruptcy in the form of reduced private sector competition and an opportunity to meet growth targets. The disappearance of Transaero gave Aeroflot particular dominance in long-haul international routes, where Transaero had been its only real competitor. Considering this fact, the hand of the state in Transaero's bankruptcy looms rather large. The following sections will examine the tactics the state used to ensure a particular outcome in the Transaero case, and the reasons behind their actions.

THE ART OF RAIDING

In a developed capitalist economy, most corporate acquisitions are considered "friendly," in that both parties agree that a merger should take place. In Russia, however, the majority of corporate takeovers have historically been hostile. This is due in part to the prevalence of "corporate raiding," or *reiderstvo*, a practice by which an aggressor company uses legal loopholes or criminal sabotage to take control of a rival and expropriate its assets. *Reiderstvo* usually involves a façade of seemingly legal avenues of attack which are backed by under-the-table threats of violence, although it can be hard to prove the existence of these threats after the fact.[35]

One of the most common types of corporate raiding is the bankruptcy scheme. In an article for *The International Lawyer*, Thomas Firestone writes, *"In bankruptcy schemes, the raiding company typically acquires a substantial portion of the target company's debt, forces the target company into bankruptcy by demanding immediate repayment of the debt, and then*

[35] Firestone, Thomas, "Criminal Corporate Raiding in Russia," *The International Lawyer*, Vol. 42 No. 4, Winter 2008, pg. 1207.

corruptly obtains control over and manipulates the bankruptcy proceedings to take complete control of the target company."[36] However, the ease with which raiders can take over a target company has decreased since its heyday in the 1990s, thanks in part to bankruptcy reforms—prior to 2002, it was possible for a creditor to force a company into bankruptcy, without recourse, over debts as low as $5,000 left unpaid for three months.[37]

Another legal loophole also facilitated the practice. In many cases of corporate raiding, the raider very quickly sells the stolen assets to a supposedly neutral third party which in fact contracted the raid or is owned by the raiders. Under Russian law as of 2008, it was almost impossible for a victim to recover stolen assets which had been sold to a "good faith buyer," allowing for a scheme in which raiders create a shell company to expropriate a target's assets, immediately sell the assets to a "good faith buyer," then dissolve the shell company, rendering the transaction legally irreversible.[38]

For obvious reasons, the prevalence of *reiderstvo* has long been considered a disincentive to investment in Russian businesses. During his presidency, Dmitry Medvedev called the practice "shameful" and vowed to eliminate it.[39] But in fact, since 2010, the tactics formerly employed by corporate raiders have increasingly been used by state-owned corporations against rivals in the private sector. On this matter, Szakonyi writes, *"Corporate raiding* (reiderstvo) *has plagued firm directors since the transition from communism, but as of late, the raiders themselves appear to come increasingly from the bureaucracy and the security apparatus.*"[40]

While traditional corporate raiding often involved threats of violence and sometimes black-clad men with AK-47s, state raiding needs no excessive force, because government

[36] Firestone, pg. 1210.
[37] Ibid.
[38] Firestone, pg. 1212.
[39] Firestone, pg. 1208.
[40] Szakonyi, pg. 12.

connections ensure a successful outcome through legal channels. For example, in 2010, Sberbank (which is 51% owned by the government) acquired a "sizeable minority stake" in regional mining company Pavlovskgranit as collateral for loan non-payment, then received a favorable court order which transferred ownership of the shares to a Sberbank subsidiary. No violence was used and none was needed. Although the owners tried to appeal, the courts sided with Sberbank every time.[41]

Regarding this tactic, Szakonyi provides some sobering advice: *"Entrepreneurs are advised to keep their businesses under the radar,"* he writes, *"because once officials notice lucrative assets, there are few defenses against the devious tools they can employ to expropriate funds. Trumped up bankruptcy proceedings, tax inspections, and criminal prosecutions either corner directors to negotiate an exit from their own firms or lead to a state-ordered transfer of assets."*[42]

ENEMIES OF THE STATE

Unfortunately for its shareholders, Transaero Airlines was the opposite of "under the radar." In fact, it stuck out like a sore thumb, and not just because of its good safety record, or the fact that it was competing with Aeroflot on coveted international routes. The core of the issue went back to its outspoken owners. Certainly, Aleksandr Pleshakov and Olga Pleshakova did not make many powerful friends with some of their statements; Pleshakova, for example, has called Transaero a perpetual "troublemaker" and told The Economist that her goal was to de-monopolize the Russian airline industry.[43] Aeroflot certainly would not have been smitten

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[41] Lain, Sarah, "Russia's corporate raiders add to the threat from sanctions," *The Financial Times*, 9 Aug. 2017, https://www.ft.com/content/b2d2d226-791f-11e7-a3e8-60495fe6ca71.
[42] Szakonyi, pg. 13.
[43] "As Transaero fails, Aeroflot closes in on a monopoly."

with her. But the real target of the entire Transaero saga may not have been her, but her mother-in-law, Tatiana Anodina.

At 82 years old, Tatiana Anodina still dominates the world of post-Soviet aviation. Founding Transaero was only her side job; in fact, she is best known for her position as chairwoman of the Interstate Aviation Committee, or MAK, a post she has held since its creation in 1991. The MAK is an international, extra-governmental organization responsible for a wide range of matters related to civil aviation across the entire Commonwealth of Independent States, including investigation of aircraft accidents, approval of aircraft type certificates, certification of airports, accreditation of aircraft maintenance facilities, and more. Tatiana Anodina is said to run the organization like a "general in a skirt," as Kommersant put it in 1999; without her, the MAK ceases to function, and without the MAK, airplanes throughout the former Soviet Union will immediately stop flying.[44] And, much to the chagrin of the Russian state, Anodina refuses to allow her independent organization to do the bidding of any government.

Tatiana Anodina certainly has not used her position to make friends in high places. In fact, the MAK has repeatedly antagonized the Russian state aviation regulator Rosaviatsiya by calling out its failure to enforce safety regulations in the aftermath of many of Russia's disturbingly frequent airline disasters. This combative relationship between the MAK and Rosaviatsiya came to a head following the 2013 crash of Tatarstan Airlines flight 363 in Kazan. The MAK investigation into the accident found that the Boeing 737 had crashed, killing 50 people, in large part because the pilot had a fraudulent license and was incapable of flying the airplane safely. Rosaviatsiya had signed off on his license even though it came from a flight school whose certificate had been revoked; to get around this, local Rosaviatsiya board members simply backdated their approval of his license to before the flight school's certificate was

[44] Golovanivskaia.

withdrawn, exploiting a loophole in Russian law which meant licenses previously issued by a facility which was later shut down did not automatically become invalid.[45] Of course, without Tatiana Anodina we would know none of this, a fact which was likely not lost on the Russian government. In June 2015, before the report could be published, Rosaviatsiya's representative on the investigation team withdrew his signature from the findings and filed a baseless dissenting opinion blaming the crash on a mechanical failure of the Boeing 737's elevators instead.[46]

This drama was ongoing when Transaero went bankrupt in the second half of 2015. Ten days after Transaero lost its certificate, and one day after the failure of the deal with S7, the MAK decided to call Rosaviatsiya's bluff and announced that it would be revoking its certification of the Boeing 737 in Russia. In a statement, the MAK said, "*It is a matter of serious concern that, for a long period of time, while claiming serious shortcomings directly affecting the safety of Boeing 737 type aircraft, Rosaviatsiya did not inform the airlines or the supervisory authorities of Russia. If the current opinion of Rosaviatsiya is competent, then it is alarming that more than 20 million passengers aboard Boeing 737 type aircraft have been exposed to substantial risk for a long time.*"[47] It was obvious to everyone involved that the MAK did not actually believe there was anything wrong with the 737. Newspapers described the move as revenge for the revocation of Transaero's operating certificate, noting that at least 38 out of more than 150 Boeing 737s in Russia were operated by Aeroflot and its subsidiaries. Another 43 belonged to rival carriers UTair and S7.[48]

Without doubt, this move, had it actually been taken, would have caused significant harm

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[45] "Final Report, Boeing 737-500 (53A) VQ-BBN," *Interstate Aviation Committee Air Accident Investigation Commission,* 24 Dec. 2015.
[46] "Reshenie po Boeing ob'iasnili deistviiami Rosaviatsii posle aviakatastrofy 2013 goda," *Interfax*, 6 Nov. 2015, https://www.interfax.ru/russia/477711.
[47] "Reshenie po Boeing ob'iasnili deistviiami Rosaviatsii posle aviakatastrofy 2013 goda."
[48] "MAK zaiavil o priostanovke sertifikatov na Boeing-737," *BBC Russkaia Sluzhba,* 5 Nov. 2015, https://www.bbc.com/russian/news/2015/11/151105_russia_bans_737s.

to the Russian airline industry, and that was the point. “Threatening to ground more than 150 aircraft was an extreme move, but it is very much Tatiana’s style,” one airline executive told the Financial Times. “It would have hurt all airlines, so the hope was that she could force a deal on Transaero.”[49]

Unfortunately for Transaero, the move failed. Rosaviatsiya simply refused to acknowledge the MAK’s order to ground the planes, citing the fact that all but six of the 737s in Russia were registered in Bermuda and Ireland for tax purposes, and as such were not under the jurisdiction of the MAK in the first place.[50] The agency announced that it would not ground the planes, and just minutes later Transaero’s interim CEO Valery Zaitsev resigned. “The curtain has fallen!” an unnamed Aeroflot associate told the Financial Times, apparently reveling in the helpless flailing of a dying rival.[51]

Rosaviatsiya’s decision informally stripped the MAK of its right to certify the airworthiness of aircraft in Russia, a move which was enshrined into law the following year with the creation of a separate aircraft registry under the control of the government.[52] At around the same time, it was reported that the State Duma also wanted to strip the MAK of the right to investigate aircraft accidents; however, this measure was not implemented due to concerns among industry figures that the move would deprive Russia of a vast amount of safety expertise.[53] Today, the MAK continues to investigate plane crashes in Russia under the auspices of Tatiana Anodina, although it’s difficult to imagine how she manages to work with the Rosaviatsiya representatives who are required to sit on the investigation team.

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[49] Hille.
[50] “MAK zaiavil o priostanovke sertifikatov na Boeing-737.”
[51] Hille.
[52] “Aviaregistr MAK nameren prodolzhat’ rabotu po sertifikatsii aviatekhniki,” *Aviation Explorer*, 4 Aug. 2016, www.aex.ru/news/2016/8/4/157589/.
[53] Kuznetsova, Elizaveta, and Skorobogat’ko, Denis, “MAK khotiat lishit’ poslednego,” *Kommersant*, 18 July 2016, www.kommersant.ru/doc/3041451.

The consequences for Transaero's owners have extended far beyond any punitive actions against the MAK, however. As early as the 5th of November 2015, news agencies reported that the Pleshakovs and Tatiana Anodina had fled Russia and were living in France, although it was unclear whether they did so because they feared for their safety.[54] At the very least, they had reason to believe they would be targeted. The assault in fact came in the form of unending lawsuits over Transaero's bankruptcy and its nearly $4 billion debt.

The fundamental problem was that nobody had acquired Transaero, thus the Pleshakovs were stuck with the shares, but the state-owned banks had already transferred all the airline's assets to Aeroflot. Aeroflot thereby acquired Transaero's assets and market share while leaving its debts with the original owners. This brilliant coup d'état was perhaps foreshadowed by Aeroflot's alleged reluctance to take over the airline directly, citing "bad debts."[55] In 2021, Transaero's bankruptcy commissioner attempted to obtain a court ruling which would hold Aeroflot partially liable for the debts, but the motion was dismissed by the Saint Petersburg and Leningrad Regional Commercial Court because Aeroflot had never controlled Transaero.[56] Even though Aeroflot had effectively taken over the company, without a signed piece of paper formalizing the acquisition, the owners of the defunct airline were out of luck.

By the time of that ruling, the debts were already causing major trouble for Anodina and her family. In 2019, the state-owned VTB Bank filed a lawsuit against the Pleshakovs and Tatiana Anodina on behalf of all the airline's creditors, seeking the recovery of $3.85 billion. VTB alleged that the owners had not handed over key documents during the bankruptcy process, complicating any determination of the airline's total assets. The lawsuit also alleged that the

[54] "Forbes uznal ob ot'ezde iz Rossii sozdatelei 'Transaero'."
[55] Lossan.
[56] "Transaero bankruptcy trustee seeks to bring Aeroflot to subsidiary liability," *RAPSI News*, 23 Mar. 2021, https://web.archive.org/web/20210323110314/http://www.rapsinews.com/judicial_news/20210323/306881730.html.

airline had actually been financially insolvent since 2012 but had altered documents to mislead its creditors. The lawyers for the Pleshakovs and Anodina contended that the airline had always been financially transparent and its records were audited and found to be clean by VTB itself. *"Arguments about Transaero's bankruptcy in 2012 contradict a whole range of court rulings, which are now in force and which confirm the airline's solvency throughout the period of Olga Pleshakova's term [as CEO],"* said Yevgeny Gurchenko, a lawyer representing Transaero's owners.[57]

When a ruling on the VTB lawsuit was handed down in September 2021, the judge ordered Tatiana Anodina, the Pleshakovs, and two others to pay an astonishing sum of 1.2 trillion rubles, or approximately $16.6 billion, to the airline's creditors. The court cited actions by Transaero's owners which led to its bankruptcy as the justification for the punitive damages, but the ruling seemingly ignored the fact that they no longer controlled a company with billions in assets. In a statement released through the MAK, Tatiana Anodina noted that the sum of the judgment was 100 times more than the value of the combined assets of all five defendants and five times more than the creditors said they were owed when they filed the lawsuit. She was not coy about the political motivations behind the ruling: "*I assess the situation to be another stage of the organized pressure campaign against me in my capacity as the head of the international organization charged under Russian … legislation with the investigation of all aviation incidents,*" Anodina wrote.[58]

TRANSAERO'S BANKRUPTCY AS *REIDERSTVO*

[57] "VTB bank files US$3.85 billion lawsuit against Transaero owners."
[58] Anodina, Tatiana, "Informatsiia Predstedatelia Mezhgosudarstvennogo aviatsionnogo komiteta, Doktora tekhnicheskikh nauk, Professora Anodinoi T. G.," *Interstate Aviation Committee,* 17 Sep. 2021, https://mak-iac.org/press-tsentr/arkhiv-za-2021-god/117723/.

Having established the facts thus far, the case can be made that Transaero was destroyed by the state and its owners punished using tactics similar to those employed by corporate raiders. Caution must necessarily be taken when alleging a conspiracy based on circumstantial evidence, but from an academic standpoint the evidence is sufficient to allow the categorization of the Transaero case as part of a broader phenomenon without accusing any particular person of having committed a crime.

As established by Szakonyi and others, the business climate in Russia today has been made rather hostile due to the increasing prominence of state-owned enterprises which compete with the private sector for profits. In the case of Transaero, the airline was placed in the unenviable position of competing with Aeroflot, a company which is anti-competitive by nature and would be bailed out by the government if it were to fall into financial trouble. As a state-owned enterprise, Aeroflot is also blessed with extensive connections within the state bureaucracy, which it can leverage to obtain favorable market outcomes.[59] When a business finds itself facing such competition, Szakonyi advises its owners to take one of two approaches: stay under the radar, or cultivate friendly relationships with powerful politicians.[60] As the previous section established, Transaero did neither of these; instead, it made waves as an alternative to Aeroflot on international routes, marketed itself as better and safer than Aeroflot, explicitly opposed Aeroflot's monopolization of the airline market, and made itself synonymous with its founder Tatiana Anodina, a powerful figure external to the government who has been critical of Rosaviatsiya. As such, Transaero had positioned itself as a target for both economic and political reasons.

Having put itself in such a position, Transaero became even more vulnerable after the

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[59] Szakonyi, pg. 13.
[60] Szakonyi, pg. 1, 13.

2014-2015 economic downturn forced it to take out large loans from state-owned banks in order to maintain operations. As CEO, Olga Pleshakova pursued a strategy of rapid expansion in terms of fleet size and network, which only worked as long as air travel was booming; thus the root cause of the airline's financial troubles can still be pinned on its owners.[61] In this respect, the state interventions which followed were purely opportunistic.

As Transaero's books fell deeper into the red, the government began to eye Transaero for possible re-nationalization as part of Aeroflot's plan to reach a 45% market share by 2025. The proposal from Aeroflot to buy the airline for one ruble appears to have been initiated at a high level, and without the cooperation of Transaero. It is unclear from the available evidence whether this deal fell through because Transaero's owners didn't want to go through with it, or because Aeroflot was reluctant to take on Transaero's debts and withdrew on a technicality. Following the collapse of the Aeroflot deal, the decision for Transaero to go bankrupt was apparently taken at a meeting chaired by Prime Minister Dmitry Medvedev, without the agreement of Transaero's owners or even all of its creditors. The Pleshakovs sought to avoid bankruptcy by selling the airline to Vladislav Filev, owner of S7, a deal which seems on paper like it should have worked, as long as Filev was willing to pay, which he was.

This is where matters become even murkier. There is no direct evidence linking the announcement of this deal with Rosaviatsiya's decision to pull Transaero's air operator certificate. However, the timing necessarily arouses suspicions, since the Rosaviatsiya order came less than 24 hours after Pleshakov and Filev announced the planned merger with S7. This would have been the largest airline merger in Russian history and could in theory have created a formidable competitor to Aeroflot. Based on Aeroflot's previously established motivations, it would have been more surprising if the government did not take drastic action to prevent this

[61] Lossan.

merger. Therefore, the revocation of Transaero's air operator certificate was in all probability orchestrated in order to complicate the sale of the airline to Vladislav Filev. This assumption is further supported by the dubiousness of Rosaviatsiya's stated reason for the withdrawal of the certificate. While shutting down a struggling airline for safety reasons is a beneficial move if performed with discretion, Transaero was the safest airline in Russia, and no particular evidence was presented to suggest that this had changed since JACDEC released its airline safety ratings earlier that year. Furthermore, in the past Rosaviatsiya has usually exercised this power after an airline has already suffered an accident. Tatarstan Airlines, for instance, was only shut down after its fatal crash, despite a Rosaviatsiya audit having earlier found the company to be in dire financial straits.[62] And perhaps most ironically, Aeroflot had already taken over most of Transaero's operational tasks by the time Rosaviatsiya conducted its safety audit, so if safety problems were really found, then surely Aeroflot was the cause, not Transaero.

If one assumes that Rosaviatsiya's intervention against Transaero was primarily political in nature, then Tatiana Anodina's response makes perfect sense. The MAK's failed attempt to ground most Boeing 737s in Russia was clearly a retributory action, since the MAK's own findings regarding the Tatarstan Airlines crash showed there was nothing wrong with the planes. Even the statements put out by the MAK to justify the ban cited Rosaviatsiya's insistence that the 737s were unsafe, rather than any investigative conclusions. Thus it seems Anodina believed that the revocation of Transaero's certificate was a political move, and in response she attempted to trigger a massive crisis that would improve her negotiating position vis-à-vis Rosaviatsiya. Ultimately the move failed because Rosaviatsiya was able to usurp the MAK's jurisdiction over airworthiness certifications.

So far, it's clear that the state intervened to speed Transaero's collapse. By cutting off all

[62] "Final Report, Boeing 737-500 (53A) VQ-BBN."

other avenues, the state forced Transaero into bankruptcy, a tactic reminiscent of the corporate raids of the late 1990s and early 2000s, in which the raiding party would buy the target's debts and then demand immediate repayment. In the case of Transaero, the raiders, being themselves part of the state, had other tools at hand, such as Rosaviatsiya's right to revoke an airline's air operator certificate. And once Transaero went bankrupt, the state-owned banks to which the airline owed billions of dollars could step in and seize its assets, which were then transferred to the "good faith buyer"—Aeroflot.

In fact, the state rather systematically ordered the redistribution of Transaero's assets, both material and immaterial, under the guise of public safety. Aeroflot was ordered by the government to help run Transaero's planes and pay Transaero's employees in the month before the airline ceased operations, which made it easy for Aeroflot to justify stepping into the void once Transaero was gone.[63] As the state airline, it was also first in line to receive any aircraft seized by the government. Considering that Aeroflot ultimately inherited several dozen of Transaero's planes, thousands of its employees, and many of its most lucrative routes, it does seem that there was a systematic effort to transfer Transaero's assets to Aeroflot. The seizure of Transaero's assets and its permanent cessation of operations also rendered Transaero's share price worthless, leaving its owners without the capital to repay the debts they still owed to the banks. And with no airline attached to the shares, but $4 billion in debt still tied to the Transaero name, there was no way for the owners to sell their stake either. Considering how perfectly this works out to benefit Aeroflot at the expense of Tatiana Anodina and her family, it is not unreasonable to conclude that government officials intended to cause this outcome from at least October 2015. The events in fact perfectly recall Szakonyi's description of the new form of state raiding: *"Trumped up bankruptcy proceedings, tax inspections, and criminal prosecutions either*

[63] Hille.

corner directors to negotiate an exit from their own firms or lead to a state-ordered transfer of assets."[64]

The legal proceedings surrounding Transaero's bankruptcy are still ongoing, but the hallmarks of *reiderstvo* remain, with repeated rulings against Transaero's owners suggesting continued state pressure on the courts. As Tatiana Anodina correctly points out, there is no clear legal basis for the order to pay 1.2 trillion rubles which she and her co-defendants obviously do not have. And while the corporate raiders of previous decades usually bribed judges to issue favorable rulings or paid prosecutors to open criminal investigations against their rivals, the state has no need to employ such blunt tactics. While it is impossible to know who is orchestrating the apparent campaign against Tatiana Anodina and her family, this would not be the first time government officials have pressured the courts over state-interested raids. Firestone describes one such case: "*In May 2008, Yelena Valyavina, a judge on Russia's High Arbitrazh Court (the highest court empowered to hear corporate disputes) testified, in the context of a related libel suit, that a member of the Presidential Administration had threatened to block her reappointment to the bench if she did not rule as he demanded in a case involving an alleged raid on a major industrial concern."*[65]

IN CONCLUSION

The state-orchestrated dismantling of Transaero came on the heels of a decade of re-nationalization and centralization of the Russian economy which continues to this day. Aeroflot and its subsidiaries are now considered to have a monopoly in the Russian airline industry, more than 70% of the country's GDP comes from state-owned corporations, and

[64] Szakonyi, pg. 13.
[65] Firestone, pg. 1216.

privatization plans for various government services keep going nowhere. At the same time, since the 2014 annexation of Crimea the government has become more ruthless in its crackdown on outspoken opposition, employing questionable legal tactics against a wide range of critics. The evidence, though it is circumstantial in nature, strongly indicates that Transaero and its owners were caught up in this reassertion of the Russian state. In the process, the world lost a fascinating airline, and the Russian airline industry lost much of its spirit of competition. The consequences of Rosaviatsiya's crusade against the MAK are also likely to be negative, as a transparent and thorough investigative agency is critical to protecting the lives of passengers and crew in a country which has one of the world's worst aviation safety records.

For other business leaders in Russia, it would be wise not to assume Transaero's demise was natural or normal. Where the trend of re-nationalization will go from here is anyone's guess, but what happened to Transaero seems to be representative of the tactics now employed by the Russian state to achieve greater control over the private sector, including methods borrowed from the concept of *reiderstvo*. Transaero was unable to withstand this simultaneous assault by multiple arms of the executive. Other business leaders, therefore, are surely asking: which one of us will be next?

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