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Moscow Airport Merger Envisioned on Paper

By Roland Oliphant

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Domodedovo shareholders are holding out for a higher price, stymieing the Transportation Ministry's plans. **Vladimir Filonov**

The long-discussed merger of Moscow's three airports is back on the agenda after a Transportation Ministry working group drafted a document that stated consolidation could be the way to tackle strains on capacity and balance soaring reconstruction and expansion costs.

The document, dated April 26, proposes a privatization scheme that would see state-owned Vnukovo and Sheremetyevo airports merge with the privately owned Domodedovo, giving the state a controlling share of the new company, Kommersant reported Thursday.

The working group on the Moscow Transportation Hub, or MTU, wrote in the report that the most pressing issue is a shortage of capacity at Domodedovo.

The airport to the south of Moscow has grown to become Russia's busiest thanks to a rail link to the center, modern infrastructure and a comfortable terminal that made it a firm favorite for foreign airlines in recent years.

But capacity strains have recently seen airlines including Lufthansa and Transaero partially relocate services to its less-crowded rivals, both of which have invested heavily in modern terminals and upgraded transportation links.

As a result, the report estimates that Domodedovo may lose 10 million passengers in 2012 to 2013.

Meanwhile, big infrastructure projects like new runways at Sheremetyevo and Domodedovo are facing serious funding shortfalls.

Domodedovo is estimated to be short 33.2 billion rubles ($1.1 billion) to build a third runway and repair its current second runway and airport apron. Sheremetyevo is running an 18.2 billion ruble deficit on its plans for a third runway and upgrades to airfield infrastructure.

Consolidation of the airports would help spread the capacity burden when runways are closed for renovation, the report noted.

"Assuming the three airports work under a single management, we see no difficulties caused by the closure of the second runway at Domodedovo for repairs in 2014 for operation of the Moscow Transportation Hub," the report stated.

The document also considers the option of setting up a concession system that would allow the airports to fund infrastructure development via public-private partnerships — a plan discussed by Transportation Minister Igor Levitin last month.

But it concludes that it would be easier to find investors for such projects if the airports were run by a single company.

Consolidating Moscow's three airports is believed to be a long-term goal of the Transportation Ministry.

Vnukovo and Sheremetyevo are already in the process of consolidation, but bringing Domodedovo into the fold will depend on the airport's shareholders.

DME, the holding company that owns Domodedovo, has been looking for a buyer for the airport since December, but has apparently been unable to find a private investor willing to stump up the asking price of $5 billion. Those who have expressed an interest, including A1, the investment arm of Mikhail Fridman's Alfa Group, are reported to consider $3 billion a more realistic number.

Although some commentators have suggested that the shareholders were pressured into the sale as preparation for the merger with Vnukovo and Sheremetyevo, Andrei Rozhkov, a transportation analyst at Metropol, said he expects the shareholders to stick to their guns.

"They are convinced their valuation is fair, and they will hold out for that price. Though there is a chance they may lower their expectations after Vladimir Putin returns as president," he

said. "But I wouldn't expect any movement [toward consolidation] in the next six months."

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