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Russian Air Carriers Facing Financial Collapse, Report Says

By The Moscow Times

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In 2011, Russia's top 35 air carriers lost a total of 14.5 billion rubles ($440 million). **Sergei Porter**

Russian airlines are facing a potential financial disaster due to an unbalanced growth in spending, according to the Association of Air Transportation Operators, or AATO.

In 2011, the country's top 35 air carriers lost 14.5 billion rubles ($440 million). They saw 4 billion rubles in profits the year before, Kommersant reported, citing an AATO report.

AATO representatives are proposing a cancellation of the value-added tax on internal flights, an idea that has been discussed before but may now be considered more closely.

Business daily Kommersant reported that AATO management would send its recommendations to Deputy Prime Minister Arkady Dvorkovich, who has responsibility for transportation in Prime Minister Dmitry Medvedev's Cabinet.

Among its recommendations, the AATO is suggesting canceling taxes on regional aircraft

carrying fewer than 72 passengers and backing Russia to join the Cape Town Convention, which would cut expenditures on leasing fees.

In its report, the AATO singled out the rising price of fuel as a major factor spurring air carriers' losses. Aircraft fuel rose in price by 30 percent in 2011, compared with an average ticket price rise of almost 12 percent, the report said.

Meanwhile, Transaero carried 4.33 million passengers in the January-June 2012 period, an increase of 25.8 percent compared with the same period last year, Interfax reported.

Revenue increased in the first half of the year by 29.6 percent to 41.5 billion rubles, the company announced in its half-year statement. The carrier's profits in the first six months of 2012 grew to 159.7 billion rubles, up 40.5 percent from the same period last year.

Meanwhile, No. 1 Russian carrier Aeroflot announced Monday that its passenger numbers were up 27.8 percent to 6.33 million in the January-May period.

Andrei Shenk, an analyst at Investkafe, said Aeroflot's positive results were due to the specifics of the Russian market, "with three large companies and just a few local airlines."

The success of the two Russian companies contrasts with a global aviation slump. In its May 2012 report, the International Air Transport Association reported a drop of 1.9 percent in global airfreight on the same month last year and flat passenger traffic versus April.

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