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Aeroflot Could Create Budget Carrier Within A Year

By Roland Oliphant

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Aeroflot boss Savelyev conceded that surrendering the company's monopoly on a number of destinations might hit profits in the short term. **Maxim Stulov**

Aeroflot could start a low-cost airline in less than a year and is also willing to sacrifice its monopoly on more than 30 international routes, company head Vitaly Savelyov told President Vladimir Putin on Friday.

Savelyov laid out conditions that need to be met before Aeroflot can start setting up a national budget carrier, including permission for airlines to sell nonrefundable tickets and creation of "special airports" for low-cost carriers, according to a transcript on the Kremlin website.

"There are several amendments that we need to make," Savelyov said. "First of all, passengers should pay for baggage."

Russian aviation law currently requires airlines to carry up to 10 kilograms of baggage for free.

"We should also allow low-costers not to feed passengers. We're currently banned from doing that under federal aviation rules," he added.

Putin also listened to Savelyov's view on nonrefundable tickets, which Russian airlines are forbidden to sell.

"This is a noncompetitive condition," Savelyov said. "A passenger who buys a cheap ticket should understand that he can't give it back. This affects not only budget airlines but also mainstream carriers, though to a lesser extent."

Nonrefundable tickets were banned in 2008 after the Federal Anti-Monopoly Service ruled that the practice was damaging consumer rights.

A bill allowing airlines to sell 30 percent of their tickets as nonrefundable was proposed in June but has not been adopted. Vedomosti reported last week that the delay is largely due to opposition from the Federal Consumer Protection Service.

Savelyov reiterated industry calls to allow airlines to recruit nonresident pilots. Managers at all of Russia's airlines have been pushing for eased recruitment practices because a shortage of Russian pilots has led to significant wage inflation.

An Aeroflot captain is paid 420,000 rubles ($13,125) per month, the firm's chief executive said.

Putin agreed to look at the proposals in more detail but insisted that the labor question be approached carefully and in consultation with the unions.

Momentum has been building for low-cost airlines since the Irish government asked Russia last week to allow industry giant Ryanair to fly between the two countries.

On Thursday, Britain's Civil Aviation Authority awarded budget carrier easyJet the London-to-Moscow slot that opened up after British Airways swallowed BMI.

The budget carrier has said it will start flying twice daily between London Gatwick and Moscow in the spring and offer flights from as little as £125 round trip.

Savelyov even called for the creation of cheap airports to serve budget carriers.

"Around Moscow, there is a bunch of airports that could be the base for low-cost airlines because airport fees there should be very cheap," he told Putin.

While he did not name any of the airports he had in mind, potential candidates would likely include Bykovo, near Zhukovsky, and Ramenskoye, a former military airport 40 kilometers to the southeast that is now used by cargo carriers and the Emergency Situations Ministry.

Farther afield, the government of the Kaluga region has publicly announced plans to redevelop Grabtsevo into an international airport for Kaluga, 190 kilometers southwest of Moscow.

European budget airlines are notorious for flying to remote but misleadingly named airports

to service European cities, such as "Paris" Beauvais, which is actually 50 miles north of the French capital, and "Barcelona" Reus, more than 90 minutes from Barcelona.

An easyJet spokeswoman confirmed to the Moscow Times that the airline would fly to Domodedovo, not one of Savelyov's unidentified cheap airports "around Moscow."

Savelyov has said in the past that Aeroflot could create a budget carrier on the basis of one of the subsidiaries it obtained from Russian Technologies in 2010.

Earlier attempts to create budget carriers have met with mixed success. The first emulator of Western-European style budget airlines, Sky Express, was created in 2007. It was followed in 2009 by Avianova, which folded last year in the aftermath of a dramatic shareholder dispute. Sky Express also collapsed in 2011 after it ran up 2.5 billion rubles in debt to its suppliers.

An industry expert said the Putin-Savelyov discussion neglected to cover a key issue blocking the development of budget airlines in Russia: the aircraft import-duty regime.

"Today, Airbus 320 and Boeing 737-700, the only aircraft suitable for the low cost-model, are subject to 20 percent duty with the economy class [seating] configuration required for low-cost carriers but are free of duty with a business class [seating configuration]," said Dmitry Chernyak, a former managing director at A1, which was the majority shareholder in Avianova.

"Such a regime does not protect Russian aircraft and does not bring any revenues to the state budget," he added. "It only blocks the emergence of low-cost carriers, the most-needed segment of Russian passenger aviation. In a normal market, [that] accounts for up to 50 percent of air passenger traffic and drives the market growth."

Chernyak expressed skepticism about a national carrier's ability to set up a budget airline.

"There is only one precedent in the world where an incumbent airline was able to create a successful low-cost carrier, Qantas," he said. "In all other cases, such attempts failed. The cultures of incumbent and low-cost airlines apparently do not mix well."

Savelyov also told Putin he is ready to surrender his airline's lucrative monopoly on more than 30 international routes to demonstrate the spirit of competition.

"We want to push this initiative and show everyone by example that we are ready to abandon the monopoly on 34 overseas routes. If our routes are assigned to other Russian airlines with the aim of lowering prices, we will support that," the Aeroflot chief said, according to a transcript of the meeting.

Aeroflot has a monopoly on a number of destinations, including Amsterdam, Warsaw, Havana, Prague, Seoul, Helsinki and Zurich. Private carriers, including Transaero and S7, have been vigorously lobbying for the right to compete with Aeroflot on international routes.

Savelyov conceded that surrendering exclusivity might hit the company's profits in the short term.

The markets agreed with that sentiment. On Friday afternoon, Aeroflot's stock fell 2.31

percent to close at 39.32 rubles in Moscow.

Earlier this month, Federal Anti-Monopoly Service chief Igor Artemyev even said that the government could allow foreign budget airlines to fly domestic routes inside Russia.

On Thursday, however, Deputy Transportation Minister Valery Okulov, who is also a former chief executive of Aeroflot, denied that there had been any discussions about allowing foreign airlines to compete on domestic routes.

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