The Moscow Times
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Aeroflot to Launch Budget Airline

By The Moscow Times

October 10, 2013



Aeroflot plans to launch a low-cost airline next year, it said Thursday, aiming to make air travel more affordable in the world's largest country with fares up to 40 percent cheaper than its current prices.

Dobrolyot, which roughly translates to mean "Goodflight," will initially focus on domestic routes, starting next year with several destinations for Muscovites including St. Petersburg, Samara and Yekaterinburg. But by 2016, it also aims to be flying to Kiev and Istanbul.

"[Dobrolyot] ... should help our passengers, especially less well-off ones, to become more mobile," Aeroflot's chief executive Vitaly Saveliev said Thursday.

The demand for travel is rising as the country's middle class grows and state-controlled Aeroflot said a low-cost airline could successfully compete on price with train tickets in Russia.

Boeing estimates that over the next 20 years, air traffic to and from the CIS region of Russia

and ex-Soviet states will grow at a rate of 4.4 percent annually and that the number of passengers carried by Russian airlines rose 15.5 percent to 74 million in 2012.

Aeroflot said it would invest $100 million over the coming two years in Dobrolyot, at which point it aims for the airline to be profitable, even though it said ticket prices were expected to be up to 40 percent less than its current economy class service. The first eight planes will be Boeing 737-800s, which will be leased, the company said.

"The routes they plan for this company are popular places in Russia, so I think there would certainly be demand if the price was 20-40 percent lower," said analyst Olga Doronina at VTB Capital.

"This low-cost airline which Aeroflot plans is to fly mainly on domestic routes or to CIS countries [the former Soviet republics], so the main competition will be domestic airlines," Doronina said, citing Russia's second-biggest carrier, AK Transaero, as a rival.

However, she said that in order to be able to offer the low prices that the budget airline wants, Aeroflot would have to lobby for legislation to allow it to sell only nonrefundable tickets and charge additional fees for food and luggage.

The airline will be Russia's only low cost carrier. Others that tried and failed were SkyExpress and Avianova, which halted operations in 2011, according to Russian media reports.

UK-based easyJet Plc, Europe's second-largest low-cost carrier, has also seen an opportunity in the Russian market, launching a service earlier this year between London's Gatwick and Moscow's Domodedovo airports.

Hungarian budget carrier Wizz Air also flies to Russia, from Budapest.

Aeroflot reported half-year results Thursday, with earnings before interest, tax, depreciation and amortisation up 42 percent at $352 million on revenue up 14 percent at $4.1 billion.

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