connecting the world of travel

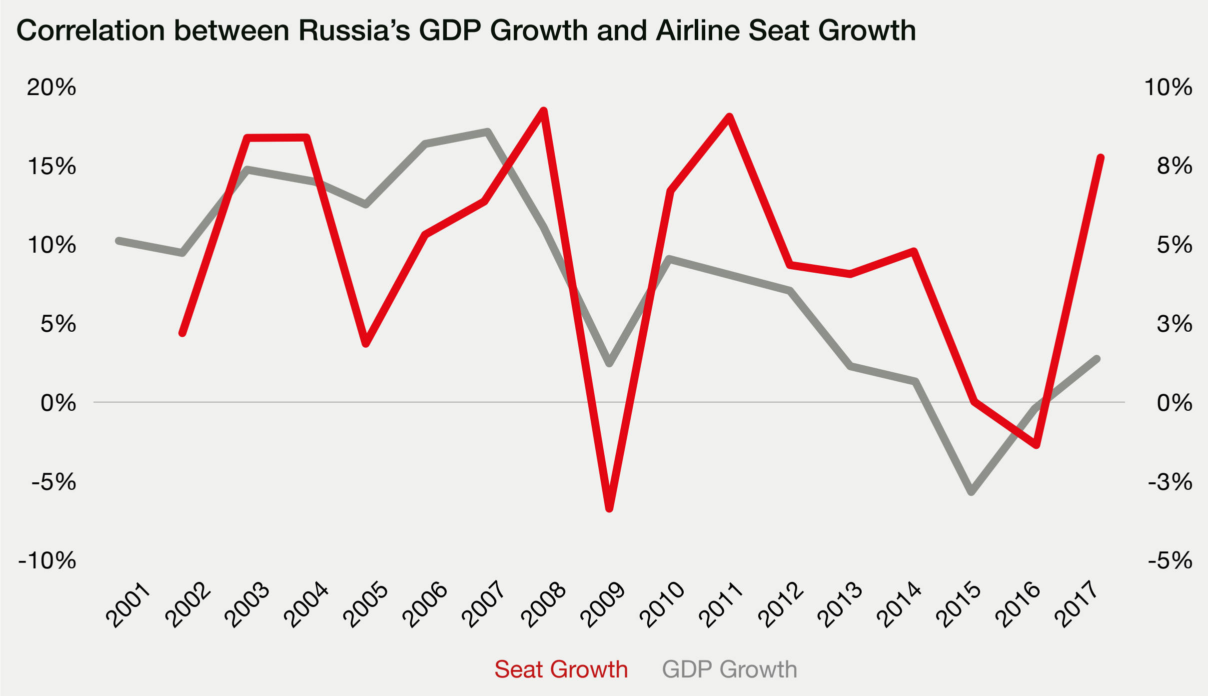
Show Time – Russia's booming aviation and the FIFA World Cup

As hosts of the FIFA World Cup, 2018 will be an important year for Russia and with 3.5 million visitors expected to visit the country for the summer of football, the gateway airports need to showcase the best of Russia. Moscow's Sheremetyevo International Airport will open its brand-new 20 million passenger terminal B, and other airports have seen investment in recent years thanks to public-private partnerships between Russian state banks investors such as Germany's Fraport and the Qatar Investment Authority.

Russia's Aviation Boom

While the extra World Cup visitors will be a bonus to Russian aviation, the investment in airports is needed as much - and more so - because of the boom in air travel that is taking place. This year domestic scheduled airline capacity has grown at 14% while international capacity is running at 18% above last year's levels.

The boom in aviation is somewhat surprising given the relatively low GDP growth which, historically, has often been a good indicator of airline growth in other markets. In Russia too, the 'rule-of-thumb' measure that airline growth is roughly twice the level of GDP growth appears to hold true, although, as everywhere, changes in price levels can cause interruptions in this pattern.



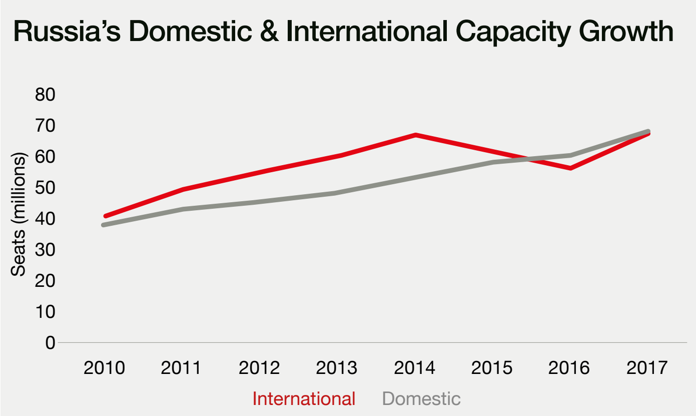
Source: OAG schedules analyser

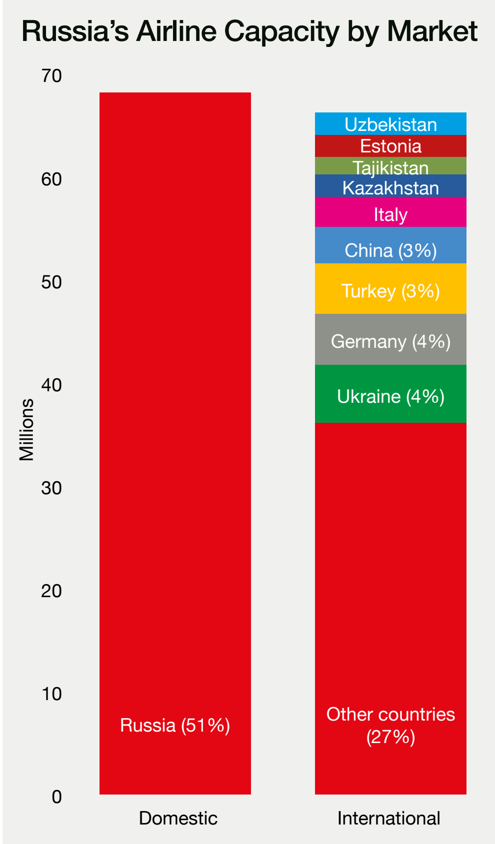
With the World Bank projecting GDP growth of between 1% and 1.5% in 2017 and each of the next two years, it does not appear to be Russian economic growth which is driving the demand for air travel. Neither does it appear to be the result of Low-Cost Carrier activity in the market given that none of the airlines adding the most capacity are low-cost carriers.

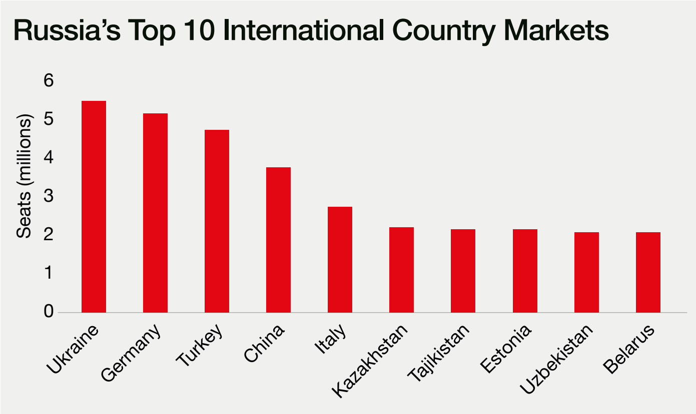
Capacity Profile

In 2017, scheduled airlines are providing a total of 136 million seats in the market. 68 million of those seats, or 51% are domestic seats, on routes within the Russian Federation. A further 66 million seats, or 49%, are provided on international routes. Over the past seven years, domestic capacity has grown steadily but between 2014 and 2016, international capacity declined before rebounding in the last year.

After the domestic market, the largest international country markets are Ukraine (4%), Germany (4%), Turkey (3%) and China (3%). The Russia-Ukraine market has undergone significant change in recent years. Just a few years ago, in 2013, there were 16 Ukrainian airports served from Russia but now only Simferopol, capital of Crimea, is served.



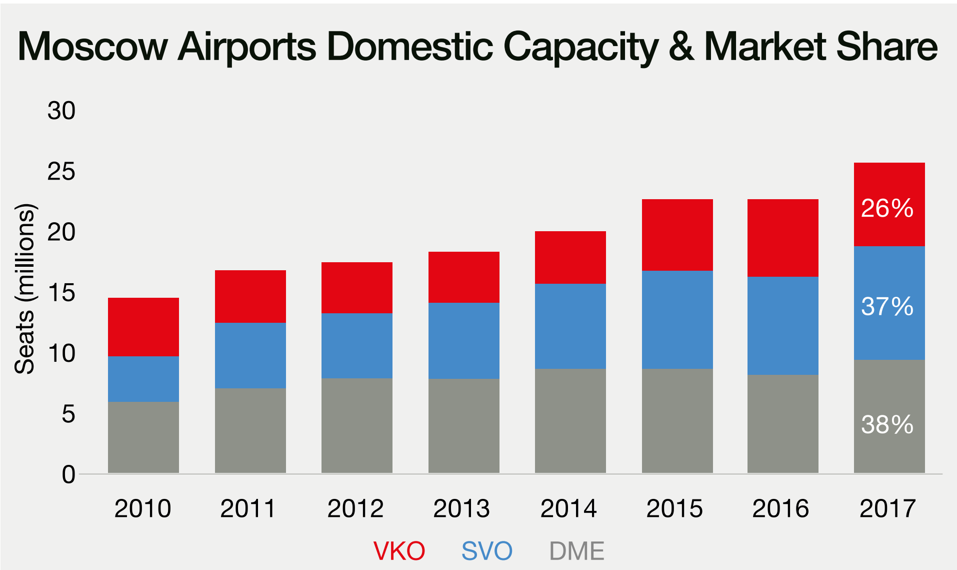




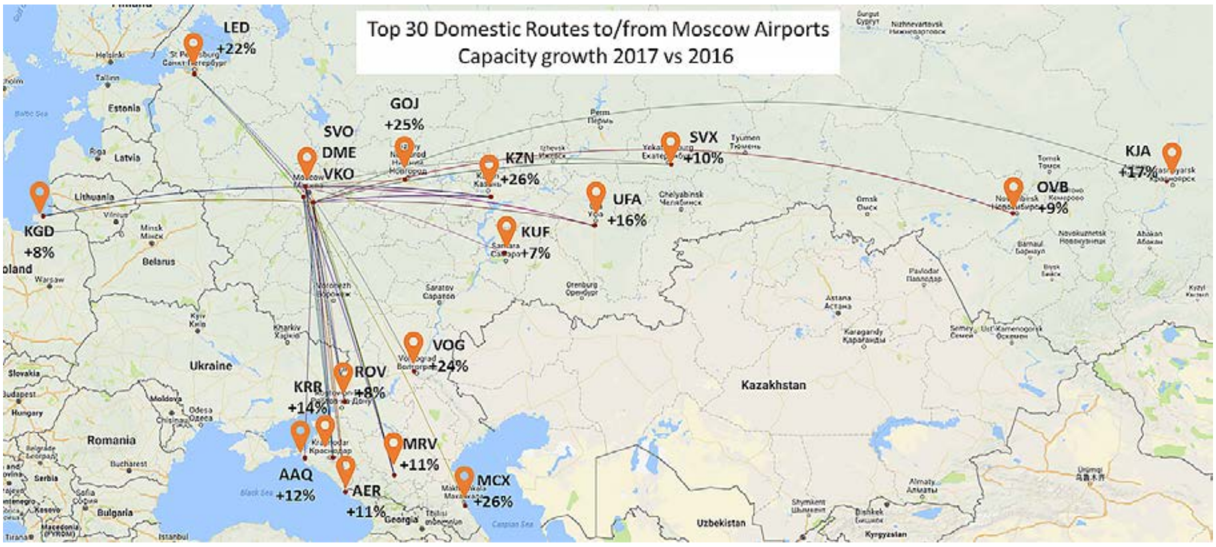
Source: OAG schedules analyser

Domestic Opportunities

With domestic capacity making up over half of all airline seats and growing at 14%, where are the current hotspots in domestic Russian aviation? Moscow is very much the hub for domestic aviation; every one of the Top 30 domestic routes includes one of the three Moscow airports. It is to be expected, therefore, that Sheremetyevo International Airport (SVO), Domodedovo Airport (DME) and Vnukovo International Airport (VKO) are showing growth of 14%, 16% and 8%, respectively. Over time, SVO has become relatively more important to the Moscow market and now operates 37% of Moscow's domestic capacity.



Source: OAG schedules analyser



The single largest domestic route is St Petersburg (LED) to SVO, with 2.4 million seats in 2017 and 18% more than in 2016. LED to Moscow, comprising routes from each of the three Moscow airports, is 5.4 million seats and has grown by 22% in the past year.

Other domestic city pairs growing faster than the average rate include Moscow-Kazan (+26%) and Moscow-Makhachkala (MCX) on the Caspian Sea which also grew by 26%. Routes between The Black Sea and Moscow are growing in line with overall domestic capacity growth.

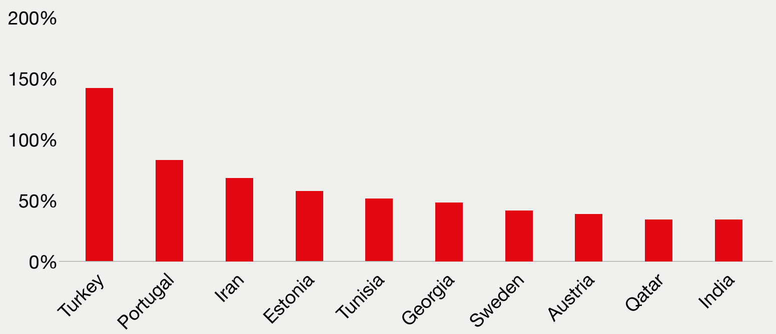
Russia-Turkey market bounces back

Turkey is the fastest growing market and grew by 143% in 2017 to become the third largest international market from Russia. Airlines added 2.7m seats between Russia and Turkey in 2017, partly in response to the lifting of earlier restrictions.

Other fast-growing markets are Portugal (+83%), Iran (+69%) and Estonia (+58%). Capacity to Taiwan grew by 67% but the total volume of seats remains below 1,500 annually.

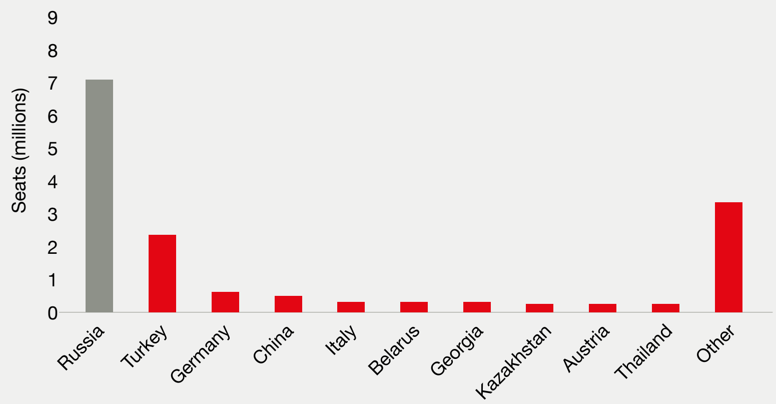
A better indicator of where

Russia's Fastest Growing International Markets Seat Growth – year-over-year



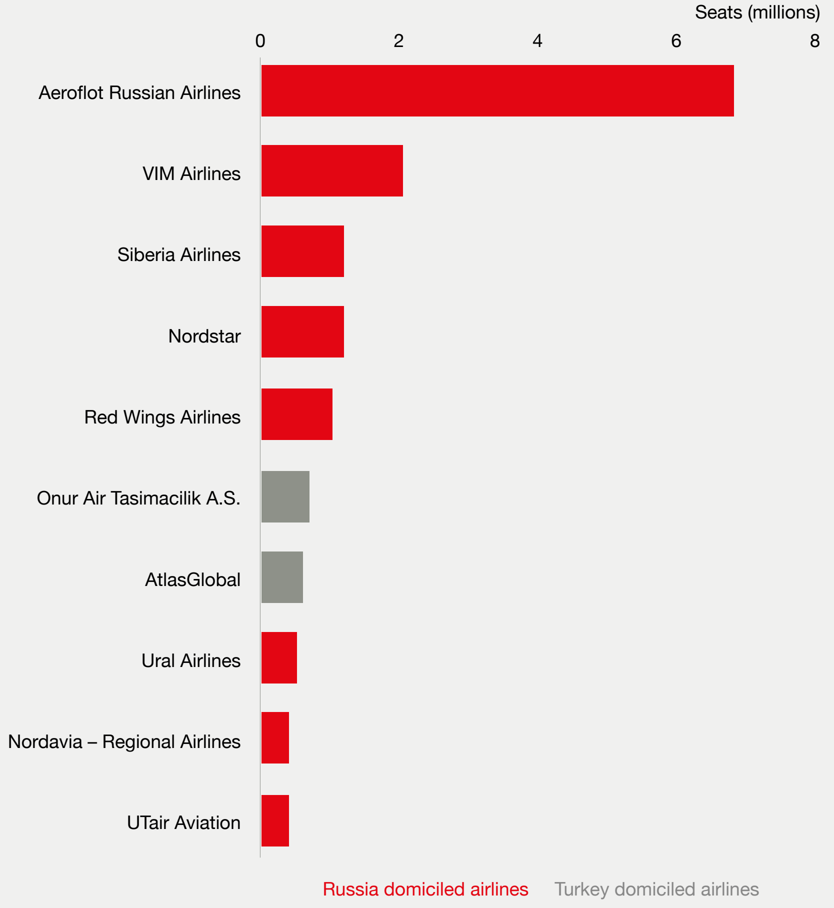
Excludes Taiwan which grew at 67% but capacity volumes are <1,000 seats p.a.

Countries with most capacity added in 2017



capacity is growing is looking at the countries where airlines have added the greatest number of airline seats. Russia tops the list with more than 8 million additional seats in 2017, followed by Turkey (+2.7 million), Germany (+682k) and China (+667k). Between them airlines have added 18 million seats to the Russian market this year, equivalent to 304 extra B737 aircraft with the average number of seats every single day of the year.

Top 10 Airlines for Capacity Added in Russian Market in 2017



With 132 airlines operating to, from and within Russia, growth has been widely distributed. 32 airlines grew capacity by more than 20%, indicating that the boom observed in 2017 is about much more than a few airlines making decisions to expand, and is spread across the whole market.

Having said that, eight of the ten airlines adding the most capacity are Russian domiciled airlines and the other two are Turkish. Aeroflot added the largest volume of seats with 6.9 million more seats in 2017 than 2016.

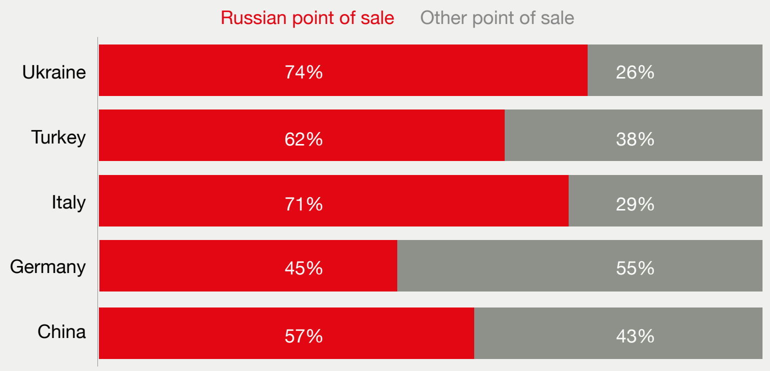
This may be no surprise as Russian carriers seek to consolidate their market position following the departure of Transaero at the end of 2015 from the market. Aeroflot, in particular, has made gains with domestic capacity up 17% in 2016, and international capacity up by 13%. The airline now boasts the youngest fleet of any world Top 20 carrier at 4.2 years. Furthermore, Aeroflot has another 72 aircraft on order which means the fleet will likely be fuel efficient and the airline in a position to price aggressively. Podeba, Aeroflot's subsidiary low-cost carrier, may only operate 4% of scheduled capacity but it is already the fifth largest airline in Russia, and a force to allow Aeroflot to compete with low-cost competitors.

FIFA as an opportunity to encourage foreign visitors

While Russia's airline traffic is growing at a healthy rate, growth is biased towards passengers originating in Russia. In all but one of the Top 5 international markets, Germany, with well over half of the bookings, has a Russian point of sale.

The 2018 World Cup, taking place for a month from mid-June, will be a showcase for Russia – and its airports – to foreign visitors. All but two of Russia's Top 10 airports serve cities which are hosting matches. Surely the goal must be to convince visitors that there is plenty in Russia to entice them back for further visits.

Bookings by Country Point of Sale for Russia's Top 5 International Markets



Source: OAG schedules analyser

Top 10 Airports in Russia

Code	Airport Name	Seats 2017	Growth vs 2016
SVO	Moscow Sheremetyevo	23,284,777	14.9%
DME	Moscow Domodedovo	17,581,709	11.9%
VKO	Moscow Vaukovo Apt	9,158,515	15.9%
LED	St Petersberg Pulkovo	9,102,961	23.7%
AER	Sochi	2,930,010	13.9%
OVB	Novoslbirsk	2,807,396	14.0%
SVX	Yekaterinburg	2,731,484	13.1%
KRR	Krasnodar	2,028,411	12.5%
ROV	Rostov	1,419,183	18.9%
VVO	Vladivostok	1,397,673	24.4%

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