

Low-cost airline takes flight in Russia

By Kevin O'Flynn, EBRD Communications Consultant

Photos: SkyExpress

Contact: [EBRD Transport banking](#)

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Just over 15 years ago, the skies above the Soviet Union were full of passengers - more than 130 million each year - flying across 11 time zones in what amounted to the largest country in the world.

Today, fewer than 20 million people fly across those 11 time zones in what is now the Russian Federation. With average monthly wages of \$400, flying is not an option for much of the population. And that is where SkyExpress, a new budget airline, would like to step in. It believes it can get Russians back in the skies over the world's largest landmass.

"In the last 15 years, flights have become unaffordable," says Marina Bukalova, General Director of SkyExpress which is to begin flying this month. "There were eight times more internal flights in the 1990s."

Budget airlines, she says, "are everywhere in world. But there aren't any in Russia."

SkyExpress, in which the EBRD has purchased a 20 per cent equity stake, will be the first low-cost carrier (LCC) in Russia and expects to grow at an exponential rate. The airline will initially fly to seven destinations - including Sochi, Kaliningrad and Murmansk, - using Boeing 737s, the same planes used by other budget airlines such as Ryanair.

The 737 can fly up to 3,000 kilometres. The farthest SkyExpress flight planned so far will be to the Siberian city of Tyumen, 1,800 kilometres from Moscow.

10 times cheaper

Prices will start at 500 rubles (€14.40), or the price of two tickets to the cinema, popcorn and a soft drink, as one proposed SkyExpress advert says. By comparison, a flight to Sochi on an older airline would cost 10 times that. Flights will leave from Vnukovo airport which is just 35 minutes by train from the center of Moscow. Vnukovo is to build its own terminal dedicated to SkyExpress.

Currently, most Russian travellers hop on trains and stay on them for long, long stretches of time. While there are only 17 million passengers on internal flights, there are eight times as many (140 million) passengers on long-distance trains. Each passenger travels an average of 900 kilometres which on slow, slow Russian trains can mean trips of up to 17 hours.

About 300,000 people fly from Moscow to Rostov each year - one of the airline's proposed routes - but almost 800,000 go by the train. "I don't think it is because that many people are scared of flying," jokes Ms Bukalova.



SkyExpress' colourful logo will light up Russia's skies.



SkyExpress follows the low-cost model of keeping crew to a minimum.

Russian and English investors, together with the EBRD, have put in \$35 million for the first 18 months of the project, with another \$35 million to follow in 2008.

Profits in 18 months

The airline aims to have 600,000 passengers by the end of the first half of 2007 and 3.5 million by 2008. As with most budget airlines, SkyExpress will charge for meals. In addition, SkyExpress passengers will be able to rent audio books and DVD players as well as to book taxis and hotels from their seats on board. If all goes according to plan, the airline will be profitable within 18 months.

"The launch of this low cost airline is vital for stimulating competition in the Russian air transport sector. This should yield benefits for users and help push the consolidation and modernisation of the industry," says Riccardo Puliti, Director of EBRD's Transport team. Sky Express will comply with Russian and international environmental standards, including those regarding fuel consumption, engine emissions and noise.

Other SkyExpress shareholders include Boris Abramovich, Director General of Krasnoyarsk Airlines, Russia's third largest carrier. SkyExpress has put together a small, tight team that combines younger Russian airline professionals and veteran foreign experts.

The airline has one plane now, with more lined up. "We could have as many as 10 within six months," says American Rod Brandt, Chief Executive Officer of SkyExpress. He has previously worked with a number of airlines including Hong Kong Express, Air South, Air Atlanta and Pan Am. The low-cost carrier (LCC) model "has worked well around the world", Mr Brandt adds. Compared to more established Russian airlines, SkyExpress is "aggressive, quick and effective."

Unlike Ryanair, which concentrates on smaller airports, SkyExpress will fly into main city airports in Russia. Mr Brandt says a few cities are cautious about hosting SkyExpress. "They may have their own local airlines. However, they only have to look around at examples such as Ryanair to see the benefits" of having an LCC deliver tourists and business people to their cities.

Creative payment options

With a limited credit card market in Russia, SkyExpress has had to be imaginative in providing customers with ways to pay for tickets. They can be purchased on the internet but some people are uncomfortable with web shopping. "So SkyExpress customers have a choice of up to 56,000 points of payment. These include 40,000 Russian post offices, 24 branches of Vneshtorgbank (VTB) and Yevroset, one of the biggest mobile phone stores," says Elena Ponomareva, Deputy General Director, Business Development of SkyExpress.

The company's most ingenious idea is to let customers pay for tickets using pre-paid cards, those in wide use to top-up mobile phones or pay for the internet.

"Ticket distribution will account for just two per cent of our costs, compared to 15 per cent for older Russian airlines," Ms Ponomareva adds.

For every employee, Aeroflot flies 350 passengers. SkyExpress predicts that when it is fully operational, it will fly over 4,000 passengers per employee.