

RUSSIAN AEROFLOT LAUNCHES A LOW-COST CARRIER



A low-cost subsidiary of Russian Aeroflot will start flying in 2014 according to Aeroflot's Board of Directors that approved the creation of the new low-cost carrier.

Plane tickets for the low-cost carrier will be between 20 to 40 percent cheaper than for the parent brand, according to airline management. A separate airport will be constructed for the low-cost flights. **The new company will focus on domestic flights within Russia.**

Experts point out that until recently low-cost carriers couldn't operate in Russia because of a number of legal restrictions. For example, a special permit is required to sell non-refundable tickets or cancel meals on a flight and tariffs needed to be reduced at limited-service airports.

In addition, Aeroflot spoke about the need for cheaper pilots. An aircraft commander receives about 420 000 rubles (about 10 000 EUR) per month. Aeroflot called such salaries too high and noted the employment permit requirement in the hiring of foreign pilots.

"Traditional carriers rarely create successful low-cost options, because it is a very different business model," noted the head of analytical agency "Airport" Oleg Panteleev. However, in his view, Aeroflot has one advantage.

According to Panteleev, Aeroflot has the capability to lobby for the adoption of modifications within the legal and regulatory framework which will positively affect business airfare-carriers. One must understand that the creation of low-cost carrier is, in fact, the creation of a full-fledged airline. Low-cost airline should have its own management and its own fleet of aircraft, a different fleet than the parent airline.

The recent international airlines history teaches us that subsidiaries of traditional carriers trying to exploit a low-cost airfare business model often end their journey in bankruptcy.

Vitaly Saveliev, CEO of Aeroflot, first mentioned creating low-cost subsidiary after a meeting with president Putin in 2012. This proposal came exactly 10 days after the Russian Federal Antimonopoly Committee said that it was considering the admission of foreign carriers for domestic routes.

In exchange for the removal of legal restrictions on the company **Aeroflot is ready to abandon the monopoly they had been previously granted on 34 foreign routes.** However, experts note that, in any case, initially Aeroflot's low-cost subsidiary is unlikely to be profitable; it is also probable that the low-cost carrier will be competing with the parent company since the price differences will be only small.

So far the Aeroflot has positioned itself as a premium brand with an exclusive position within the country. Tickets on domestic flights are often two or three times more expensive than on some overseas flights - for example, Moscow-New York or Moscow-Madrid, where Aeroflot has to compete with Western carriers.

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