

PRICING DISAGREEMENT PROVES TO BE A HURDLE FOR NEW RUSSIAN BUDGET AIRLINE



Dobrolyot emerged as a new low-cost airline in Russia only last month, but now they are facing a hurdle with establishing flights to St Petersburg as a result of a pricing disagreement. A news revealed that Dobrolyot was unable to get the low priced servicing charge they needed from St Petersburg's only airport, Pulkovo.

Ordinarily, smaller airports are often used by low-cost airlines as they can usually access lower cost servicing charges, but this hasn't been the case with Pulkova. According to one source, Pulkova was only prepared to offer 800 rubles (\$23) per passenger for the servicing charge, and this was not a low enough offer for the budget airline to accept. But according to a statement made by the managing company of Pulkovo to ITAR-Tass, a special offer had been made to Dobrolyot taking into consideration its new carrier status. However, the company said, they were yet to receive a response from Dobrolyot, and the details of the price of the offer were not disclosed.

Pulkova's refusal to offer a cheaper servicing charge may well be a reflection of it's past treatment of low-cost airlines. A similar pricing disagreement occurred in 2011 between Pulkova and Avianova, a low cost airline which was jointly owned by Mikhail Fridman's Alfa Group A1 and investment firm Arizona Partners. Avianova fell into bankruptcy and came apart at the end of 2011. At that time, Pulkova's stance had been that low-cost airlines just took existing customers rather than bringing new ones in.

Flights between Moscow and Petersburg are increasingly popular. In the first four months of this year, 215,000 passengers from Moscow to St. Petersburg were serviced in Pulkova airport, which was a 21.2% rise from 2013. Meanwhile, for the same period, only 200,000 passengers in total were serviced for all other routes.

This pricing dispute may not be the only obstacle for new budget airline Dobrolyot, due to existing competition and low price tickets. Several airlines already offer flights between Moscow and Petersburg include S7, UTair, Ural Airlines, Transaero, Rossia and Aeroflot - and at reasonable prices. The cheapest one way ticket from Moscow to St Petersburg is 2,274 rubles (\$66), while UTair offers a ticket price of 2,790 rubles (\$81). According to aviation industry expert Andrei Kramarenka, Dobrolyot will find it difficult to compete on this route.

He also pointed to the fact that Dobrolyot had limited capacity with only three planes, including a reserve plane from Aeroflot, and that there was already fierce competition between airlines and Russian Railways. Russian Railways is proving a strong competitor indeed, and is set to offer one-way tickets at the cost of 2,844 rubles (\$83) starting next month. The Railways services has a high-speed Sapsan service that will have increased carrying capacity with the launch of its new train train service in August.

Dobrolyot, which was launched by state-owned carrier Aeroflot and is currently the only budget airline in the country, had plans to commence flights to St Petersburg in June, but these plans have

been evidently forestalled. The new airline had also initially intended to fly from Moscow to Pulkovo for its first flight as an airline. But the destination for the flight was changed to Simferopol (recently annexed from Ukraine), which took place last month much to the patriotic joy of Russians.

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