

**Interview between the Russian regional industry magazine Vestnik and Lufthansa Consulting's Associate Partner Stanislav Solomko concerning the development of Rostov-on-Don "Yuzhny" Airport.**

**Vestnik:**

1. According to your estimates, planned capacity of Rostov-on-Don "Yuzhny" Airport currently under construction will be able to accommodate between 4.4 to 11.6 million passengers and between 6 to 70 thousand tons of cargo. At year-end 2014 the relevant capacity parameters of the existing airport were approximately 2 million passengers and 5 thousand tons of cargo. Will you elaborate on the scenario-based (inertia, positive, etc.) air traffic forecasts for ATMs, passengers and cargo at the airport?

**Stanislav Solomko, Lufthansa Consulting:**

Possible development scenarios – conservative, most likely and optimistic – have been considered for the preparation of the traffic forecast, both for passengers and cargo. Each of the scenarios relies upon organic industry growth based on a consensus forecast of economic development. Depending on the scenario, the following drivers and factors were taken into account for the traffic forecast:

- a. Runway refurbishment
- b. Changing share of transfer operations of the hub-carrier Donavia
- c. Changing competitive environment
- d. Travel industry changes
- e. Launch of low cost carrier
- f. FIFA World Cup event

According to the most likely scenario, up to 700,000 additional passengers per annum will be generated by impact of such scenario-specific factors.

The number of air traffic movements (ATMs) is expected to reach the level of 70 thousand ATMs per annum by 2035. At the same time we can speak about gradual growth in terms of average number of passengers per ATM – by 2035 this figure is expected to increase by approximately 18%, which means higher utilization of aircraft with larger capacity.

Cargo traffic growth is driven mainly by organic growth in line with the economic development of the region, which accounts for more than 90% of the cumulative traffic in the forecast period. At the same time the launch of the Russian Post logistics center will obviously create a positive impact on "Yuzhny" Airport cargo traffic.

**Vestnik:**

2. What are the plans regarding the development of the airport transit function? How high is the demand/supply for traffic connectivity in the macroregion (based on experience of the current airport or similar hub airports around the world)? How many passengers (in thousands) may be handled by offering connections and direct flights instead of sending them away to other hubs? Which ratio of regional/transit to long-haul flights is considered optimal for regional hubs similar to "Yuzhny" Airport?

**Stanislav Solomko, Lufthansa Consulting:**

Rostov Airport has strong potential for the transit traffic development due to its advantageous geographical location and orthodromy. Experience shows that transfer passengers growth is mainly conditioned by the two key factors.

First, the availability of necessary infrastructure. The airport must ensure fulfillment of all required conditions to be able to serve transfer traffic. In this connection it should be noted that the new airport will become the first airport of its kind in the Southern Federal District in terms of its unique infrastructure intended to handle transit passenger flows.

Second, the intent and capabilities of air carriers operating at the airport. In other words, if Donavia, for example, as ROV hub-carrier, focuses on the development of regional traffic on the basis of "Yuzhny"

Airport, it will, of course, have a positive effect on the growth of both transit and total passenger traffic. According to our calculations, the development of transfer operations by Donavia is expected to result in the stimulation of total passenger traffic by more than 40% in 2035, while the share of transfer passengers may reach approximately 25%.

**Vestnik:**

3. Air cargo traffic volumes have been traditionally low in the country. Which areas (or potential commodities groups) for cargo intermodality development at "Yuzhny" Airport can you name? What operations – import or export – will be the most promising? What are the recommended directions for the development of aviation hub / Rostov port / rail interaction? What role can the hub play in such a cluster?

**Stanislav Solomko, Lufthansa Consulting:**

Traditionally, import consumer goods are the highest in demand on the cargo market, so it is safe to say that this category will account for the largest share in Rostov Airport cargo turnover. However, in view of the current political situation and due to the focus on import substitution, the growth of perishable goods flows may be suggested across Russia and between the Customs Union member countries.

Current air cargo volumes do not assume the development of a full-fledged intermodal transportation system, still such potential exists in the future.

**Vestnik:**

4. What measures shall be pursued in order to ensure the growth of non-aeronautical business share of the terminal? Based on your experience, what are the ways to increase the airport international traffic which, among other things, stimulates non-aeronautical revenue growth?

**Stanislav Solomko, Lufthansa Consulting:**

Lufthansa Consulting offers commercial services for airports which include non-aeronautical business. However this question refers more to the competence of "Airports of Regions" Group, since in this project Lufthansa Consulting focused on the investment side only.

**Vestnik:**

5. The presentation posted on your corporate website speaks about the "airport city" concept to be developed on the basis of "Yuzhny" Airport. What are the development opportunities in the hub area and in its close vicinity? What categories of facilities and infrastructure can be identified as being the most attractive for investors?

**Stanislav Solomko, Lufthansa Consulting:**

The term "airport city" was first coined by Amsterdam Schiphol Airport in the early 1990s. The idea behind this concept is to ensure that modern airports offer the same facilities, services and conveniences that can be found in real cities, such as hotels, offices, shopping centers, restaurants, etc. In combination with a good transport accessibility airports become attractive venues for the development of business not directly related to the airport aeronautical services. In general, the "airport city" concept implies the development of the airport infrastructure required to accommodate the needs of growing passenger numbers in various areas.

Creation of a hub at Rostov Airport will entail the corresponding landside development with a new business centre, congress centre, hotel and parking area. The latter represents one of the most profitable businesses in the non-aeronautical segment. These infrastructure facilities are necessary to develop the centre of business activity at "Yuzhny" Airport leading to a significant competitive advantage.

**Vestnik:**

6. How would you position "Yuzhny" Airport on the global air traffic market? Which of the international projects implemented by your company may be compared to the Rostov hub development project? What features (options) will make ROV different from other airports in the macroregion (for example, Krasnodar "Pashkovsky" Airport)?

**Stanislav Solomko, Lufthansa Consulting:**

In compliance with the Transport Strategy adopted by the Ministry of Transport, "Yuzhny" Airport is a regional hub. Among the world airports, it could be compared to Athens Gateway in Greece with its wide regional routes network. Similar to Athens International Airport connecting all islands across the country, Rostov Airport will be able to serve Southern destinations of Russia. Unlike Krasnodar Airport, ROV is attractive not only as a final destination, but as a transit point to other Southern destinations as well. On the other hand, "Yuzhny" Airport has considerable potential to develop into a major business centre of the region, among other things, due to the "airport city" project implementation.

**Vestnik:**

7. What was the main challenge in the preparation of the airport master plan?

**Stanislav Solomko, Lufthansa Consulting:**

"Yuzhny" Airport demonstrates fairly high potential for the development of passenger and cargo operations, including transfer traffic. However, in our opinion, several challenges need to be addressed to ensure successful project implementation.

First, the competition by major hubs of Moscow and Istanbul. Geographically, catchment areas of these airports overlap resulting in a strong competition for transit passenger traffic. Second, presence of factors hindering further airport development on the so-called outer markets: a decrease in demand for European routes and Ukraine due to a difficult political and economic situation. Third, absence of a feeder carrier operating a fleet of regional aircraft with a capacity of up to 50 seats, which limits the development potential in the Southern Federal District as well as in the CIS countries, for example, on routes to Baku, Tbilisi and Yerevan.

However, as was mentioned earlier, the new airport will become the first airport of its kind in the Southern Federal District in terms of its unique infrastructure intended to handle transit passenger flows. "Yuzhny" Airport Authority is ready to offer technical support aimed to ensure connections as well as common preferences for airlines willing to develop connecting routes through the airport.

Nevertheless, a comprehensive approach and interest from all market participants is required to resolve these challenges. That is why, if regional government, which will gain additional economic benefits from the project, develops mechanisms for regional carriers budgetary support, we can expect successful project realization already in the near future.

**Stanislav Solomko** is Head of Market Russia and the Baltic States, and Associate Partner at Lufthansa Consulting.

**Lufthansa Consulting profile**

Lufthansa Consulting is a management consulting company offering comprehensive consultancy and expertise to clients in the aviation industry and related entities. The service portfolio spans the areas Commercial, Operations, Finance and Transformation. In addition, the company is increasingly transferring the extensive aviation know-how, gained in over 2000 international projects, to other industries.