CAREC
Central Asia Regional Economic Cooperation Program

ABEC Tourism Master Plan

Supplementary Document II

Regional Air Connectivity

Air Hub Potential in Central Asian Countries

- In the Central Asian Region, two cities emerge as natural air hubs: Tashkent (the largest) followed by Almaty. Urumqi has currently little influence in the region as a hub due to the strict movements of people and highly regulated traffic rights and operating conditions for foreign airlines in the region.

Hub Catching Area	Population
Tashkent	3,895,346
Almaty	2,946,250
Bishkek	1,481,500
Shymkent	1,341,711
Issyk-Kul	500,000
Urumqi	2,500,000
Dushambe	804,700
Nur-Sultan	1,002,000
Baku	2,236,000
Ashgabat	696,900

Notes and assumptions: it is assumed that a metropolitan area that is larger than the adjacent metropolitan areas attracts all its population plus half of adjacent metropolitan areas, if people flows are not highly strict; a metropolitan area that is smaller than the adjacent metropolitan areas attracts all its population plus 10% of adjacent larger metropolitan areas, if people flows are not highly strict; Source: World Population Stats.

Air Hub Potential in ABEC

Two Natural hubs emerge: Almaty and Tashkent, with clear advantage for the later; Bishkek does not have the critical mass for a HUB, but has good potential for P2P traffic

- The current reality is however very different from the natural propensity for hubbing: in 2018 Almaty airport has handled 5.7 million passengers; Manas Airport with 2,1 million; Islam Karimov Tashkent airport with 1.0 million

Natural potential

Note* Sources: Manas Airport, Almaty Airport; Routes-on-line.com; **Analysis of JCF based on data from OAG on total national seat capacity at departure (1 seat at departure x 80% load factor x 2 airport passengers (1 departure + 1 arrival)), and share of capacity of Tashkent airport.

Current performance (# Pax)*

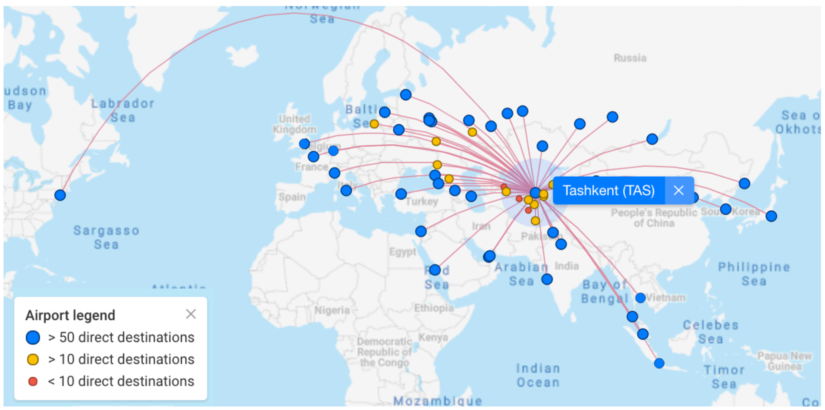
Airport	# Pax Dom	# Pax Int	# pax total
Almaty*	2,840,491	2,841,140	5,681,631
Bishkek*	578,082	1,506,656	2,084,738
Tashkent**	550,000	450,000	1,000,000

- 50% of the Almaty traffic is from domestic passengers, while 50% for international passengers. Russia is the largest international market from Kazakhstan, accounting for 31.6% of departure seats in 2018. Turkey is second (12%), followed by United Arab Emirates in third (7.5%), China in fourth (6.6%) and Germany fifth (5.3%).
- In Bishkek 2/3 of the passengers are international while 1/3 are domestic. Bishkek represents only 37% of the traffic of Almaty airport;
- Tashkent represents half of the Bishkek traffic, and 1/3 of its international traffic, or 16% of Almaty international traffic. Russia is the largest international market for Uzbekistan. A total of 52% of all international available departure seats last year were to destinations in the visa-free countries. Turkey is the second largest with a 10.4% capacity share, followed by Kazakhstan on 6.4%, in total.

Air Hub Potential in Central Asia

- Currently Almaty leads in number of passengers (5,7 million) versus Tashkent (1 million). Kazakhstan has many domestic routes due to its geography, however Uzbekistan has more international routes than Almaty. Tashkent is totally dependent of its flag carrier while Almaty has many more airlines operating in the market.

Current Tashkent air connectivity

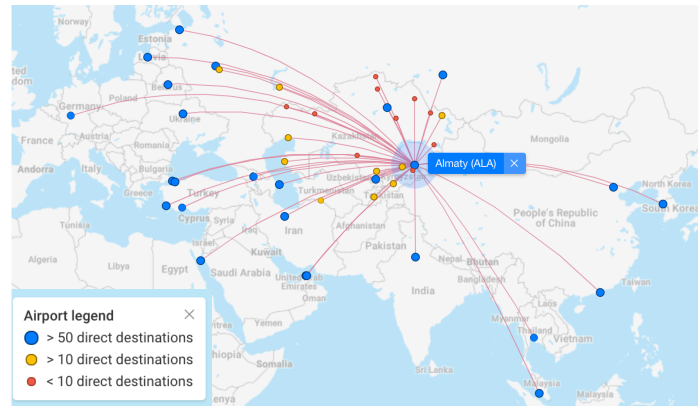


Airlines and destinations

In total there are 19 airlines flying to and from Tashkent (as of July 2019)

Airline	*# connections*
Uzbekistan Airways	61
Ural Airlines	10
Aeroflot	2
Air Astana	2
China Southern	2
S 7	2
14 Other (each)	1
Total	**93**

Current Almaty air connectivity



Airlines and destinations

In total there are 24 airlines flying to and from Almaty (as of 2019)

Airline	*# connections*
Air Astana	31
Scat Airlines	20
Qazaq Air	7
FlyArystan	6
Bek Air	6
Sunday Airlines	4
Ural Airlines	2
23 Other (each)	1
Total	**99**

Source: flightconnections.com; analysis by authors

Air Hub Related Developments in Central Asia

Recent developments signal important challenges for both airports and countries in what their hub developments are concerned

Kazakhstan & Almaty

- in May 2019, Air Astana launched new low-cost subsidiary FlyArystan. Its main aim is to compete the privately owned competitors in the **price sensitive domestic market.** This move is designed to increase the market share before an expected IPO, and will result in a **substantial increase of the domestic traffic**.
- **Recently various multilateral Organizations have left Almaty in favor of Tashkent** to host their regional offices. This will increase permanent demand of air services, opening up new routes and frequencies.
- There is a **strong political pressure from Kazakh Government to deploy a Hub in Nur-Sultan** (ex. Kazakh Air base now). This will put pressure on airlines to increase their operations there, resulting in higher concentration there, leading to diminishing operations in Almaty. The Government plan is to create a financial center in Nur-Sultan requiring the opening of routes to the largest financial centers of the world with direct flights.
- **The airports main revenues derive from fuel sales to foreign airlines**.
- The **air traffic rights** of Kazakhstan are **4th freedoms**, remaining a very protective market for its domestic airlines.
- Kazakh **domestic airlines are opening new routes** and increasing weekly frequencies for the **countries in the region**, leading to an expected **decrease of prices**, with **the purpose of fueling transit traffic and gaining scale for new route developments to further metropolises**.

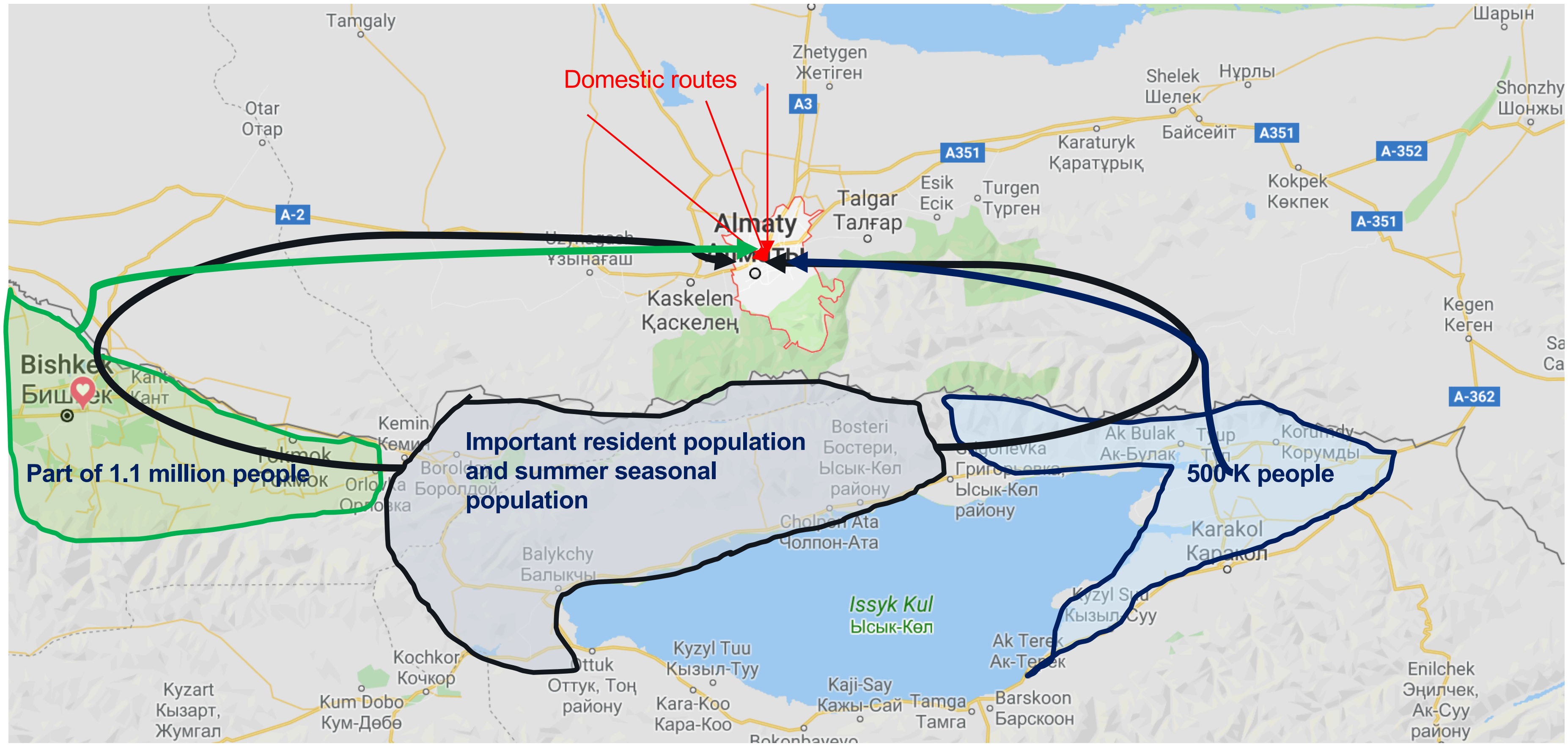
Uzbekistan and Tashkent

- Although Uzbekistan's aviation market remains much smaller than some of its neighbors, **president Shavkat Mirziyoyev is keen to exploit the country's tourism potential and improve connectivity**. More than nine million international visitors are targeted by 2026, up from about two million in 2016.
- In January 2019, Mirziyoyev signed a decree to offer **30-day visa-free travel for tourists from 45 more countries**. He also expanded the number of countries eligible for its e-visa system, which was introduced during summer 2018. It is **hoped the more liberalized policies will attract new foreign airlines to the market**. The early signs are encouraging; Wizz Air is reportedly considering the market, while Orange2fly and Pegasus Airlines are other airlines said to be evaluating potential routes.
- On 11 March Flydubai launched a five-weekly Dubai-Tashkent service, which will increase to daily from 31 May 2019. Emirates will codeshare on this route.
- **Uzbekistan Airways is being separated from airports and other areas as Uzbekistan finally abandons the Soviet-style vertical structure in which the airline company controls virtually every facet of air transport,** which has enabled cross-subsidization with profits from monopolies in the airport and airspace sectors covering losses at the airline. The upside for Uzbekistan Airlines is that after a restructuring it should emerge as a leaner, more efficient airline with a strong position in a fast growing market on the cusp of a tourism boom. New and significant fleet capacity is being added to the company, indicating strong growth of regional and medium-haul routes to Europe and Asia.

Air Hub Potential Catchment Areas

What are currently the main drivers for the air hub in Almaty?

- **Air Astana operations**: The hub of Air Astana in Almaty generates many transfer passengers to and from international routes. Various Kazakh airlines operate the airport feeding and defeeding domestic routes
- **The Almaty region**: the highest populated city in Kazakhstan and the major business center.
- **The Kyrgyz catching market**: A large proportion of the population in the Eastern part of the Kyrgyz Republic, from Bishkek and the seasonal visitors to Issyk-Kul



Air Hub Benefits and Recommendations

What are the benefits of a Hub in Almaty?

- An aviation hub generates three important outcomes[1]: (i) High "economic footprint", which includes the direct impact on GDP, jobs, and tax revenues; (ii) The direct benefits to customers of the airports (passengers and freight transporters) of having convenient, modern links; and (iii) The connections with other cities around the world helps to enable foreign direct investment, business clusters, increased specialization according to comparative advantages, and other positive externalities.
- Furthermore, according to our experience: (iv) tourism flows of higher spending individuals are much higher than in non-hub airports; (v) more airlines are willing to fly to larger regional hubs from their bases as a mean to expand their route networks at their least cost available, thus deriving natural resilience for the hubs shaping a S curve among airports[2].
- International tourism arrivals is growing faster in both Uzbekistan and Kyrgyz Republic than Kazakhstan. Recent open skies policy in Kyrgyz Republic will foster more P2P connectivity from main hubs.
- Most international visitors to Kyrgyz Republic[3] use primarily Tashkent, followed by Bishkek, and later Almaty as Gateways. The opening of Bishkek and Tamchy/Issyk-Kul routes by Uzbekistan Airlines is aimed to divert traffic from Almaty to Tashkent.

What should Kazakhstan do to avoid supremacy of Tashkent in the future as main air Hub of the region?

1. **Reduce travel time between Bishkek, Issyk-Kul, and Karakol areas to Almaty by car**
   - **Improve the border crossing conditions and formalities** to allow rapid border crossings, especially in Korday and Karkara
   - **Build a reliable all-year round road between Almaty and Bishkek**, and improvement of the **road between Kegen and Typ**, to allow greater speed
   - **Participate with Kyrgyz Republic in building a road between Almaty and Issyk-Kul**
2. **Reinforce the competitive position of Almaty Airport in Kazakhstan**
   - **Introduce improved regulatory measures** in the airport and ground handling activities leading to greater transparency and economic and financial sustainability of specialized companies on such activities;
   - **Reduce the cost burden of fuel to foreign companies** only (averaging the costs for domestic and foreign airlines)
   - Improve the border control procedures and **develop an "airport based" smooth and effective stop over program** (up to a week) in between flights irrespective of the airline;
   - **Develop 5th freedom agreements with foreign airline to airport** (allow the airport to become the national exception on a case by case basis), with firm traffic and operating commitments

Note: 1 - Oxford Economics; 2 - JCF Strategy Consulting own research. S-Courve between airports should be looked similarly as in airline routes. In airports, a leadership in number of direct connectivity generates more than proportionate market share in passengers and number of airlines compared to direct competitor hubs.; 3 – Indy Guide surveys

Air Hub Challenges

Major problems of :
- **Market distortion by unfair competition;**
- **Inconsistent policies**
- **Excessive high ground costs**

High prices

Low traffic levels

Fewer tourists