flycentralasia

AUTHOR'S COLUMN

Airports do not create traffic on their own: lessons from Central Asia's new airports

Former IATA Area Manager for Central Asia Jordan Karamalakov compares the airports of Ashgabat, Astana, Turkistan and Issyk-Kul and concludes that infrastructure pays back where demand exists, not where it is built. An author's column on traffic forecasts, management models and financing of regional airports.

Jordan Karamalakov

flycentralasia.com · info@flycentralasia.com

English Version

Country: Central Asia **Topic:** Analysis: airports and infrastructure

> *Author's column. The author's views may differ from flycentralasia's position.*

There has been a lot of news recently about new airports and the reconstruction of runways and terminals across all Central Asian countries. Jordan Karamalakov, an aviation consultant and former IATA Area Manager for Central Asia, shares his observations on how the region's airport system is developing.

Three stories where reality did not match expectations

The author starts in 2016, when the new airport opened in Ashgabat, with more than 2.2 billion dollars invested. In his view, this huge and luxurious project served as the opposite example to the second terminal in Astana, built just before Expo-2017: a very efficient and inexpensive facility. The decade since, he says, has shown what was expected. Only four foreign carriers fly to Ashgabat today, and there is excess capacity. The international terminal in Astana turned out to be too small for a capital whose population has doubled and whose business and political contacts have intensified.

The author admits he witnessed the construction of Astana's second terminal from day one and also believed it would serve international flights to the capital for a long time. He admits he was wrong: the population rose exponentially, as did international contacts. Today the Ministry of Transport and the city administration have signed an agreement with a Singaporean company to build a new airport on a greenfield site and to operate it afterwards. The fate of the current airport is not yet clear. As a reference, the author points to Istanbul: the old Ataturk Airport has been used only for business and government flights since 2020, with more than 25,000 movements a year, or about 75 a day. The new IGA airport in the west, the homebase of Turkish Airlines, is probably the busiest in Europe, he says, and the second large airport, Sabiha Gokcen, is in the east, where the main player is Pegasus Airlines. If traffic is there, airports exist to serve it.

The first new airport opened in Kazakhstan after 2020 was Turkistan. It was built on a greenfield site in record time and for only 160 million dollars, an achievement the author calls amazing. Planned capacity is 3 million passengers a year. The airport was meant to serve not only the regional capital but also the tourist flow to southern Kazakhstan, rich in historic monuments. The initial boom of foreign tourists slowed and the expected international carriers did not arrive. In the author's assessment, getting even close to the projected capacity has proved impossible.

The similarity in the three cases, the author says, is that reality did not confirm expectations. The famous Ashgabat airport serves the national carrier well but did not attract foreign ones. Astana is looking for new capacity, Turkistan became a small domestic airport, like many others in Kazakhstan. An airport does not create traffic by itself, even if many experts would fiercely oppose such a statement.

Resort airports

Another trend the author notes is enthusiasm for building airports in tourist areas.

Urzhar airport near Lake Karakol in Kazakhstan was certified for regular services about ten years ago for the needs of Yuzhnoe Nebo airline and its An-24. The terminal reconstruction will be completed next year. The current traffic is about 12 flights a week but in the summer time only. Next year the new international airport of

Kenderli on the Caspian Sea is also due to be ready. Expectations are 1.3 million passengers a year, including guests from Uzbekistan, Russia and Azerbaijan. The author considers these expectations very optimistic. Perhaps in 10–15 years, when resort facilities are sufficiently developed, these two airports will play a crucial role in attracting holidaymakers.

Lake Issyk-Kul in Kyrgyzstan combines clean air, blue water and picturesque mountains, ideal for summer holidays and winter skiing, but access is complicated. There are two small international airports on either side of the lake: Issyk-Kul (formerly Tamchi) and Karakol. Issyk-Kul's runway was renovated in 2016 and equipped to accept aircraft such as the A320 and B737. In practice, foreign carriers started flying there immediately, even in the off-season. Karakol is still limited to aircraft no larger than the Dash-8 or ATR-72, which the author sees as a real obstacle to proving its viability.

The author's conclusions on forecasts and tourism

> A realistic traffic forecast is essential for correctly planning any new airport. It is not easy to assess how much an airport really increases tourist visits. Connectivity matters for local communities, but if the business environment is unfavourable, passenger numbers will not cover costs.
>
> The attractiveness of a city or resort is not constant. When an area becomes much more accessible, tourists come in big waves. But that holds only at the start. After two or three years, if nothing changes, competition in the tourism industry slows traffic and the airport faces financial problems.

Two management models

The author identifies two approaches to the financial stability of the whole airport system.

In Kyrgyzstan and Uzbekistan, governments have kept all airports under one umbrella: a state-owned holding. In the author's view, this is the only solution for now for emerging markets: traditionally big airports act as locomotives for the younger, smaller ones. It is easier to manage the system from one centre: distributing investment according to real priorities, running single procurement procedures, coordinating staff training. The other side is that small airports in such a system may be less eager to look for extra revenue, take risks and seek private investors.

The author also notes that in both countries airport administrations have started their own airlines. At first glance this is good: such airlines occupy the niche of unprofitable low-density domestic services. But only at first: within a short period such "daughter" airlines are going to enter international markets, competing with local private carriers. Airline subsidiaries of airports always enjoy some benefits from their ownership. In the author's opinion, this opens the door for some unfair competition.

Kazakhstan chose a different path: concessions for the bigger players and public funds for those unable to cover costs but important for connectivity between the regions of this huge country (2.7 million square kilometres). The approach has positive and less positive elements. If the concessionaire has money, experience and goodwill, results are visible. The author names Almaty with TAV Airports and Aktau with ATM Group as doing well. Shymkent and Taraz rely on SCAT for their development. Some are looking for private investors, like Karaganda, where a large cargo business is planned. A regional airport serving three or four flights a day cannot cover all operating costs: big non-aeronautical income is typical for large airports, and cafes and shops at small ones will not generate enough funds. Therefore, the author argues, subsidies are a must, because without regular, reliable and inexpensive air connections business and social contacts suffer.

Fuel as a financing tool: a “vicious circle”

For years, the lack of a sustainable system for subsidising regional airports in Kazakhstan pushed their managers to put a surcharge on jet fuel. The author does not recommend the practice and calls it a “devil circle”: high fuel price, higher air fares, less demand, no profit for airlines, fewer flights. According to him, the price “into wing” at some airports over 30% above the standard one in Western Europe, for example. The dilemma is harsh: without fuel revenue the airport cannot cover costs, and a high fuel price keeps new airlines away. As far as the author knows, Kazakhstan has already improved the situation: it was recently announced that Astana Airport, like some others, has passed fuel supply to KMG Aero, a state-owned company created some years ago precisely to secure stable fuel supplies at a fair price. It is better, he says, to secure airport operations with sufficient subsidies for airports and for tickets on certain routes than to use fuel as a tool for financial recovery.

The author's conclusions

Funds. The first and most important issue is the availability of funds for investment in airport infrastructure. Such investments cannot be recovered quickly: the author puts the minimum at 30 years. Realistically, Central Asia has two options: strong state support or a top foreign investor. He does not expect regional administrations or local businesses to manage it. A concessionaire looks at profitability and will not go where profit will not come in the foreseeable future. The state, by contrast, must look at the overall picture and invest carefully, first of all to secure connectivity.

Aircraft types. Short-haul aircraft are not very popular in Central Asia. In the early plans announced by Vietjet when it took over Qazaq Air, the current Bombardier Q400 fleet did not exist, and the author hopes its position has changed. In Kyrgyzstan, the airport holding's subsidiary Asman Airlines stays with such aircraft. Larger aircraft of the A320 and B737 families are not profitable on short routes.

International partnership. Airports are regarded as strategic objects and part of national security, but in the current period the author advises looking for international partnership regardless of the form of ownership: a partner's experience and connections help the resilience of operations and financial results. In case the concession does not work, a short-term management contracts can help.

Safety and ISAGO. Safety and security are priority number one. The best tool to assess the current level of safety, in the author's view, is ISAGO, the IATA Safety Audit for Ground Operations. Being in the ISAGO registry means a lot for any airline that plans to fly to an airport. As far as the author knows, a very few airports in the region have passed the audit, but the full list is available only for IATA Member airlines.

Green practices. The author argues that “green practices” and sustainability should be achieved not in decades but in the near future. Electric vehicles, photovoltaic installations and similar measures are not easy ones and sometimes they are expensive, but clear plans to meet the standards set by ICAO, IATA and ACI are more than necessary for Central Asian airports. Today, being “green” is a synonym for being “modern”.

What it means for business

For investors and concessionaires: the decisive question is hthe ow to find balance between the funds to be invested and what traffic will actually appear.

For designers: look for independent assessment of forecasts before planning the terminal buildings and other infrastructure.

For airport owners: applying higher prices for airport services and fuel supplies does not stimulate new airlines to come.

For airport management: ISAGO and green plans become a competitive advantage.

About the author

Jordan Karamalakov is an aviation consultant, observer and commentator (Bulgaria). From 2007 to 2019 he was IATA Area Manager for Central Asia in Astana, and earlier IATA Country Manager for Bulgaria. In 2005 - 2006 and 2019–2020 he was Chairman of the Board of Directors of Bulgaria Air, after 2022 - Senior Consultant Aviation Management.

CONSULTING ENQUIRIES

If your company, airport or project is interested in a consultation with the author, write to us at **info@flycentralasia.com** and we will connect interested parties with Jordan Karamalakov.