



## Economic impact of ban on direct flights between Russia and Georgia

### Context

- On 21 June 2019 the Russian President issued an executive order<sup>1</sup> prohibiting Russian airlines to carry passengers from Russia to Georgia starting 8 July 2019. This was followed by a statement<sup>2</sup> from the Russian Ministry of Transport indicating that Georgian airlines will not be allowed to land in Russia. If implemented, these measures mean there would no longer be direct commercial flights between Russia and Georgia.
- Eight Russian carriers currently operate 111 direct flights per week between Russia and Georgia and offer about 76% of the available seat capacity. Georgian carriers operate 41 flights between Russia and Georgia and offer about 24% of the seat capacity.<sup>3</sup>
- This analysis quantifies the expected annual impacts starting 8 July 2019 resulting from the ban.

### Summary of impacts

#### Russia & Georgia harmed by ban on direct flights, Russian airlines face worst impacts



Sources: Veritas Global using data from Russian Ministry of Tourism, Georgia Civil Aviation Authority, Georgian National Tourism Administration, IMF, Eurocontrol Standard Values for CBA, IATA Air Travel Demand study, airline websites



- Russian airlines will be worst impacted and stand to lose \$225 million in revenue per year. Georgian airlines will face revenue losses of \$61.3 million, given their relatively smaller market share in serving the Russia-Georgia travel market.
- Visitors from Russia, which make up about 82% of direct travelers, will experience a loss in consumer welfare of \$63 million compared to \$13.6 million losses for travelers from Georgia. These losses are explained by a combination of longer travel time for diverted passengers and having to settle for less suitable substitutes for discouraged travelers.
- Tourism spending will also be impacted. Georgia can expect lower tourism spending of \$111.5 million per year due to a reduction in passengers from Russia. Spending in Russia by Georgian tourists will also decline, resulting in a reduction of \$28.9 million.

### Impact on airline revenues

- As presented in Table 1, Russian airlines stand to lose revenues of \$225 million per year. This is due to a loss of 501 thousand passengers that would have traveled on Russian airlines between Russia and Georgia and 61 thousand less transit passengers from Georgia.
- Georgian airlines will lose \$61.3 million per year. This loss is entirely attributed to not being able to serve the direct Russia-Georgia travel market, which will result in a loss of 181 thousand passengers that would have otherwise traveled on Georgian airlines.

<sup>1</sup> Executive order of Russian President, 21 June 2019 <http://en.kremlin.ru/acts/news/60805>

<sup>2</sup> Ministry of Transport of the Russian Federation, 22 June 2019 <https://www.mintrans.ru/press-center/news/9162>

<sup>3</sup> Based on published flight schedules data of the Georgian Civil Aviation Authority and clarification provided by Georgian Ministry of Economy and Sustainable Development.



Table 1: Impact on airline revenues

Round-trips Russia-Georgia by air, thousands	682
- Share served by Russian airlines	73%
- Share served by Georgian airlines	27%
Estimated transit passengers from Georgia via Russia, thousands	61
- Share served by Russian airlines	100%
Average round-trip fare for Russia-Georgia trips, \$	337
Average round-trip transit fare, \$	910
Revenue impact on Russian airlines, \$ million	-224.6
Revenue impact on Georgian airlines, \$ million	-61.3

Sources: Veritas Global using data from Russian Ministry of Tourism, Georgian National Tourism Administration, Georgian Civil Aviation Authority, airline websites

Notes: The number of round trips on the Russia-Georgia market is estimated by using data on tourist arrivals at the border based on statistics from the Russian Ministry of Tourism and the Georgian National Tourism Administration. Growth dynamics for the year ahead, in the absence of the ban, is assumed to be the same as in the last full year for which data is available. This assumption was found to be appropriate after being tested against year-to-date performance and published airline schedules prior to the ban. Published schedules from the Georgian Civil Aviation Authority combined with standard aircraft configuration data are used to conservatively estimate the share of transit passengers from Georgia. Average fares are calculated based on a survey of airline websites. Airline revenues include the airline base fare as well as all taxes, fees and surcharges paid by passengers.

### **Impact on consumer welfare (travelers from Russia and Georgia)**

- As presented in Table 2, tourists from Russia and Georgia will experience a loss in consumer welfare of \$63 million and \$13.6 million respectively. These losses are explained by a combination of longer travel time for diverted passengers and having to settle for less suitable substitutes for discouraged travelers. Passengers from Russia and Georgia that are diverted to use indirect routing to travel between Russian and Georgia will face welfare losses of \$48.8 million and \$10.5 million respectively due to the additional journey time. Passengers discouraged from traveling between Russia and Georgia are estimated<sup>4</sup> to face welfare losses of \$14.2 million for passengers originating in Russia and \$3.1 million for passengers originating in Georgia.

Table 2: Impact on travel demand and consumer welfare

Visitors from Russia to Georgia, thousands	561
Visitors from Georgia to Russia, thousands	121
Average impact on travel time per round-trip, hours	8
Value of time per hour of travelers, \$	17
Total additional cost per round trip, \$	137
Increase in travel costs, %	41%
Elasticity of demand	-0.9
Impact on visitors from Russia to Georgia, thousands	-206
Impact on visitors from Georgia to Russia, thousands	-44
Impact on consumer welfare on diverted travelers from Russia, \$ million	-48.8
Impact on consumer welfare on discouraged travelers from Russia, \$ million	-14.2
Total impact on Russian tourist/consumer welfare	-63.0
Impact on consumer welfare on diverted travelers from Georgia, \$ million	-10.5
Impact on consumer welfare on discouraged travelers from Georgia, \$ million	-3.1
Total impact on Georgian tourist/consumer welfare	-13.6

Sources: Veritas Global using data from the Russian Ministry of Tourism, Georgian National Tourism Administration, IATA air travel demand elasticity study, IMF, Eurocontrol Standard Values for Cost Benefit Analysis

<sup>4</sup> For purposes of being conservative, the loss in welfare to discouraged passengers is estimated at \$68.5 per traveler, half the value calculated for diverted passengers.



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- On average, the impact on travel time per round-trip is estimated to increase by eight hours. This will occur as passengers divert their travel arrangement through regional hubs that serve the Russian-Georgian market indirectly, which include Minsk, Riga, Almaty and Istanbul.
- The value of time lost for diverted travelers will result in an additional cost of \$137 per round-trip or equivalent of an increase in 41% in travel costs. The value of time for passengers is estimated at \$17 per hour, which is based on the recommended value by Eurocontrol Standard Inputs for Cost-Benefit Analyses<sup>5</sup> of 47€ and adjusted for the difference in per capita incomes between Russia and the European Union.
- The increase in travel costs will reduce the number of visitors from Russia to Georgia by 206 thousand and from Georgia to Russia by 44 thousand. A price elasticity of demand, which is a measure of how changes in price impact passenger demand, is estimated at -0.9. This means that a 1% increase in price will reduce demand by 0.9%. This estimate is calculated by applying standard values from the IATA Travel Demand study<sup>6</sup> to the observed market characteristics specific of air travelers arriving from Russia to Georgia obtained from surveys on trip purpose by the Georgian National Tourism Administration.

## **Impact on tourism spending**

- As presented in Table 3, tourism spending in Russia will be lower by \$28.9 million whereas spending in Georgia will be lower by \$111.5 million. Reduced passenger flows, presented in Table 2, are used to estimate the total loss in spending.

Table 3: Impact on tourism spending

Average spending of a tourist from Georgia in Russia, \$	649.7
Average spending of a tourist from Russia in Georgia, \$	541.2
Impact on tourism spending in Russia, \$ million	-28.9
Impact on tourism spending in Georgia, \$ million	-111.5

Sources: Veritas Global using data from the Russian Ministry of Tourism, Georgian National Tourism Administration, IMF  
 Notes: Tourism spending in Georgia by tourists from Russia is obtained from 2018 survey data of the Georgian National Tourism Administration. Spending by Georgian tourists in Russia is estimated based on the same datapoint but adjusted using the midpoint between the difference in per capita GDP in Russia and Georgia. This approach aims to reflect the higher costs faced by Georgian tourists in Russia and the lower purchasing power of the average Georgian. In the absence of survey data on average tourism spending in Russia by Georgian tourists, this approach provides a reasonable approximation.



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<sup>5</sup> Eurocontrol, Standard Inputs for Cost-Benefit Analyses, Edition 8.0, January 2018, <https://www.eurocontrol.int/sites/default/files/publication/files/standard-input-for-eurocontrol-cost-benefit-analyses-2018-edition-8-version-2.6.pdf>

<sup>6</sup> IATA, Air Travel Demand, [https://www.iata.org/publications/economic-briefings/air\\_travel\\_demand.pdf](https://www.iata.org/publications/economic-briefings/air_travel_demand.pdf)