FIRST VIEW
March 2022

A Rapid Retreat from Globalism

THE FACTS

On 3 March 2022 all three major GDS companies announced that they had removed the schedules and fares of Aeroflot from their databases. This effectively prevents travel agents using Sabre, Amadeus and Travelport selling tickets for the Russian flag-carrier's services.

THE ANALYSIS

This action by the GDS companies is largely symbolic. As well as existing sanctions on aircraft maintenance and insurance, Aeroflot is currently barred from operating to most international destinations, as are all other Russian and Belorussian airlines. Few western travel agencies will be attempting to book their services in the near future. Far more interesting is the question of when and if western technology companies will withdraw support for the internal systems of Russian carriers.

The T2RL database lists 45 active passenger airlines in Russia and one in Belarus. 35 of these airlines get their Passenger Services Systems (PSS) from the Russian company Sirena-Travel, but the five biggest Russian carriers, as well as the one Belorussian airline, all buy PSS service from western technology companies. Together these six airlines carry over two thirds of all passengers flown by their countries' carriers. Passenger numbers have been distorted by the impact of Covid-19 but by the end of 2021 Russian airlines had recovered almost to pre-pandemic levels. Of the 113 million passengers flown in 2021, airlines served by western technology companies handled 75 million.

No modern airline can operate without a functioning PSS. Even partial loss of PSS capabilities can bring airlines to a halt as we have seen many times in the past. The most recent example was the grounding of British Airways' short-haul fleet at Heathrow on the weekend of 26 February 2022.

This was a minor IT glitch compared with the impact that would be felt from the complete loss of PSS.

The western companies supplying PSS to these markets are Sabre, which serves three Russian airlines including Aeroflot, as well as Belavia of Belarus, and Amadeus which hosts two Russian airlines in its Altea PSS and one in its Navitaire subsidiary. At the time of writing neither of these companies has withdrawn PSS services from the Russian market. It is unlikely that they will do so unless government action compels them, both because of contractual obligations and concern about possible retaliatory action in the form of Russian cyber-attacks. That position would change if US and European regulatory authorities were to extend their sanctions regimes to cover the supply of remote IT services. This would allow the companies to invoke force majeure clauses in their contracts and cease the services. The effect of doing that would be to cripple two thirds of the Russian passenger airline business.

THE SPECULATION

The military and political situation is evolving rapidly but it is possible to discern some potential short and longer term impacts of current events.

In the short term it is likely that Sabre and Amadeus will be required to withdraw service from customers in Russia and Belarus. As and when that happens there will be a scramble to replace their services with alternatives that are not subject to western sanctions. In effect this means that Sirena-Travel will need to expand its capacity by over 200% to meet the demand. This will be mitigated by the much-reduced networks that Russian airlines are likely to be operating over the coming years. On the other hand Sirena's ability to scale up its services may be constrained by the difficulty of obtaining new hardware in an environment of increased western sanctions.

The alternative to expansion of Sirena-Travel would be to seek service from international providers that are not subject to western sanctions. Although there are a few PSS suppliers in countries such as Turkey, India and the UAE, the only provider that would have the muscle to realistically take on the challenges involved would be TravelSky of China. The Chinese government has not so far joined in sanctions against Russia but neither has it come out in support. It seems unlikely that it would support any move by TravelSky to expand its footprint into Russia in the short to medium term.

In the longer term the current crisis may herald a retreat from globalism on many fronts. Any country whose government policies could conceivably leave it open to sanctions in the future may be thinking now about how to achieve self-sufficiency. China is more or less there already with TravelSky. Its dependence on western technology companies, of which Unisys has been the most significant, has been diminishing year on year and the company has clear intentions to move towards complete independence from outside suppliers. Smaller markets such as Iran and North Korea have made their accommodations with sanctions over the last couple of decades. Perhaps the most interesting questions concern India. It has a burgeoning technology sector and is home to several companies that can supply PSS. Of these IBS Software is a credible player that occupies a strong position in the second rank of airline technology providers. India's government may well see value in improving its capacity for self-sufficiency.

The world is a less stable place now than it was a few months ago. It seems likely that one consequence will be a retreat from the consolidation and globalisation of the travel technology and distribution industries that has happened in recent years. The losers in such a change will be the big global players such as Amadeus, Sabre, Amex GBT, Carlson, FlightCentre, Booking.com and Expedia. The winners may be national and regional players like TravelSky, Sirena-Travel, IBS and Hitit.

T2RL is an independent research and consulting company that specialises in the market place for airline IT systems. Based on data gathered and analysed since the year 2000 it has defined and tracked classifications of airlines and their IT providers. Its research is used by airlines to enable them to make informed choices of systems and vendors and by the vendors to help them develop products that best meet the current and future needs of the airline industry. For further information, visit our website at www.t2rl.com.