FIRST VIEW
May 2022

Russian carriers plan migrations to 'localised' alternatives

THE FACTS

S7 has announced, via a third-party source, its migration from the Amadeus PSS to Russian provider ORS, formerly known as TAIS. The provider was chosen via a tender process and the migration will take place in October this year. It has been reported by the Russian press that the Russian Ministry of Transport in 2019 ordered all Russian carriers to 'localise' their booking systems. It has also been reported that the date for these 'forced migrations' has been postponed several times. The most recent reports say that carriers are required to 'localise' their booking services by the end of October 2022.[1]

THE ANALYSIS

The move by the Russian government requiring airline booking data to be held within its territory was originally promulgated in the middle of the last decade. At that time a number of western providers worked on proposals to set up cloned versions of their systems at facilities in the Russian Federation. The requirement was quietly forgotten as it became apparent that it would be extremely expensive and would leave Russian airlines at a competitive disadvantage. In the circumstances of the war in Ukraine and increasingly restrictive economic sanctions the requirement has resurfaced but now without the option to ignore it.

S7 originally migrated to the Amadeus PSS on November 10th 2018 from the now retired SITA system. As well as general PSS provision the migration included Amadeus's Revenue Integrity and Internet Booking Engine. S7 also moved its loyalty management system to Amadeus Loyalty from Comarch in 2019. The airline currently uses other western providers for applications such as revenue management, having contracted the PROS Network and Group RM systems.

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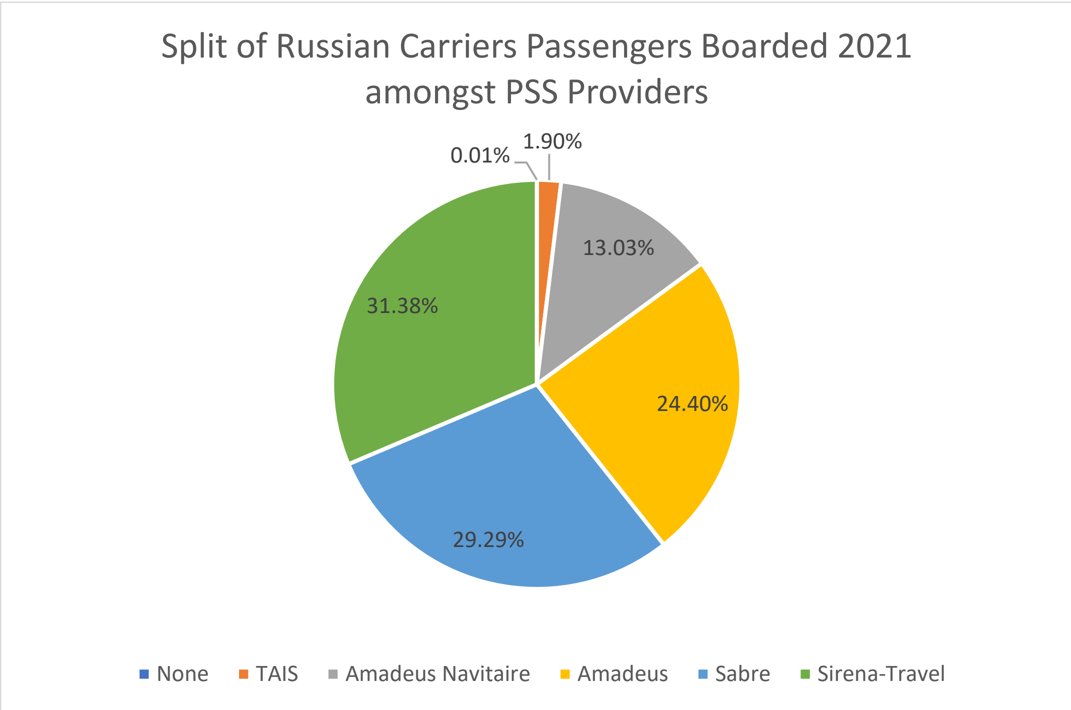
[1] https://iz.ru/1328230/anastasiia-lvova/bilet-normalnyi-s7-airlines-pereidet-na-rossiiskuiu-sistemu-bronirovaniia

T2RL currently tracks 46 airlines with their AOC based in Russia, processing a total of over 110 million passengers boarded (PBs) in 2021, very near to pre-pandemic levels. Two-thirds of these PBs are currently managed by western PSSs; Sabre, Amadeus and Amadeus Navitaire. Russian based TAIS (ORS) and Sirena-Travel process the remaining third.



In 2019 TAIS (ORS) boarded over 5 million passengers through its PSS platform with its largest customer at the time being Turkey-based, AtlasGlobal. This airline ceased operations in February 2020 and TAIS passengers dropped to 1.7 million that year. The Russian market then recovered somewhat and TAIS processed around 2.9 million PBs in 2021 placing it 26th in the T2RL market share table. Azimuth is currently its largest airline customer with just over 2 million PBs. If completed, S7 will be the first migration of its size that TAIS/ORS will have undertaken.

Due to the pandemic impact on most major airlines, S7 is currently Amadeus's 4th largest airline customer, processing almost 18 million passengers in 2021.

THE SPECULATION

The order from the Russian Ministry of Transport for all Russian carriers to 'localise' their booking systems by October is expected to have the biggest effect on two of the top three global PSS providers.

During its quarterly financial results call Sabre recognised $24 million in revenue which was related to "services provided and fully paid for" under a PSS contract with Aeroflot. This was due to the airline having negotiated lower minimum charges throughout the pandemic in exchange for an extension of its PSS contract. This practice has been very common with airlines and their PSS providers during the past two years and helped airlines reduce costs whilst extending the life of the PSS contracts.

Due to recent developments in Russia, Sabre explained that '*we're no longer continuing to negotiate with regard to extension of the PSS contract, so we have to recognise that revenue*.' [2] The current Sabre PSS contract with Aeroflot is due to expire in 2025 and it is likely that the carrier may also be negotiating an early exit due to the mandate put in place by the Russian Government. This would suggest that Aeroflot is likely to move to Sirena-Travel as the only alternative Russian solution to ORS on the market.

[2] The Beat, Sabre 'Bullish' As Corporate, International Travel Bookings Accelerate, 3rd May 2022

Expected Russian Airline Migrations

Airlines	2021 PBs	From	To
Ural Airlines	9,200,198	Amadeus	Sirena-Travel planned
S7 Airlines	17,831,165	Amadeus	ORS/TAIS planned
Pobeda	14,433,246	Amadeus Navitaire	Currently unknown.
	41,464,609	**Amadeus Total**	
Aeroflot	21,415,865	Sabre	Sirena-Travel - expected
Aurora Airline	1,068,739	Sabre	Sirena-Travel - expected
Rossiya	9,963,331	Sabre	Sirena-Travel - expected
	32,447,935	**Sabre Total**	

Aeroflot is currently Sabre's 4th largest customer, processing over 21 million PBs in 2021. Together with Aeroflot-owned Aurora Airline and Rossiya, Sabre looks set to lose a total of 32 million 2021 PBs from its system by the end of 2022.

Although there are Russian vendors in the market that provide Internet Booking Engines, Loyalty Management Systems and Revenue Management solutions, T2RL expects Russian based airlines may need to retire advanced capabilities specifically in the area of revenue management. This may cause Russian airlines to fall further behind global players. Most Russian airlines also rely on systems from western providers in operational areas such as flight and crew scheduling, MRO and flight planning. Any of these services that are supplied on the basis of SaaS will probably also be withdrawn over the next few months, creating further challenges for the carriers.

The major upheaval in technology provision by western companies to Russian airlines opens up two sets of questions. How will the sudden move be treated contractually and is it physically possible to complete all these migrations in the next five months?

From a contractual perspective it seems likely that the circumstances around the war, the sanctions regime and the Russian government order will allow all sides to invoke force majeure provisions in their contracts.

What is perhaps more interesting is the extent to which Sabre and Amadeus will comply with terms that require them to provide assistance to customer airlines that leave their systems if indeed their contracts contain exit assistance services. T2RL expects that there will be a fair measure of cooperation in the provision of data transfers and the switching of communications links but that this will stop short of the level of support that would be expected in more normal times.

From a technical perspective it is clear that Sirena Travel and ORS will be faced with an enormous set of tasks. The PSS migration of a network airline typically takes something on the order of two years to plan, prepare and execute. To achieve six in five months would be unprecedented. However Russian airlines are not currently operating any significant volumes of international services and Aeroflot and S7 have been suspended from membership of SkyTeam and oneWorld respectively. International flying is restricted to countries like the UAE which will still have strict laws with respect to the transmission of passenger data. The smaller number of international operations and lack of codeshare and interline will help simplify much of the set up of the new systems. It may be a long time before they need through check-in links and interline ticketing arrangements for example, giving the vendors time to develop these capabilities. As an LCC, Pobeda's requirements are simpler although it will probably suffer some culture shock if it has to join a system aimed at traditional network airlines

There are some global precedents for very rapid migrations. In 1999 SITA migrated Iran Air from an in-house system in eight weeks flat. Also in the 1990s a mid-sized European carrier was ejected from its host system in an acrimonious parting of the ways in which the only assistance it received was to have all its existing PNRs printed out and handed over on fan-fold paper. That airline was back up and running on a new host within a few days. So the answer to the question “can it be done?” is a clear “yes". Some things will get broken and some people will end up working heroically long and stressful hours but it can be done.

At some point the Russian providers will seek to commercialise their systems in markets where sanctions do not apply. Africa and Asia Pacific are the most likely hunting grounds. Aeroflot and S7 will help drive the Russian providers to develop solutions in the medium and longer term, bringing more competition to those markets and pushing geopolitics into the PSS business. One intriguing possibility is that they will find themselves competing with China's Travelsky in those markets.

In the context of the overall impact of Russia's invasion of Ukraine these are small matters although it will probably not seem that way in the offices of Aeroflot and the rest of the Russian airlines.

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.