

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

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**CURRENT CHALLENGES AND  
FUTURE PROSPECTS FOR  
EU SECONDARY AIRPORTS**

STUDY





**DIRECTORATE-GENERAL FOR INTERNAL POLICIES**  
**POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES**

**TRANSPORT AND TOURISM**

**CURRENT CHALLENGES  
AND FUTURE PROSPECTS  
FOR EU SECONDARY AIRPORTS**

**STUDY**

This document was requested by the European Parliament's Committee on Transport and Tourism.

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## **EDITORIAL ASSISTANCE**

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## **LANGUAGE VERSIONS**

Original: EN

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Manuscript completed in May 2015.  
© European Union, 2015.

Print	ISBN 978-92-823-7141-1	doi:10.2861/97191	QA-01-15-410-EN-C
PDF	ISBN 978-92-823-7140-4	doi:10.2861/890137	QA-01-15-410-EN-N

This document is available on the Internet at:  
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**DIRECTORATE-GENERAL FOR INTERNAL POLICIES**  
**POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES**

# **CURRENT CHALLENGES AND FUTURE PROSPECTS FOR EU SECONDARY AIRPORTS**

## **STUDY**

### **Abstract**

Around 250 European airports handle less than 5 million passengers per annum - a good one third of them less than 200,000. This analysis shows that all are affected by the changing structure of the airline industry, and that most of them are losing money. It also shows, however, that these similarities shall not mask the diversity of experience and circumstances, and the very different roles played by these airports.

**IP/B/TRAN/IC/2014-118**

**2015**

**PE 540.373**

**EN**



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## LIST OF ABBREVIATIONS

<b>ACI</b>	Airports Council International
<b>ATC</b>	Air Traffic Control
<b>CEO</b>	Chief Executive Officer
<b>ELFAA</b>	European Low Fare Airlines Association
<b>EU</b>	European Union
<b>HIAL</b>	Highland and Islands Airports Limited
<b>LCC</b>	Low Cost Carrier
<b>PSO</b>	Public Service Obligation
<b>SESAR</b>	Single European Sky ATM Research
<b>TGV</b>	Train à Grande Vitesse (High Speed Train)
<b>UK</b>	United Kingdom

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## **EXECUTIVE SUMMARY**

The number of secondary airports in the European Union is significant, accounting for over 260 million passengers per annum. However the term "secondary" masks the diversity of experience and circumstances.

Some serve remote communities on a purely socially inclusive basis. Others provide essential connectivity to the wider world and are a key catalyst to their economies as facilitators of trade and the primary means of providing access to important tourism industries. It is not only in remote communities that they play a critical role. There is a need to maintain connectivity to many regional economies located away from capital cities.

All have struggled with the depth of the economic crisis since 2008; some have lost traffic whilst others have failed. They have been affected by the changing structure of the airline industry as its trend to consolidate continues and Low Cost Carriers (LCC's) become ever more important players in the provision of short haul European flights. Equally secondary airports must compete on a pan European basis to successfully win and maintain commercially based air services.

Regulation has posed its own challenges, frequently weighing heavily on the operation of secondary airports.

The aim of this report is to examine more deeply the role played by these airports and to explain the key trends taking place in their operating environment. Particular attention will be given to the impact of the regulatory framework and to the profound effects of the changes taking place in the structure of the airline industry.

Conclusions will then be drawn and recommendations offered as to the ways in which secondary airports can be facilitated in performing their essential role in an efficient and effective manner and one which protects their future longevity.



# 1. RECENT BUSINESS TRENDS AND MARKET CHARACTERISTICS

## 1.1. Traffic

Data on European Union airports under 5 million passengers per annum has been provided by ACI EUROPE<sup>1</sup> covering the majority of airports in this category: 243 airports with a complete dataset over the period of analysis.

The data has been reviewed over a 10 year period from 2004 to 2013 and reveals the incredible diversity of experience by secondary airports. Monthly 2014 traffic figures that were available have also been used to present seasonality trends at some airports based on the most recent data. To assist in structuring the analysis, the airports have been grouped as follows:

- Traffic between 1 million and 5 million passengers per annum;
- Traffic between 200,000 and 1 million passengers per annum;
- Traffic less than 200,000 passengers per annum.

The tables below show the distribution of airports by size and passenger traffic.

**Table 1: 10 Year Airport Size Distribution (% of airports by size category)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>1 to 5m</b>	28.0%	32.1%	33.7%	35.8%	37.0%	35.8%	35.8%	36.6%	36.2%	35.0%
<b>200K to 1m</b>	35.4%	33.3%	32.1%	30.9%	30.5%	29.6%	30.5%	30.9%	30.9%	32.9%
<b>less than 200K</b>	36.6%	34.6%	34.2%	33.3%	32.5%	34.6%	33.7%	32.5%	32.9%	32.1%

Source: ACI EUROPE.

**Table 2: 10 Year Passenger Traffic Distribution (% of passengers by size category)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>1 to 5m</b>	74,1%	79,1%	80,6%	83,0%	83,9%	83,0%	83,2%	84,0%	83,8%	83,0%
<b>200K to 1m</b>	22,6%	18,3%	16,8%	14,6%	13,9%	14,5%	14,4%	13,8%	13,9%	14,9%
<b>less than 200K</b>	3,3%	2,7%	2,5%	2,4%	2,2%	2,6%	2,4%	2,2%	2,3%	2,1%

Source: ACI EUROPE.

The market share of larger airports increased significantly from a base of 74.1% in 2004 until the onset of the financial crisis in 2008, remaining at 83-84% of passengers since that time. Conversely the percentage share of airports between 200,000 and 1 million passengers fell until 2008 with sporadic marginal recovery in the later period, whilst that of smaller airports also decreased until 2008, recovering only in 2009 and then decreasing again until 2013. Observation over the ten years shows that the overall percentage share of airports between 1 million and 5 million passenger p.a. grew at the expense of the other two categories.

<sup>1</sup> Airports Council International Europe represents over 450 airports in 45 European countries. Figures in this analysis only refer to EU Member States.

When passenger traffic distribution is assessed the increasingly disproportionate concentration of traffic in larger airports is seen much more clearly. Thus whilst the proportion of very small airports (less than 200,000 passengers p.a.) decreased by 12.3% between 2004 and 2013, their market share has fallen by 36.4% over the period in spite of strong absolute traffic growth of +65% over the period at these airports (+24% for airports between 1 and 5 million passengers).

While these figures demonstrate the great polarisation which exists between airports of generic size differences, they actually mask the challenges which affect airports of all categories, large or small. There is no standard single experience and it is necessary to examine in more detail the influences on the business of each airport.

While many small airports struggle to secure adequate traffic or exist for social reasons only, many larger secondary airports have experienced problems too as a combination of economic conditions and structural changes in the airline industry. Some examples will illustrate the diversity of the challenge.

#### **1.1.1. Airports with 1 to 5 million passengers per year**

As of 2013 a small core of large regional airports are performing strongly, achieving passenger volumes between 3 and 5 million. Most of these serve large densely populated regions and cities predominantly in the UK, France and Germany. Others are major gateways to tourism, for example in Greece, Italy and Spain or the islands of Cyprus and Malta. Increased activity by LCC's has been a strongly positive factor for a number of these airports.

For airports between 1 and 3 million passengers, traffic has fluctuated both favourably and adversely depending on individual circumstances and economic conditions. In many cases, airports depend wholly or substantially on just one airline. In such cases airline failure or withdrawal can see a regional airport lose a massive percentage of its business overnight. LCC activity in particular has had both positive and negative impacts according to the individual airport. Many airports have experienced strong growth as LCC's have opened aircraft bases and added routes; others have seen sharp traffic falls when capacity has been withdrawn.

Two airports which have faced particular challenges in this category are Scotland's (Glasgow) Prestwick Airport and Cardiff Airport in Wales. These airports each handled around 2m passengers in 2004 but saw this figure halved by 2013.

- Prestwick Airport in Scotland has been largely reliant on services by LCC's Ryanair (which has a base at the airport) and Wizz. In recent years it has faced increasingly intense competition from Glasgow Airport as this airport moved out of common ownership with Edinburgh Airport (both were part of BAA and are now independently owned). Glasgow was successful in convincing Wizz to switch all its services from Prestwick, whilst Ryanair has also reduced its activity there, moving some services to Glasgow as well as opening new ones and establishing an operating base there. Glasgow is better served by ground transport infrastructure and much closer to the city centre and urban population than Prestwick. It has long haul services to North America, the Middle East as well as access to several European hubs.
- In the case of Cardiff, the airport has struggled for many years to win traffic in the face of the proximity of Bristol airport in England, easily accessible across the River Severn Bridge. Bristol has a wide range of airlines, having succeeded in attracting bases from both Ryanair and easyJet more than 15 years ago and being connected

to several European hubs. It is supported by a denser, wealthier catchment area which has underpinned its success. Cardiff secured a base with LCC Bmibaby in 2002 but this was subsequently closed in 2011 and the airline is no longer in business. It is connected to KLM's Amsterdam hub but has struggled to secure other higher volume traffic.

- Both airports were privately owned for most of the period but losing money. Prestwick's owners were actively looking to sell or close the airport and the Welsh Government was frustrated by Cardiff's perceived under performance. Each airport has now been bought by its respective Government in order to protect the direct jobs which they support and with the objectives of developing more traffic. The Welsh Government spent £52m to buy Cardiff whilst the Scottish Government acquired Prestwick for £1. However at the time of writing it is estimated that the Scottish Government will have to spend £40m to support the airport before its assumed return to profitability in 2021.
- In March 2015 Cardiff Airport announced it had reached an agreement with Flybe to base two Embraer Regional jets at the airport from later in the summer of 2015 to operate a range of UK domestic and continental European routes. This has been supported by a 10 year commercial deal between the airport and the airline<sup>2</sup>. Flybe had been seeking to dispose of the aircraft which had been surplus to its needs so it is reasonable to assume that the level of financial support which has been offered to secure these services is significant.
- The scale of the challenge to attract services and the level of likely financial commitment from the respective governments cannot be under estimated. Given their proximity to other well established and very proactive airports, it is far from certain that these airports can find a sustainable future even within public ownership. Left to market forces it would be highly likely that each airport would fail.

Shannon Airport in the west of Ireland provides a contrasting experience to these two airports. It too has lost traffic over the last 10 years, falling from 2.4 million passengers in 2004 to 1.4 million passengers in 2013.

- Traffic actually peaked at the much higher level of 3.6 million passengers in 2006, during a period when Ryanair significantly increased capacity and opened a base. However after a dispute in 2008, capacity was cut drastically and traffic volumes were badly affected. In the same period the airport had a mixed relationship with the Irish national carrier Aer Lingus, which also withdrew capacity, partly in protest at the airport's deal with Ryanair.
- The airport's fortunes now appear to be turning around. Unlike Cardiff and Prestwick it has a distinct catchment area with other competing airports at some distance. It is the principal access point to the west of Ireland for business and tourism. In 2013 it was separated from the Dublin Airport Authority with the creation of the Shannon Airport Authority with its own CEO and management team.
- The new management team is focussing on business diversification, being wary of reliance on only one source of traffic (and having the market potential to avoid doing so). Approximately 25% of Shannon's business is to North America, 25% to Continental Europe and 50% to the UK (source: Shannon Airport). Independent management and diversification are helping the airport to grow once more.

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<sup>2</sup> [Flybe to use two Embraer 195 in new Cardiff base](#)

### **1.1.2. Airports with 200,000 to 1 million passengers per year**

There has been a wide spectrum of experience amongst airports within this category.

- One negative example is Lubeck Airport in northern Germany which saw passenger numbers in excess of 700,000 per annum prior to the financial crisis but dropping to 350,000 by 2013 and the airport declaring bankruptcy in 2014. The airport was reliant largely on LCC services and is within a one hour road journey of Hamburg Airport which itself has developed LCC services with a number of airlines including the recent opening of a base by easyJet. A new investor has now taken over the running of the airport and some new LCC services have been attracted from Wizz but the challenge of generating sustainable traffic is evident.
- A positive illustration of success in this category is that of Southend Airport in the south east of the UK. Despite the capacity bottlenecks at London's largest airports, Heathrow and Gatwick, Southend lacked the road and rail infrastructure to have any real chance of attracting passengers truly travelling to/from London. On several occasions between 2004 and 2011, the airport recorded passenger numbers of fewer than 4000 per annum. In 2008 the airport was bought by the Stobart Group (road haulage specialists) and new efforts were made to secure traffic supported by much improved infrastructure including a new terminal building and the introduction of a direct fast train service into London's Liverpool Street Station. In 2012 the airport secured a new base from LCC easyJet which led to a dramatic improvement in traffic from 42,000 in 2011 to circa 670,000 in 2012 and 1 million in 2013. Stobart Group has also established its own airline which has introduced a number of services from the airport using smaller turbo prop aircraft in a commercial venture with Flybe. Southend has made great strides in its activities, demonstrating entrepreneurial management, but it underlines again the importance of LCC's in influencing traffic volumes at secondary airports.

The climate is a tough one for secondary airports and a number of other airports have failed. Dijon, serving the Burgundy region of France is another example of failure.

- The airport, which had been a major military facility, tried to build up a small network of services linking the region with other key trading partners. Flights to Bordeaux (wine trade) and Toulouse (aerospace) were secured with UK regional operator Eastern Airways, using smaller 29 seat turbo prop aircraft. Whilst traffic built up, these services were not sustainable without support from the airport's partners and ultimately the airport was forced to end its commercial activity. It faced competition from nearby Dole Airport which has secured LCC services but along with Dijon faced criticism from the French *Cour des Comptes* for competing unrealistically in a small catchment area using public resources<sup>3</sup>.

### **1.1.3. Proximity of small airports**

The problems of relatively large airports which are close together have been illustrated by the cases of Cardiff and Prestwick. There are also examples of smaller airports, which can command only limited traffic, that are also in close proximity and in effect compete for similar traffic and use of public resources.

Montpellier Airport in the Languedoc Roussillon region of France is the main gateway airport to the region with 1.4m passengers in 2014. There are also four smaller publicly owned airports in the region at Beziers, Carcassonne, Nîmes and Perpignan. All of these operate at

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<sup>3</sup> [Libération 11 February 2015](#)

levels below capacity with a high level of seasonality to their traffic. None of these airports has any PSO (public service obligation) services and so there is a high degree of competition for purely commercial traffic, much of which is driven by leisure demand. It is evident that in this case the region would still be well served with fewer airports and would require significantly less public resources to be committed to the sector.

A similar example is seen in Normandy, Northern France, with the airports of Deauville and Le Havre. Both airports are small, located very close to each other and both requiring duplication of resources.

In cases such as these there is scope to economise in the provision of use of duplicate resources and/or allocate proportionally more to one airport and improve its efficiency and commercial strength of operation.

However, such cases are by no means typical of the circumstances of secondary airports throughout the EU. There are many small airports which contribute strongly to their local economies and which face no competition from other close by airports, but which nevertheless face challenging conditions of existence. Both the airports and their catchment areas are relatively homogenous and therefore readily substitutable for pan-European airlines such as LCC's. Competitive pressure dictates that they have little or no negotiating power with airlines to levy anything other than minimal charges.

#### **1.1.4. Touched by the crisis**

Secondary airports of all Member States, with the exception of Romania, were touched by the financial crisis in 2008. Sharp traffic falls were recorded in 2009. Romania managed modest growth, largely due to increasing activity by LCC's.

Almost 21 million fewer passengers used secondary airports in 2009 than in 2008. Traffic volume was still almost 49 million passengers higher (+24%) than at the start of the analysis period in 2004, at 252 million passengers compared to 203 million passengers in 2004. By the end of 2013 traffic volumes had grown to 264 million passengers, 30% higher than in 2004.

However whilst this seemingly optimistic global figure demonstrates the importance of secondary airports within the EU, it hides significant differences between Member States.

- Finland and Ireland, both countries where smaller airports of less than 200,000 passengers play an important role, recorded lower traffic volumes in 2013 than for 2004.
- Spain and Portugal, each particularly badly affected by the economic crisis, as well as being heavily reliant on tourism, saw only small increases in traffic at the end of the period (of 11% and 3% respectively).
- Those countries with the strongest recovery and solid performance in 2013 were the ones least affected by the crisis, where LCC's have the highest activity levels and generally (though not always), with fewer small airports. In particular, Germany and the UK recorded powerful recovery as did Italy where LCC's exploited the number of smaller airports to stimulate strong growth in traffic.

#### **1.1.5. Touched by seasonality**

Seasonality is a key influence on the airline industry as a whole. It is something from which airlines are not easily able to escape. It obliges them to modify capacity, frequency and

period of operation on a large number of routes, according to time of year. Almost all airports are exposed to strong seasonality and broadly speaking smaller secondary airports are unable to sustain year round high frequency routes which primary airports benefit from. Even a financially strong airline like Ryanair has grounded the equivalent of between 50 and 70 aircraft during recent winters due to the lack of routes on which they can be profitably operated. This astounding number of aircraft grounded by one airline underlines the magnitude of the challenge.

Nor is the experience an equal or necessarily predictable one for airports. Some airports experience relatively stable passenger volumes all year but these tend to be those smaller airports performing a social role and supporting a mobility function for their local communities.

Some experience strong summer season peaks based on leisure traffic to "sun" destinations whilst winter traffic is at very low levels. For others the converse is true, with strong winter traffic, for example to ski resorts with little summer traffic.

There are many airports where peak traffic lasts for only a part of the summer or winter period and not for the entire season. Even when seasons extend for a period of months, traffic can be peaked on certain days of the week.

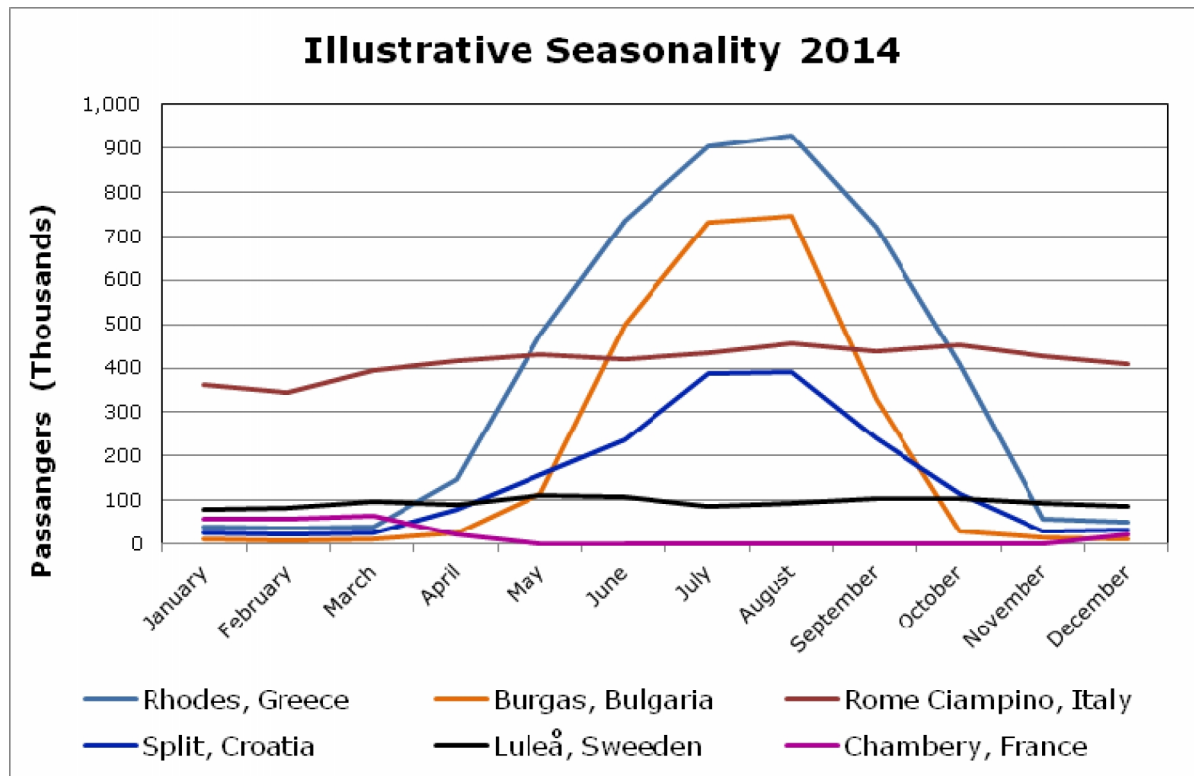
Some airports exploit very short duration niche leisure traffic which lasts for only a matter of weeks, such as Christmas "Santa" trips to a number of Finnish and Swedish airports in the Arctic Circle.

Such characteristics combined with real extremes between peak and trough periods mean that many airports face the challenge of needing to resource to handle the peaks (particularly with regards to investment in equipment), whilst carrying costly spare capacity for large parts of the year.

This may, on the face of it, appear wasteful and of course airport managements must be focussed on cost control and efficient operation. However, without the ability of airports to handle the peak demands which are made of them, there would be a substantial negative impact on many local and regional economies which are extremely reliant on the value of these seasonal traffic flows, particularly in supporting the tourism industry.

The table below provides a snapshot of the vast differences in seasonal experience by secondary airports.



**Figure 1: Illustrative airport seasonality 2014**

Source: ACI EUROPE.

- In the case of Rhodes (Greece) and Burgas (Bulgaria) there is an extreme summer peak contrasting with very low winter traffic. In the case of Burgas in peak months traffic is over 700,000 passengers whilst in the weakest winter months is less than 9,000. Split (Croatia) manifests similar characteristics but with peak season traffic plateauing at a much lower level.
- Chambéry in France provides an example of a reverse seasonal peak with strong traffic in the winter ski season but reducing to almost nothing during the summer months.
- Luleå (Sweden) provides an illustration of an important remote airport with largely consistent (mainly domestic) traffic throughout the year. However it manifests a frequently observed dip when business traffic is lightest in the month of July.
- Rome Ciampino, which is at the top end of the secondary airports bracket, naturally serves a large catchment area for business and leisure traffic. LCC's Ryanair and Wizz account for the majority of traffic and operate an extensive and diverse range of routes. The airport shows a very stable distribution of traffic throughout the year, indicative of the traffic consistency which an LCC can, at best, bring to an airport.



## **2. THE ROLE OF SECONDARY AIRPORTS AND TYPE OF TRAFFIC**

Secondary airports serve multiple traffic flows and it is essential to understand that these are not necessarily discrete. Many routes embrace a mix of traffic flows and motives for travel. They may account for large or small passenger numbers, they may be peaked or stable, seasonal or year round. The main types of traffic at secondary airports are discussed below.

### **2.1. PSO services**

Public Service Obligation (PSO) routes are frequently necessary to ensure that remote communities, cities and regions can be connected to major urban centres and/or capital cities for numerous reasons ranging from access to health and educational services, to facilitating delivery of supplies and providing connectivity to onward travel from larger airports including, but not exclusively, hubs. The rationale is to cover losses on air services which would not be sustainable on a commercial basis.

At the end of 2014 PSO routes are operated in 10 Member States - most commonly in island regions such as Scandinavia, Greece and the Highlands and Islands of Scotland. France however is by far the most concerned Member States with 42 PSO routes.

A PSO air service is put in place in accordance with Articles 16, 17 and 18 of Regulation 1008/2008. This implies notably a tender process and includes clear prescription as to the number of flights per week which must be operated, the available capacity and the maximum price levels which may be charged. PSO routes serve a valuable purpose in the right context but are not always appropriate and can prove to be expensive and inflexible solutions to delivering air services.

The rigidities in terms of frequency, capacity and price do not necessarily result in the best value for money or in access to affordable pricing for many potential users which can itself reduce the number of people actually using the service. There is little or no incentive for airlines operating a PSO to offer lower fares which would encourage greater usage of services and potentially reduce losses. Similarly there is no clear mechanism to encourage the introduction of additional capacity through use of larger aircraft or through the addition of frequencies.

There are alternatives and options for improvement and these should, where appropriate, be considered more widely.

The UK recently introduced a Regional Air Connectivity Fund to support new routes into London area airports. This is designed as an alternative to PSO's, offering start up aid to specified routes which may initially not deliver acceptable profitability or more likely, incur losses beyond those which a commercial operator would/could accept. The Fund is designed to be compatible with EU law but adapted to suit the specific circumstances of access to the London market. One such route is from Dundee to London Stansted. However Dundee Airport's operator Highlands and Islands Airports (HIAL) points out that the scheme does not support or incentivise the addition of extra frequencies once a route is established, only the addition of entirely new routes. Building up frequency is an important step in the development of markets, especially for business traffic, so the ability to be

flexible in how support can be delivered would be a valuable tool in aiding economic development.

A novel approach to escape the rigidity of PSOs is being taken by Scotland's HIAL. It is purchasing two 19 seat Twin Otter aircraft itself for use on specified PSO island routes between Glasgow and Barra, Campbell town and Tiree. In this way it is able to gain greater control by assuming a large part of the risk itself, specifying the timetable it wishes to see operated and not being reliant on a limited choice (or no choice) of airlines with appropriate aircraft. Instead it can seek the best commercial initiatives from potential airline operators.

Since the advent of LCC's, overall market dynamics have shifted and in many cases enormous growth can be delivered in small markets, or entirely new markets created, by the price stimulation which they can deliver. There are occasions when an airport may be able to negotiate a commercial deal with an LCC providing much more capacity and access to the market with a far wider economic benefit than a PSO and its rigid framework could possibly deliver. It can also be possible to do this at a lower cost than the subsidy which a PSO entails.

Ryanair cites the example of Ponta Delgada in the Azores which until recently had PSO restrictions in place on routes to Lisbon and Porto. These have now been liberalised and both Ryanair and easyJet have entered the routes, providing more capacity and lower fares, which will benefit both local residents and tourism whilst reducing the costs of PSO provision. Ryanair also expressed a clear view that "PSO funding fails to stimulate airport efficiency improvements, and in fact may drive greater inefficiency as the airport simply passes costs to the airline which in turn is forced to recoup them through PSO funding" (source: discussion with Ryanair).

What is clear is that some air services to/from secondary airports will always be exposed to vulnerability. There is no one single solution to this and the evidence shows that a variety of approaches can be used with flexibility being important to maximising success.

The key lies in the question of where responsibility should lie, whether this is locally or centrally or a combination. Experience suggests that local influence is of the utmost important to truly reflect the specific issues, needs and considerations of a particular case.

## **2.2. Hub access**

A number of secondary airports either serve, or would wish to serve, a hub airport in order to achieve global access for business, leisure and tourism traffic. Whilst some do so successfully and indeed some serve more than one hub, others have struggled to maintain or even achieve such access.

For instance, Ireland's Waterford Airport attach importance to getting access to Heathrow Airport as compared to Dublin due to the significance of the trading relationship with the southern UK and the extensive onward route connectivity offered to other markets.

There are several access challenges, not least driven by capacity constraints at hubs to achieving this objective. These are described in detail in the chapter on the airline industry. In simple terms, for smaller airports and communities it is challenging if not impossible to do so.

Across Europe, few of any such routes are operated as PSO's but even so significant commercial support may be required to motivate an airline to launch and continue such a route. The main airport in Scotland's HIAL group, Inverness, provides an interesting example.

- Inverness used to have access to Heathrow until 1997 when British Airways transferred the route to Gatwick. It subsequently regained access between 2004 and 2008 when British Midland operated (but not as a true hub feeder) before withdrawing services. To compensate this, the airport secured a service into Amsterdam with Flybe in 2011 but has had to provide a commercial support package covering some regressive reductions in landing and airport charges as well as the provision of marketing funding. In terms of providing connectivity, approximately 40% of passengers are making connections at Amsterdam but overall load factors are modest with less than 70% of seats being filled (source HIAL).
- The route is in its fourth year of operation and it is still not profitable. Losses and support levels are reduced, but this example illustrates the magnitude of the challenge in not only securing such services but making them sustainable.

### **2.3. Business travel**

Supporting business travel is a key role of secondary airports but the term can be used too vaguely. Of course local businesses need to travel in the course of their work, contacts need to be maintained with suppliers or new companies need to be encouraged to open factories, offices and facilities. Air access is key.

Business travel may mean access to a capital city or other important regional centres. It can mean access to a hub, as above, for global market access. It is not met by just one type of air service or level of capacity; it differs according to each set of circumstances.

For some airports, a specific industry may itself provide the justification for an airline to operate a route or provide a certain level of capacity. One or two significant clients may, in some cases, support a sustainable air service. In other cases the need for business travel may be much more diverse with small numbers of people wishing to travel to multiple destinations. It is much more challenging to attract airlines to meet this type of demand especially given the difficulty of obtaining or justifying access to a hub.

Historically business travel was seen as synonymous with high fares and a lucrative revenue source for airlines. Today this is much less the case, particularly on short haul routes. Business travellers, as with other groups, have become much more price sensitive. Here LCC's have played a pivotal role in improving affordability, especially for those who are self-employed or for small businesses. They have also dramatically broadened the choice of destinations which are valuable for business travellers from many secondary airports, a key component of the economic catalyst role which they fulfil.

### **2.4. Leisure traffic/tourism**

Many secondary airports play a crucial role in handling leisure traffic. In numerous cases it is the only traffic source. For many cities and regions inbound tourism represents their economic life blood. This is particularly true in countries such as Greece, Ireland, Portugal and Spain where tourism has been one of the few positive elements in the ongoing economic crisis.

Securing air services based on leisure travel has its own challenges. By its nature it is frequently seasonal and highly peaked (as discussed in the introduction). This is amongst the most price sensitive of travel markets and is highly competitive. There are of course niche segments which can be well served by smaller planes and where travellers are less swayed by price but this is not the norm. In most cases leisure markets are best served by larger aircraft operated by LCC's and charter airlines that have the cost base to offer competitive prices and the capacity to support the large volumes involved.

Airports are faced with possibly the most intense competition in this market segment, needing to offer the best commercial and operational conditions whilst also facing the costs and complexity of seasonal traffic patterns.

## **2.5. Migrant and worker traffic**

For secondary airports in a number of countries, migrant (ethnic) and worker traffic is a very important part of their business and a key contribution to their communities.

France provides a very good example of this with large migrant communities from Algeria, Morocco, Portugal and Turkey. These communities form an important part of the economic fabric in many regions of the country. Strong links remain with their home countries, which in themselves generate economic exchanges in the form of "friends and family" visits contributing to the economic activity of many French regions.

- Thus Saint-Etienne, in the Rhone-Alpes region of France, has developed strong traffic on the basis of this migrant traffic. The airport sunk to a low of 7,000 annual passengers in 2006, losing a PSO route which had previously operated to Paris and a leisure based Ryanair service to London Stansted Airport. From slow and patient discussion with appropriate LCC's it has now been able to build up three routes to Portugal (Porto), Morocco (Fes) and Turkey (Istanbul) supporting more than 130,000 annual passengers. These flights are all based on the strength of key migrant communities, they are well supported, achieving high load factors year round and operating three or more weekly frequencies in each case. Whilst the *raison d'être* may be migrant traffic, such routes will of course attract leisure and tourist travel and a modicum of business travel too.
- The Polish market provides another powerful example. Since Poland joined the EU in 2004 there has been an enormous growth in Polish secondary airport activity and in traffic flows between Poland and other Member States. This has been supported by the presence of well-established Polish communities in countries such as the UK but is also due to labour migration. Prior to the financial crisis the Polish economy was weak, whilst others such as the UK and Ireland were in desperate need of skilled labour which could be satisfied by Polish workers. The development of new air services, mainly by LCC's Ryanair and Wizz has met the demand for this flexibility of labour movement on a cost and time affordable basis, reducing the need to take uncomfortable and lengthy bus journeys often lasting 30 hours! It has also underpins the EU principals of social inclusion and labour mobility.

## **3. REVENUES**

### **3.1. Aeronautical revenues**

The most common ways in which airports earn aeronautical revenues are from landing charges usually billed on a per tonne basis for each arriving aircraft and from passenger fees charged per departing passenger. These charges are direct airport revenue streams, separate from any other government taxes and security fees which may also be levied. Smaller airports may also generate revenues from their own ground handling companies.

Whilst preferably these fees should cover the costs of running an airport this is not the reality of the airport business. It is particularly challenging at secondary airports which are typically unable to secure sufficient aeronautical activity. They are also the subject of intense competition between airports as airlines seek to obtain the lowest possible costs.

Viewed through airline eyes, especially LCC's, airport costs are highly influential in decisions as to which routes will be operated. They are willing to move aircraft between routes and airports depending on the level of airport costs. Nor is competition limited to neighbouring airports or even airports in the same country. It extends to the whole of Europe, limited only by the 360 degree operating range on which an aircraft can feasibly be operated from a given airline base.

The smaller an airport and the more seasonal its traffic, the less aeronautical revenues it can generate. There is nevertheless the requirement to invest in fixed costs including security, fire and air traffic control equipment and personnel. Hence it is not surprising to witness the large number of airports which operate at a loss. According to ACI, in 2013 58% of airports handling between 4 and 5 million passengers lost money, as did 75% of those of less than 1 million passengers p.a. In 2012 these figures were respectively 51% and 65%.

### **3.2. Non aeronautical revenues**

Larger airports are becoming increasingly active and sophisticated in their generation of non-aeronautical or commercial revenues. These make a dramatic difference in helping to keep aeronautical charges competitive and in improving overall financial performance.

Commercial revenues can be generated from a variety of sources including food and beverage, retail, car rental, car parking, tax free shopping and increasingly real estate. However to generate significant revenues from these sources necessitates a consistently high volume of traffic, ideally year round, to justify the required investment in offering the facilities and the development of viable relationships with concessionaires.

The ability to generate non aeronautical revenues is much lower at secondary airports. This directly reflects the lower volumes of passengers which can be achieved as well as the impact of seasonality and even the type of customer: there can be big variances in spend per passenger according to such factors as nationality and motive of travel.

Airports with less than 200,000 passengers per year have very few opportunities to generate more than a fraction of the commercial revenues achieved by larger airports. Frequently these may be limited to little more than a cafe and a car hire desk.

ACI estimates "that on a per-passenger basis, larger airports generate over twice the non-aeronautical revenues that their smaller counterparts have access to."<sup>4</sup>

Small airports find themselves in a vicious circle of higher operating costs, on a per passenger basis, combined with extremely limited opportunities to grow their commercial revenues.

There certainly needs to be a commercial approach by all airport managements regardless of size and to really seek out opportunities for incremental revenue. The balance between generating revenue and making an airport appealing is a challenging one. For example some small airports may offer free car parking to encourage traffic. Whether this can be justified can only be judged according to each individual case.

Every effort should be made to reduce regulatory impediments to such opportunities. For example in Norway, secondary airports are able to sell duty free produce to arriving passengers and so providing a valuable revenue stream<sup>5</sup>. Tax free may not be possible within the EU but the example of whisky sales in certain Scottish Highlands and Islands airports provides a comparable analogy (section 4.3).

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<sup>4</sup> German Airport Performance (Company name), Comparative Study on the efficiency of Avinor's airport operations, December 2012, p. 18.

<sup>5</sup> ACI EUROPE, Airports and State Aid: How to Protect both Growth and Competition, August 2013, p. 5.



## **4. REGULATION AND COSTS OF OPERATION**

In order to be able to accept regular commercial air services, secondary airports are obliged to invest in a certain minimum level of infrastructure and operational capability as well as respecting safety and security standards. The maintenance of these standards comes at a significant cost, often out of all proportion to the volume of traffic which an airport can attract or sustain. Heavy investment in equipment is required and manpower must be maintained at levels which cannot reduce as a function of lower traffic.

Secondary airports are faced with permanent costs imposed by regulations, which may be justified at large primary airports, but which are frequently unduly onerous and costly for smaller airports, especially those below 200,000 passengers per annum.

### **4.1. Safety**

Airports have to maintain fire cover for commercial operations. One fire truck can cost in the region of 600,000 Euros and has to be to the same specification and standard as one used at a major international airport but required to cover a tiny fraction of the activity level. This represents a very high level of capital expenditure for a smaller airport.

The heavy cost burden borne by airports with limited levels of activity is exacerbated as the level of resources involved for fire cover will vary according to type of aircraft. For example, to handle a smaller regional aircraft such as an ATR42 turbo prop with approximately 42 seats will require 1 fire truck and 2 people. On the other hand, to handle a Boeing 737-800 with 189 seats requires 2 fire trucks, 1 car, 4 firemen and a supervisor. Given that some of these larger aircraft may be used at the airport for only 2-3 flights per week on a seasonal basis, the airport is required to maintain these resources and to have the requisite trained man power all year long. It is sometimes possible to use fireman in other multi task works such as maintenance and some airports are able to share manpower and equipment with others which have complimentary peak/off peak periods, however this is not a typical experience.

Airports face the dilemma that these costs have to be spread over a small number of passengers making them uncompetitive in attracting new airlines and services which would ironically actually result in lower unit costs and increased efficiency.

Small airports can be subject to rigorous European Aviation Safety Agency (EASA) audits which are arguably not appropriate in their demands given the small volumes of traffic. These audits verify the operational and safety capability of airports and require the commitment of significant manpower to work with the auditors and to complete paperwork and documentation. They have to be completed to the same standards and requirements as for larger secondary and primary airports and place great pressure on management time as well as distracting from the running of the day to day business. Small airports would therefore argue that a "one size fits all" approach is not appropriate and a lighter regulatory regime should apply.

### **4.2. Security**

Whilst the essential nature of secure air services cannot be disputed, the lack of flexibility and proportionality with which it is applied imposes a further burden on airports. The same security processes and regulations that are used at primary airports are applied at

secondary airports dictating further budget commitments in term of man power and equipment.

Another example of questionable cost burden is the requirement to maintain certain reserved secure areas which are accessible only via security posts which have to be manned full time, even in long periods when there may be no commercial activity taking place. This could be managed more economically by controlling access via a swipe card system, or some areas such as parking could potentially be monitored only in periods of flight operation.

### **4.3. HIAL perspectives on regulation**

The challenges of the heavy regulatory regime were discussed in detail with the Managing Director of HIAL which manages 11 smaller airports in Scotland. The key question is how to put in place a safety and security regime which is proportionate to the volume of traffic. Can a model be developed for the running of small airports in a more cost effective manner without compromising safety and security?

In certain small island airports it may be possible to operate with reduced or zero security based on assessment of risk. In the case of HIAL this could allow some of its airports to operate outside of the UK's National Airport Security Programme. Much work has been undertaken with the main airline Loganair and the Department for Transport. However, the compatibility of such a scheme with the EU legal framework on civil aviation security (set by Regulation 300/2008) shall be assessed.

For example in some Scottish Islands whisky is an important export and additional flexibility could be introduced to allow the carriage of liquids on board by relaxing security requirements. The key is assessment of risk which here takes account of these flights being operated by small aircraft between island airports and other regional secondary airports, i.e. no passengers are being flown to/from international hubs.

It is of fundamental importance to take this risk based approach when considering that without it, it may be necessary to invest in a £100,000 (135,000 euro) security machine for as few as 10,000 annual passengers.

Work is also being explored into the concept of remote towers: the provision of remote Air Traffic Control (ATC) services for small airports with very limited activity rather than the need to have full time manned control towers. The concept has been developed by the car and aircraft manufacturer Saab and received Swedish approval in late 2014. These are already operational in Sweden (Örnsköldsvik) and Norway. This can allow a proportionate approach to ATC provision but due to investment costs would require a long term commitment.

### **4.4. Taxes**

The level of taxes imposed on tickets is a serious problem for secondary airports. Passengers, whether travelling for personal, business or leisure reasons, have a high degree of price sensitivity which has understandably increased since the onset of the financial crisis. Customers do not look at the composition of ticket prices, only the headline price and on that basis make their decisions to travel or not. Away from dense centres of population supporting primary airports, price sensitivity is a much more significant factor.

The LCC business model in particular is based on price and it is this which has led to the strong traffic growth in many secondary airports. To maintain year round services frequently dictates dramatic cuts to average fare levels in the off season in order to keep aircraft full. The level of ticket taxes may lead airlines to conclude that, taking account of price sensitivity and competition, they cannot earn sufficient revenues to make certain routes commercially viable to operate.

If this activity is put at risk by unduly high taxation, so too is the essential economic role which these airports play. Consequently taxes are associated with lower traffic volumes (either via airlines withdrawing services and/or through passengers being priced out). This has a detrimental impact on the local and national economy, via less trade, investment and tourism.

In the UK, Air Passenger Duty (the national departure tax) is applied at different levels to tickets according to geographic zones. It is one of the highest air passenger taxes in the world. Passengers from the Highlands and Islands of Scotland are excluded and direct long haul flights are excluded in Northern Ireland. It is not surprising to see that a number of UK airports have failed in recent years.

The sensitivity to these taxes is currently the topic of intense political debate as other regions of the UK argue that they too are disadvantaged by the levels of this tax. The Scottish Executive ultimately plans to abolish the tax entirely for services to/from Scotland as soon as is feasible.

In France a mixture of government taxes are applied to tickets including an airport tax, a civil aviation tax and a "solidarity with Africa" tax (which is not applied to other modes of transport).

Some countries have recognised the damage that such taxes can do to connectivity and have removed them, for example in Ireland and The Netherlands.

The impact of these ticket taxes can be seen clearly in the tables below:

**Table 3: Current ticket taxes in major European short haul markets (Euros /Euro equivalent on one way economy ticket).**

	Civil Aviation Tax	Airport tax (varies by airport)	Solidarity tax	Total
<b>French Ticket Taxes</b> (Illustration)	4.36	12.00	1.13	17.49
<b>German Ticket Tax</b>	-	-	-	7.50
<b>UK Ticket Tax</b> (Air Passenger Duty) (economy cabin, < 2,000 miles, euro equivalent) (1.00 GBP = 1.39 Euros)	-	-	(13.00 GBP)	18.07

**Source:** Respective Government tax data.

**Table 4: Indicative ticket tax share of average passenger revenue by airline**

	Ryanair	easyJet	wizz
<b>Revenue/euro equivalent</b>	61.67	97.86	72.80
<b>French taxes</b> (% of average revenue)	28.4%	17.9%	24.0%
<b>UK taxes</b> (% of average revenue)	29.3%	18.5%	24.8%
<b>German taxes</b> (% of average revenue)	12.2%	7.7%	10.3%

**Source:** Ryanair and easyJet annual reports 2014 and Wizz financial data February 2015.

The real impact of taxes is in fact higher as this example shows *total* revenues per passenger. Headline ticket prices, on which customers make their purchase decision (excluding other non-ticket revenues), are lower.

The share of average passenger revenue accounted for by taxes is particularly high in France and the UK and lesserly so for Germany. It is particularly significant for those airlines which use a larger number of secondary airports, Ryanair and Wizz.

easyJet achieves a higher average passenger fare level due to its strategy of using mainly primary airports where it is able to attract a larger share of business customers who are willing to pay more for the services and facilities which it offers.

#### **4.5. Regional Airport Guidelines**

In 2014 the Commission introduced its revised Regional Airport Guidelines to cover both operational and investment issues and the management of commercial relationships with airlines.

The principals enshrined in the Guidelines: to ensure fair equitable competition and to avoid state aid are laudable. However the risk is that in trying to achieve these objectives, the Guidelines go beyond their objectives and only serve to compound the challenges faced by these airports in sustaining and developing their activity.

The Guidelines seek to reduce investment and operating aid received by secondary airports but would be more valuable if they addressed the issues raised concerning the heavy regulatory impact on secondary airports. A more flexible regulatory approach could facilitate a reduction in the investment needs of many smaller airports in safety and security equipment. This in turn would reduce costs, reducing losses and improving competitiveness.

The Guidelines acknowledge the challenges faced by small airports in terms of their revenue short fall versus costs and see the progressive raising of charges whilst attracting new airlines to use idle capacity as the solution. This is a contradiction in terms and is a wholly unrealistic view. Competition for air services, price sensitivity of travellers and a necessary focus on costs by airlines makes it imperative for airports to keep charges as low as possible.

Additionally it is suggested that these same small airports should, over a 10 year period, be able to eliminate operating aid. Given their scale disadvantages and the traffic

characteristics discussed, this is not realistic. It fails to acknowledge and understand either market realities or the external economic benefits produced by these airports.

Philosophically, the Guidelines appear to believe that there is generic over capacity. As acknowledged earlier, some regions do have an excess of capacity and some airports face unsustainable competitive conditions but it cannot be said that this is typical or a valid criteria for judging whether all small secondary airports should be maintained.

Similarly the Guidelines are very prescriptive about the scope and scale of cost and marketing negotiations with airlines and actually limit the flexibility and success of secondary airports from competing for business which would help them to increase revenues and improve their efficiency. Air services do not become consistently profitable and sustainable in a three or five year period as evidenced by the high failure rate of airlines and routes. Permanent low airport costs are a critical element of longevity. Consequently there should be greater freedom of action between airports and airlines to make their own judgements about commercial negotiations provided that a level playing field is maintained and unwarranted state aid is avoided. Arbitrary use of regressive frameworks or overly rigid time frames over which incentives may be applied to air services should not be imposed.

There is a need for more delegation of such decisions to local communities to judge according to their local needs, the requirements and value of investment in airport facilities and it could be valuable to look for ways to take airports out of this regulatory regime by applying the principal of services of Services of General Economic Interest.

The guidelines also focus on distortion of competition with other transport sectors without posing the reverse question as to the impact on air services of heavily subsidised rail services. (See discussion at 5.8).



## **5. CHANGING AIRLINE INDUSTRY STRUCTURE AND BUSINESS MODELS**

The changes in the structure of the airline business and in the strategies of its leading players pose the biggest challenge to the future outlook of secondary airports. These trends are examined in detail here.

### **5.1. Consolidation**

The industry as a whole is continuing a path of consolidation, this trend reflects the overall lack of profitability in the airline industry. Profit margins have been historically low and airline failure rates high.

Europe now has three large legacy carrier groupings (operators of hub airports with extensive global networks) IAG, Air France KLM and Lufthansa and two large LCCs, Ryanair and easyJet. Together these airlines account for approximately 65% of total market capacity. This contrasts with the USA where the top five groupings account for around 90% of capacity. In the US market this has led to significant reductions in domestic capacity, increases in fares and loss of services for many smaller communities.

The relative fleet sizes of short haul aircraft and future order plans for these 5 groups is shown in the Annex.

This leaves the rest of the market comparatively fragmented and unstable. There are still a number of small national flag carriers, some still 100% or at least partially government owned. These airlines are struggling to find their place in the airline world and more failures are likely. At the time of writing, the Irish carrier Aer Lingus is in the process of a takeover bid from IAG which, if successful, would provide a further step to European consolidation.

A new generation of airline management is emerging which is very focussed on disciplined control of costs and on the need to build adequate financial reserves to withstand regular market shocks as well as to be able to invest in fleet renewal via adequate profit margins.

This means that the most well managed airlines are of necessity very scrupulous in their decisions about route selection and where to allocate expensive aircraft and crews. They are looking for confidence in markets which can sustain sufficient volumes of traffic at profitable revenues. Airport costs and efficiency are subject to scrutiny as part of this equation. To fully understand the implications for Europe's secondary airports it is necessary to take a closer look at current segmentation trends in the airline industry.

### **5.2. Hub carriers**

The three hub carriers have been wrestling with losses on their short haul networks, the primary function of which is to feed traffic onto long haul services at their hubs. It is these services which are sought by many secondary airports in order to provide connectivity to global markets from their catchment areas. It is becoming increasingly difficult to get access to these European hubs for several reasons:

- Historic losses and competition from LCCs mean that the three hub airlines have been cutting back short haul services as far as possible unless critical to feeding their long haul flights.
- Capacity constraints and lack of slots at major hub airports have also been forcing the hub airlines to make choices about how best to use available slots resulting in further pressure on short haul access. This has been particularly the case at

Heathrow which has seen numerous smaller UK cities lose access over the last fifteen years or so in favour of additional long haul services.

- The absolute level of demand from many smaller airports is low meaning that if services are offered into hub airports they typically require smaller aircraft. In general hub airlines have been increasing the size of their short haul aircraft to make more efficient use of scarce slots. The use of small aircraft is being reduced or phased out altogether in their hubs.

The three hub airlines have also shrunk their stand-alone point to point short haul networks outside of their hubs. Where services are operated, they tend to be in primary or a very limited number of larger secondary airports.

All three now have their own LCC subsidiary airlines but financial success is proving difficult to achieve (with the exception of IAG's previously independent LCC Vueling, which is profitable). These in house LCC's operate flights mainly to primary airports and so are only serving to further reduce access by secondary airports to the services of the three hub carrier groups.

### **5.3. Smaller national carriers**

Many secondary airports have been affected by the challenges facing their own national carriers and whether or how these airlines have been able to respond effectively to difficult market conditions.

In recent years there have been a number of failures of smaller national carriers. Hungary's Malev went into bankruptcy in 2012 and Cyprus Airways went into liquidation in January 2015. In Greece the former national airline Olympic Airways was bought by private carrier Aegean (having already been through a previous restructuring and renaming). The future of Alitalia looked bleak until the recent completion of its acquisition by the Gulf carrier Etihad.

Other smaller national airlines like SAS and Finnair are reflecting on their future recognising that independence is a finite possibility. They are likely to shrink further or become part of one of the larger groupings.

In all cases air services to secondary airports have been lost either due to bankruptcy or where struggling airlines have trimmed their networks, particularly short haul flights, as they endeavour to stem losses.

Perhaps the only favourable example in this category of small carriers has been the restructuring of Air Baltic which has developed a successful hub at its Riga base. The airport saw traffic grow from 1 million passengers per annum in 2004 to 4.8m in 2013.

### **5.4. Low Cost Carriers (LCC's)**

As national carriers have neglected or ignored secondary airports, LCC development at such airports has seen them become the most important airlines operating there. They have democratised air travel in Europe, facilitating growth in tourism as an important economic driver as well as supporting labour mobility. In many cases they are the only source of traffic and where volumes of traffic have been high enough, they have been catalysts to financial success, allowing some airports to support strong growth in non-aeronautical revenues. In other cases the challenge has been to meet the cost conditions required by LCC's.



As discussed, smaller secondary airports are frequently exposed to strong seasonality, unable to sustain year round traffic or to attract higher fare business customers. For this reason LCC's engage in intense cost negotiations with secondary airports to counteract these traffic characteristics.

Whilst LCC's negotiate the best commercial terms that they can achieve, this is necessary to support competitive fares which generate the high traffic volumes which airports, cities and regions are seeking. The larger, wider networks that LCCs have frequently developed have allowed them to secure improved commercial terms through the creation of competition between airports.

It should further be noted, given the high occupancies achieved and the traffic volumes which LCC's deliver, that for many secondary airports and their partners the financial commitments on a per passenger basis are often lower and more efficient than the subsidy commitments which are required in the case of low volume PSO routes.

LCC's more than any other type of airline have increased tourism access to many parts of the European Union and have frequently stepped in to markets where other airlines have retrenched or failed. They also play an important role, as described earlier, in fostering social inclusion and labour mobility. Their affordable fares and development of new services have been particularly important to countries facing challenging economic conditions such as Portugal and Romania.

Ryanair is the biggest LCC as well as being the largest overall short haul airline in Europe; it is also the most important user of secondary airports. The airline has over 300 aircraft in its fleet with orders for 383 more. Its net fleet is expected to be 520 aircraft by 2022, with passenger numbers rising from 90 million per year currently to 160 million by 2022.

It recently revised its strategy to focus 50% of its future growth on primary airports and to more actively seek to appeal to business travellers. Whilst this leaves substantial opportunity for many secondary airports (assuming 50% of its passenger growth to c. 120m by 2019 is at primary airports, this still leaves traffic growth of c. 15m passengers at secondary/regional airports).

Others, however, may find that they lose services. Certain routes will be built up to high frequencies and this will be partially at the expense of other lower frequency services.

The company's rationale in moving increasingly into primary airports is based on its confidence to add high frequency route on a year round basis, coupled with more competitive costs offerings from these airports following the retrenchment of legacy carriers. It is also likely to secure higher average revenues than typically achieved at secondary airports through being able to attract more business customers.

Even an airline with the financial muscle of Ryanair is exposed to the reality of the more seasonal nature of travel at secondary airports and the consequent need to price more aggressively to drive traffic at quieter times. Despite its low cost base and its low fare offers it cannot sustain all routes on a year round basis and sees the need to ground large numbers of aircraft in the winter season as described earlier. More recently it has been successful in reducing the level of seasonality in its network which in part reflects its increased moves to primary airports. For winter 2014-15 its average daily capacity was just 20% less than average summer capacity. (Source: Ryanair)

Ryanair questions what incentive there would be for it to operate into secondary airports if there is no favourable cost differential.

In discussion with Ryanair, the company stated that "secondary airports will continue to play a substantial role in Ryanair's network strategy as long as they continue to offer competitive commercial terms with regard to airport and handling charges. Effective cost control and the development of ancillary revenue streams remain the most important priority and challenge to secondary airports." (e mail communication)

Easyjet is the second largest LCC in Europe. Its strategy, however, is clearly focussed on primary airports and it actively targets the business travel segment. It does serve a number of secondary airports but does so on a more seasonal basis, for example in July and August when business demand is weaker and aircraft can be redeployed to leisure markets.

Wizz is an LCC operating from bases in Central Europe but linking many airports in the west. It is an important user of secondary airports. Much of its customer base is from lower income economies and is travelling for reasons of work or visiting family. It is imperative to have access to affordable fares. Wizz is an equally demanding negotiator with airports but the success of its strategy has driven enormous growth at secondary airports particularly in Bulgaria, Poland and Romania.

Other LCC's also serve secondary airports but do a much more geographically limited basis. Norwegian, with bases in Scandinavia, Spain and the UK serves a small number of secondary airports chiefly in its home Scandic region.

## **5.5. Charter airlines**

There has been considerable rationalisation in the charter market with a number of failures and mergers. The segment is now substantially concentrated in the hands of the holiday and leisure groups, TUI and Thomas Cook. Airlines in these two groups do offer stand-alone air fares but their primary role is to provide capacity to their parent companies to be sold as part of an overall package. They are extremely important to secondary airports in Mediterranean destinations and ski resorts where their activity is concentrated but they do not have the same influence on driving independent tourism or meeting the needs of other customers such as the business or migrant/worker markets.

## **5.6. Regional airlines**

The essential life line services which are supported by many secondary airports are served by aircraft with small capacities in the range of 20-50 seats. A number of commercial routes fall into this category as well. This reflects the limited levels of demand on some routes but also operational conditions which dictate that only small aircraft can be used at some airports. There are only a small number of airlines operating in this segment of the market and unless operating PSO routes, their business model is exposed to considerable fragility.

Operating costs of smaller aircraft are much more expensive on a per seat basis than larger aircraft. This applies to both turbo prop and jet aircraft but is particularly so for the latter. High fuel prices over the last few years have really exacerbated the problems faced by these operators, explaining the high failure rate.

High unit operating costs correlate with the need to apply higher average fare levels which can handicap development of air routes at many secondary airports. There is no way that regional operators can economically compete with the prices offered by LCC's. Lack of traffic due to higher fares also means that load factors are much lower (in the region of 40-60% compared to over 80% achieved by LCC's).

Many regional airlines have experienced instability in their route networks or gone out of business entirely. The following examples provide illustration:

- Eastern Airways, a well-managed UK airline, has seen a number of secondary airport routes operated and terminated both when operated on a commercial basis and when a support package has been provided (Dijon example discussed earlier).
- VLM in Belgium, which operates 50 seat Fokker 50 turbo props, has seen two recent changes in ownership and is experimenting with new secondary regional routes. Some in the UK have been suspended, whilst at the time of writing, new services have been announced from Waterford in Ireland.
- Darwin Airways, in Switzerland, has operated numerous routes into EU secondary airports. In 2014 it was rebranded Etihad Regional after the Gulf carrier took a stake in the company. It has introduced and suspended services to a number of secondary airports and in February 2015 announced the termination of a large number of routes along with staff redundancies.
- Twinjet, a mainly French domestic airline, operates 19 seats Beech 1900 turboprop aircraft. It has seen considerable instability in its network over the last several years with numerous route changes, reflecting the challenging market in which it operates<sup>6</sup>.
- Cimber, a Danish regional airline operating primarily within the Danish domestic market and in Scandinavia went out of business in 2012 before being purchased by SAS (Scandinavian Airlines) to operate a limited number of services on its behalf.

## **5.7. Regional aircraft types**

Apart from the economic challenges of operating such services the very real question emerges as to what aircraft types will be available to operate services of this type in the future? Manufacturers are investing heavily in new technology and new aircraft models in the long haul market segment and similarly in the larger short haul jet segment (Airbus A320 family, Boeing 737 family). More efficient regional jets are being built, though typically with larger capacities than many of those being used today, the move is away from a 50 seat bracket to closer to 100 seats. Larger turbo props (ATR's 42 & 72 and Bombardier's Q400) are being improved, but these too have seat capacities in excess of 40 seats and some above 70.

There is a potential problem developing for the future resourcing of many routes at secondary airports which can only be viably operated by small aircraft types.

Currently these are flown by turbo prop aircraft such as Beech 19's, Saab 340's and Jetstream 31 and 41 aircraft with seat capacities of between 19 and 40 seats. There are no new model aircraft planned or in production to replace aircraft in these categories. Manufacturers of jets with 50 or less seats are now replacing these with larger models precisely because the cost economics of these smaller models are increasingly unsustainable.

These aircraft are ageing and the nature of their flying is "high cycle" meaning frequent but short flights which puts the greatest strain on the airframe and requires heavier maintenance and design life limitations.

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<sup>6</sup> [Anna Aero Analysis 18 September 2013](#)

## 5.8. Competition with rail

There can be a tendency in the minds of some to assume that rail is somehow more legitimate than air transport and that aviation can have an adverse impact on the industry. The reality is that the best rail services and high speed trains specifically operate between densely populated centres. Elsewhere services can be lacking, inconsistent and subject to lengthy journey times, if they exist at all. For example, east-west or "transversal" journeys in France are very difficult to make without diverting via Paris. In the Highlands of Scotland it takes around 4 hours to get to Edinburgh or Glasgow from Inverness and 8 hours or more to reach cities in the North and Midlands of England. These sorts of journeys are not conducive to the development of business, day return trips are not possible for example.

Many secondary airports even in the most populous Member States and not only in remote communities provide connectivity and access which rail cannot or does not deliver to a satisfactory level.

It is not only a question of access but also of pricing. While regulation may offer certain guarantees on maximum fare levels, rail travel is becoming increasingly expensive with people being priced out of the market. Leisure or price sensitive tickets tend to be very limited in their availability and subject to many rules and regulations. By comparison to airline pricing, which is driven by competition and demonstrates dynamism, rail pricing is antiquated.

In France, expansion of the TGV High Speed Rail network has been accompanied historically by price increases of 20-30%<sup>7</sup>. This is in stark contrast to the price competitive nature of most air services.

It is disappointing too that there is a lack of transparency on rail pricing and occupancy, a contrast to the amount of data published by most airlines. This would confirm the poor performance of rail compared to air services.

Without the key role of secondary airports and the airlines serving them there would be an enormous negative impact on the collective Community economies and on the mobility of its citizens.

On top of this airlines have to contend with enormous subsidisation of the rail industry causing a vast distortion of competition in the transport market: according to a recent study produced by ERA (European Regional Airlines Association) the yearly average amount of subsidies to the rail sector in Europe in 2007-2009 was €41.85 billion, which represented almost 120 times more than the amount of state aid granted to air transport (€338 million)<sup>8</sup> - while over the same period about 6% of passenger volume was transported by train and around 9% by air.

Nor is the rail industry subject to the level of costs stemming from safety and security requirements to which airports and airlines are exposed, further distorting the competitive balance.

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<sup>7</sup> [La Tribune 1 April 2015](#)

<sup>8</sup> [ERA, Rail subsidies](#)

## 6. ENVIRONMENT

Environmental considerations pose another challenge for secondary airports. As this report has made clear secondary airports have a wide ranging role to play and in many cases they provide the only realistic means of transport in terms of practical access, convenience, time and cost. Of course airports have to adopt a good neighbour approach in terms of noise and emissions. They can be helped in this by ensuring that good access is provided by efficient public transport, particularly by train and bus to encourage fewer people to drive. Airports should monitor their carbon emissions and engage actively with local communities but this has to be managed in the context of the essential economic role which most secondary airports perform.

Many issues falling under the environmental heading concern the operation of airlines and it is worth highlighting those elements which have most relevance to secondary airports. The aircraft using secondary airports are generally either small and unobtrusive turbo props or large modern airliners such as those used by LCC's. Airlines like Ryanair, easyJet and wizz have the most modern aircraft in their fleets with the greatest fuel efficiency, producing the lowest emissions as well as having the lowest noise levels. The same airlines have large orders in place for the "next generation" aircraft from Airbus and Boeing which will produce further improvements stemming from an anticipated 20% reduction in fuel burn per seat.

LCC's also operate at extremely high load factors (occupancy levels) as compared to other airlines. Ryanair is achieving 88% and easyjet over 90%, meaning that few empty seats are flown on their services.

It's not all in the airlines' hands however, the EU has not yet delivered on the Single European Sky (SESAR) which will significantly reduce delays and lead to improved flight routings. This is a key piece of EU policy which will make a dramatic positive difference to airline emissions but which is proving creakingly slow to progress.

It is also important that regulation concerning emissions should in this case, contrary to what has been expressed elsewhere in the report, not be too localised. Airlines fly across political boundaries and many of those using secondary airports also fly outside the EU. Legislation concerning noise and emissions needs to be consistent not only at a Union level but beyond it.



## **7. CONCLUSIONS AND RECOMMENDATIONS**

The existence of many secondary airports is fragile, subject to many external influences over which they have no control and yet overly inhibited by regulation which imposes excessive costs whilst limiting commercial freedom of action. They face structural challenges of limits to potential demand, strong seasonality and the impact of consolidation and changed business models in the airline industry. This has reduced options for traffic from some traditional sources whilst creating opportunities, at least where demand is sufficient, from LCC's. Competition between airports for air services is intense.

The role of secondary airports as key economic catalysts is without question but there is a really diverse spectrum of experience. They serve multiple types of traffic, but how valuable and critical this role is can only be decided effectively by the local communities themselves.

In some cases there is scope for rationalisation where nearby airports compete for the same traffic and the same resources. Such experiences are not typical and cannot be decided by a "one size fits all" policy determined centrally. There should be as much freedom as possible for local communities to decide on their own destiny, making decisions as to whether to support an airport by taking account of its wider external economic benefits beyond any direct losses.

In the best cases there is evidence of dynamic management working hard to improve the efficiency of their airports and to engage with airlines to secure long term commitments to air services to the benefit of their communities. There are also examples of innovation to find new ways of doing things and at the same time frustration about things which cannot be done due to financial and regulatory limitations.

The outlook remains difficult but a number of recommendations can be made to increase the chances of sustainability and to permit secondary airports to flourish to their full extent:

- There is a real opportunity to lighten the level of suffocating regulation which may be more justified in application to primary airports but which adds extra cost and inflexibility at secondary airports.
- Increased flexibility regarding safety and security standards, better acknowledging real levels of risk would reduce costs and the need to invest in expensive equipment for airports.
- A more flexible approach to the concept of PSO routes, as demonstrated by a number of the examples cited here, would be a way to produce outcomes more tailored to market needs and to reduce costs and public budget burden.
- Further revision of the Regional Airport Guidelines needs to be made a priority, acknowledging the changed structure of the airline industry and providing secondary airports with greater flexibility to negotiate commercial deals with airlines. This would assist in attracting more air services and help improve productivity of many airports as well as providing at least modest opportunities to increase their commercial revenues.
- For many small airports it is unrealistic to assume either that they can eliminate losses over the next 10 years and also to assume that there is widespread over capacity.

- It is accepted that there is a price for the provision of road and rail infrastructure, airports too play a fundamental role as generators of external economic benefits. Where there are no convenient and practical alternatives communities depend on them for the direct jobs which they create and the indirect jobs which they facilitate. A new regulatory approach should be taken with the maximum local autonomy to decide on needs and whether to invest or not.
- There needs to be a recognition and moves to correct the lack of level playing field with respect to other transport infrastructure, particularly the privileged position of railways with their high levels of subsidy.
- As far as the environment is concerned the advances made by the airline sector and ongoing efforts need to be better understood and acknowledged.
- The airlines using secondary airports are already very focussed on efficiency and use aircraft with the latest engine technology. Uncertain fuel prices are themselves a great motivator for airlines to reduce consumption and emissions.
- Efforts should be made to expedite progress on the SESAR programme to assist airlines and airports in their attempts to reduce emissions.



## ANNEX

### Short Haul Fleets Top 5 European Airline Groups

	Short haul Boeing/ Airbus	Regional Aircraft < 100 seats	Future Orders	Options
<b>IAG</b>	271	-	93	182
<b>Air France KLM</b>	221	161	20	
<b>Lufthansa</b>	277	85	160	50
<b>easyJet</b>	226	-	135	100
<b>Ryanair</b>	308	-	280	100

**Sources:** IAG Annual Report p 27; Lufthansa Annual Report p 56; Air France KLM Annual Report 2014 pp 92 & 154; easyJet Investor Day Presentation September 2014 p 103; Ryanair 2014 Presentation.





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ISBN: 978-92-823-7141-1 (print), 978-92-823-7140-4 (pdf)  
doi:10.2861/97191 (print), doi:10.2861/890137 (pdf)