

8th International Conference on Air Transport – INAIR 2019

GLOBAL TRENDS IN AVIATION



**IS A REGIONAL AIRPORTS BUSINESS
A WAY TO MAKE A PROFIT?**



ING. MICHAL ČERVINKA, PH.D.,
College of Entrepreneurship and Law

INAIR 2019
12 - 13 November 2019, Budapest



TOPICS

- **Regional airports** which handled **up to 3 million passengers** per year have very often profitability problems.
Author explores **viability** of such regional airports for the longer time.
- The airports situated mainly in Central and Eastern Europe are focused.
- Many airports are **subsidized** from public funds and this situation is in the author's opinion **unsustainable** in the long term.
- Does exist a regional airport that is **profitable** even without **subsidies**?
- The **problem of profitability and sustainability of regional airports** is a pan-European problem that is also discussed by the EU institutions.



Questions

- Is it possible to operate an airport as a profitable company?
- Is it possible to operate a regional airport as a profitable company?
- In EUROPE?
- In EU?
- It is therefore questionable whether it is possible to operate regional airports as a standard economic subject and to achieve at least operating profit and whether a long-term loss-making airport is sustainable.
- Is business in such an environment standard and normal?



Definition of Regional Airport

- **In the US**, the Federal Aviation Administration subdivides airports **with commercial traffic into primary and non-primary airports**, based upon the number of annual passenger boarding FAA (2017).
- **ACI EUROPE** (2014) considers that the catchment area and/or annual traffic of an airport are not valid indicators of whether an airport is regional or not.
 - An airport should **be considered as regional** if it:
 - **primarily serves short and medium range routes and**
 - **primarily serves point-to-point destinations**
- According to **ICAO** (2016) “A regional airport generally refers to an **airport of a medium or small city** that is mainly served by short-haul regional services”.
- According **EU** (2014) **"Regional airport" means an airport with an annual traffic volume of up to 3 million passengers.**

Public support for airports



Public support for airports is becoming **usual and obvious**, and the pursuit of economic **sustainability** seemed to have **disappeared**.

Director General ACI EUROPE **Oliver Jankovec** said about this problem: “Meanwhile, economic sustainability remains an on-going concern for many regional airports – especially at a time when the European Commission is reviewing its State Aid Guidelines.

61% of airports handling less than 5 million passengers per year are loss making – with that percentage rising to 71% for those with less than 1 million passengers” ACI (2019).

Government's view of the economy could be summed up in a few short phrases:

If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.

R. Reagan



Public Support rules

State Aid according Guidelines on State aid to airports and airlines EU (2014):

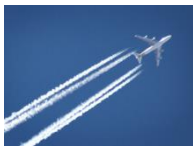
- Airports 3- 5 mppa: investment aid is approved only under certain case-specific circumstances
- Airports handle <3 mppa: investment and operating aid to the airport is approved



Good and not so good examples

Selected Airports 500 000 - 3 million passengers - revenue and costs per passenger in 2017

Airport	Passengers	Revenue per pax (EUR)	Cost per pax (EUR)	Profit (EUR)
Germany				
Bremen	2 540 084	18	20	-3 343 336
Hahn	2 471 900	16	23	-17 180 794
Leipzig / Halle	2 361 534	45	45	-20 935
Dortmund	2 000 695	13	13	-13 400
Weeze	1 885 811	7	7	-643 278
Dresden	1 706 563	27	30	-5 404 797
Karlsruhe / B.-Baden	1 240 551	16	19	-3 660 040
Memmingen	1 179 875	8	3	-6 628 000
Münster / Osnabrück	962 348	21	31	-9 957 458
Paderborn	739 092	15	14	469 341
Friedrichshafen	517 209	17	20	-1 715 310
Austria				
Salzburg	1 890 164	36	35	2 101 000
Innsbruck	1 092 547	34	28	6 667 120
Graz	959 166	35	30	4 655 161
Slovakia				
Bratislava	1 942 069	15	17	-3 598 000
Košice	496 708	23	19	1 922 832
Czech Republic				
Brno	470 285	17	15	1 020 823
Ostrava	324 116	29	31	-597 000



Good and no so good examples

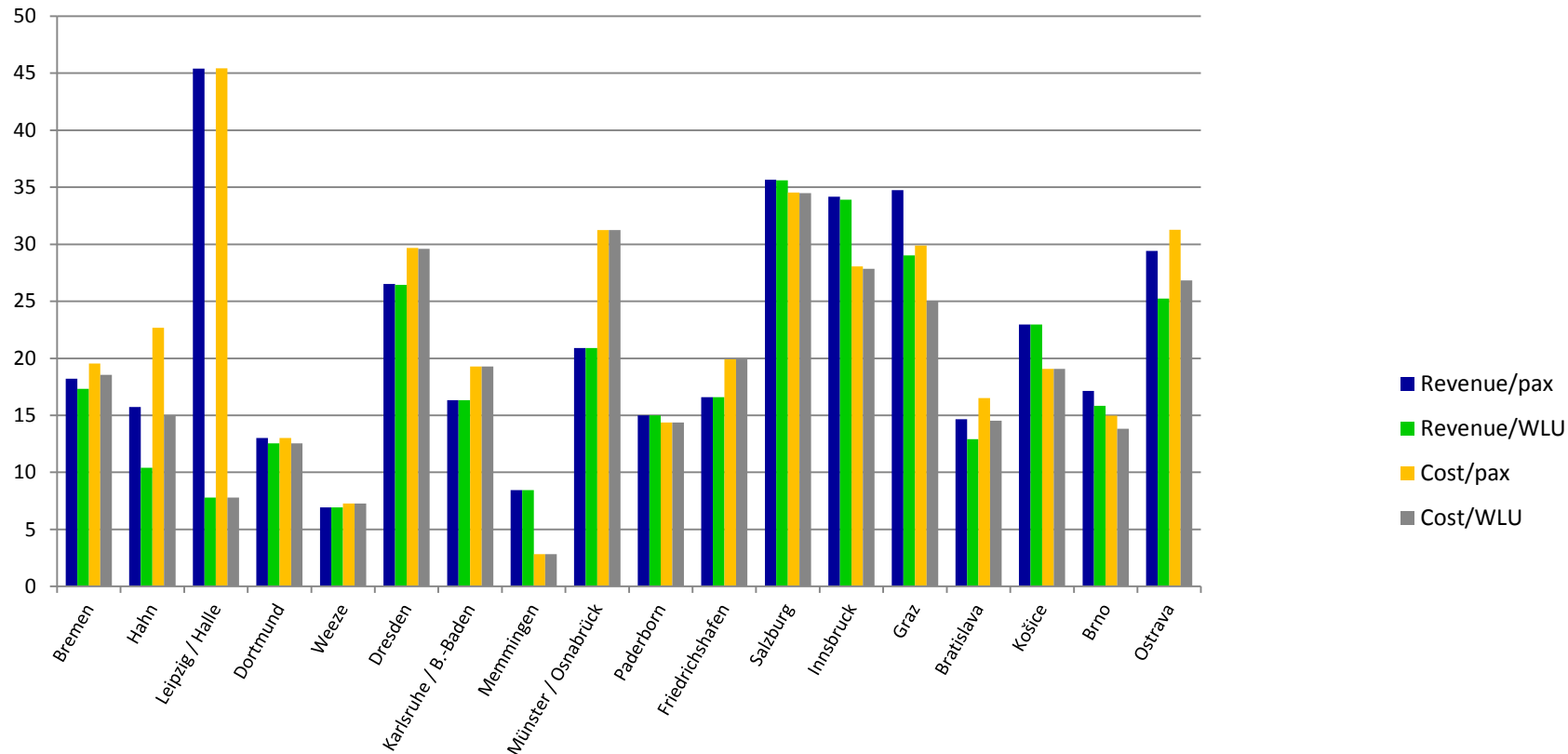
Performance of Selected Regional Airports Austria, Slovakia and Czech Republic in 2017

Airport	Passengers	Revenue (T EUR)	Costs (T EUR)	Profit (EUR)
Austria				
Salzburg	1 890 164	67 371	65 270	2 101 000
Innsbruck	1 092 547	37 330	30 663	6 667 120
Graz	959 166	33 321	28 666	4 655 161
Slovakia				
Bratislava	1 942 069	28 461	32 059	-3 598 000
Košice	496 708	11 401	9 478	1 922 832
Czech Republic				
Brno	470 285	8 060	8 060	1 020 823
Ostrava	324 116	9 534	10 131	-597 000

Revenue and cost per passenger and WLU in 2017



EUR



Comparison of selected airports



Effect of depreciation on profit / loss of airport in 2017



Conclusion1 revenue and subsidies



Possible solution - a way from hell

- **Regional airport operation can be a profitable business**, but airports with up to 3 million passengers are mostly generating loss. This problem is serious, and it is solved by the EU and professional organizations such as ACI.
- **LCC phenomenon complicates the situation** in the air transport market due to their philosophy of transfer costs to the airports and **Network carriers** often **copy** this philosophy in relation to regional airports.
- **The airport owners often come from public sector** and they feel the airport subsidies to be a natural phenomenon especially when they are living in an EU environment of subsidies. **This approach is unlikely to change in the near future.**
- **Goal** Nevertheless, it would be appropriate **to reduce the share of 71 % of loss-making** airports in the EU.
- **The way to achieve this should be a mix of airlines that will generate higher revenues from airline activities.**
- **The development of non-aviation activities is another area that should generate revenue.**

Many airports do not have the potential for significant development of non-aviation activities but have not yet further developed their potential. Ostrava Airport, which is located in a major industrial agglomeration, has, for example, an aircraft repair shop and a cargo terminal located in its territory.

- **Thus, the long-term loss of such an airport may not be permanent.**

Conclusion 2- Fair trade concept and change of understanding airport business



- For example Polish airports have reached a turning point (break even point) in many cases earlier, than regional airports in other countries.
- **Although airport operations is not a simple business, the goal should be to generate profit or at least not to generate a loss.**
- The way could be a "**fair trade**" philosophy used in relation to developing countries. It should also pay a good price to the airport for a good service. The platform could be the Regional Airport ACI Europe Forum, which could bring the issue of fair prices to the EU.
- **Changing the thinking of management and owners of regional airports** from the public sector should be a first step towards remedying the situation.

CONCLUSION 3 POLITICAL ENVIROMENT



Support for regional airports is also becoming a political issue.

- Transport & Environment (**T&E** - an environmental group) analysis says that **40 percent of Ryanai's regional airports are loss-making**. These airports are supported by public sources. **T&E suggests closing these airports to help protect the environment** (Jeane, 2019).
- **ACI considers these** conclusions T and E to be **inaccurate and hasty**. It points out the benefits of regional airports and their minimum share in the carbon footprint (ACI Europe, 2019).
- It is clear, that regional airports need to be solved at EU level. The high market power of LCCs should be adjusted legally to competition rules, as in other sectors.
- The issue of **regional airport turnover is also discussed** at the local level by the authorities and the public. **(airport versus hospital or roads, etc.)**
- Regional airports **should collect a reasonable fee** for their services. **Applying such rules would increase the profitability of at least a part of today's loss-making regional airports.**
- These questions are up-to-date and, according to the author, require a quick solution given the frequent politization of this topic.

Behind the paper:

There is no time to sleep !!!



- AUA alarming situation
- Lufthansa strike
- German environmental tax on air tickets
- Environmental resistance to air transport (i.e. Greta)
- Bancruptcy of air carriers
- Economic depression
- Oil crisis
- MAX troubles
- Public tender OSR, BRQ-example
- **Remark: Is it only declaration? An author's wish?**

Thank you for attention!
Děkuji za pozornost!

Questions?
Вопросы?

Sorular?
Otázky?

Fragen?
Pytania?





Conclusions & results

- The solution is primarily to **increase incomes and revenues** from the airport's own operations.
- The airport should seek to **create favorable conditions for other types of carriers** (network, charter) that will bring more revenue for the airport. (more favorable mix of air carrier).
- This is **confirmed by the results of the Austrian airports and shows the possible way to be profitable**, although the volumes of checked-in passengers are not exceptional.
- The common feature of their operations is the predominant network and charter regional umbrella".