SUSTAINABILITY OF A REGIONAL AIRPORT – IS A LOW COST MODEL THE WAY FOR SURVIVAL AND PROSPERITY?

Are Low Cost Carriers a problem for the management of regional airports?

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TOPICS

• The authors examine the effect of the type of operation on the airport performance.

• The aim is to study the type of air carrier operation at selected airport airports and to discuss the questions related to the vertical relations between the regional airports and the airlines operating from these airports.

• The problem of profitability and sustainability of regional airports is a pan-European problem that is also discussed by the EU institutions.
REGIONAL AIRPORT BUSINESS ENVIRONMENT

BACKROUND

• **THE DEREGULATION** of air transport and the political changes in Europe have radically changed the conditions for air transport.

• **THE ENTRY OF THE LOW COST CARRIERS** (LCC) brought reductions in air fares, thus generating an increased demand for air travel.

• The decrease in air force spending reduced the operation of military aircraft and **NEW OPPORTUNITIES OCCURRED FOR THE USE OF FORMER MILITARY BASES FOR CIVIL AVIATION**. Other operating conditions, such as changes in airports ownership, may also differ, for example the transformation of public assets from state to regional governments, or a different degree of privatization from partial to full privatization.

• **THE STRUCTURE OF DESTINATIONS** at regional airports changes from an almost exclusive **HUB-Spoke** system to a **point to point** system or a combination.

Remark: Point to point system existed in the past, especially in summer or winter tourist destinations. This segment also applies a hybrid system, part of the aircraft’s capacity is sold to travel agencies and the rest is offered to free sales. The part of the segment used as a charter is transformed into point to point segment of regular traffic.

• Downsizing the operation of military air force allowed to involve former military airports into civilian traffic to group of civilian airports previously operated but the question of operating airports has also risen.
Regional airport business environment
LCC approach to Operator

• **Airport ownership** is one of the aspects of airport operations. Regional airports **mostly owned by the state**, their full privatization was exceptional. The state often retains ownership interests in airport companies, or exerts its influence through regional governments.

• **The airport operating model is another factor.**

• Airports can be served by: network, charter or LCC

• **New civilian airports may have a problem with entering the civil air transport market. One of the options is the use of LCC.**

• An orientation to LCC can have a negative impact on the airport's economic performance due to the bargaining power of low cost carriers.

• **LCC push prices down and, moreover, they often request marketing support for their operations from the regional airport.**
Regional airports mostly owned by the state, their full privatization is exceptional.

LCC push prices down and, moreover, they often request marketing support for their operations from the regional airport.

Usual LCC approach to RA: pay and we will fly. (Author’s experience)

Some regional representatives consider subsidies the only way to ensure airline connections (usual EU understanding?)

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
EU x authors approach

• The EU (2014) considers the regional airport as one that handles up to 3 million passengers per year.
• EU further says that an airport that handles less than 3 million passengers per year can be supported both operationally and in a capital manner.

Authors questions: 1. Is a business model oriented predominantly on low cost carrier operation is sustainable? (profitable)
   2. Has the type of airport ownership a significant effect on its performance.
   3. If the airport handles a significant amount of air cargo, can it achieve profitability?

Author’s hypothese (expectation): The airport, which will reach about 1 million passengers, should be profitable, although the EC notes the economic problems of airports with a pax number of up to 3 million passengers a year.

Remarks: LCC customer segment is price-sensitive, it can be assumed that their non-aviation service spending will be limited.

Small regional airports have a weak negotiating position against the LCC.
RESEARCH AREA GERMANY X AUSTRIA

A developed German economy, which is not affected by the problems of the transformation of the economy.

**German air transport market:**
- a strong purchasing power
- significant customer mobility.
- expectations to higher spending for service

**Selected German airports:** handled about 1 - 3 million pax per year have a significant share of LCC traffic

Another criterion for selection: 1. airport, with a larger bargaining power assumed, namely Frankfurt Hahn. This airport was originally owned and operated by Fraport Company which operates the Frankfurt Main Airport.

2. airport with a better negotiating position Dortmund Airport. (long tradition of civilian traffic and stable ownership relations).

3. Weeze and Memmingen airports were selected as an example of transformed airports with an assumed lower bargaining power.

German airports was complemented by Austrian regional airports to explore airports operating in somewhat different environments of a smaller country with other demographic conditions.
**Selected German Airports**

**Frankfurt Hahn Airport**
Former military base USAF. Civilian traffic had begun in 1993. Passenger traffic is practically fully operated by LCC. The share of air cargo is significant but its volume decreases. Ownership is a combination of private and public sector. Since August 2017, The HNA Airport Group GmbH (Chinese conglomerate) is the majority owner and holds an 82.5 percent stake in the company Flughafengesellschaft Frankfurt-Hahn GmbH. The state of Hesse holds the remaining 17.5 percent. Former majority owner was Fraport AG.

**Dortmund Airport**
Airport with long history holding back to thirties. It has been full civilian airport during the whole history. There are two shareholders - DSW21 (74%) and the city of Dortmund (26%). The Dortmunder Stadtwerke AG (DSW21) is a municipal enterprise in Dortmund that is 100% owned by the city of Dortmund. The number in the company name refers to the 21st century. It means that the airport is entirely in public hands. Airport traffic is mostly provided by LCC. The share of charter and network traffic is insignificant and represents less than 10 percent of traffic. Freight has a fairly stable volume, but it is not an important part of traffic.

**Niederrhein-Weeze Airport**
Former British military airbase located close to the Dutch border near Nijmegen, which has been converted into a civil airport in 1999 and started commercial operations in 2003. Ryanair is its largest client. The German authorities privatized the formerly state-owned company which manages and owns the airport when it was sold to a Dutch private investor in 2002. The Commission has approved public support to the regional airport of Niederrhein-Weeze. The various support measures, particularly the loans granted jointly by the District of Kleve and the Municipality of Weeze, were either free of state aid, or in line with the 2005 and 2014. Moreover, a direct grant was provided by the North Rhine-Westphalia. In present time, 75 percent of shares are in private hands and 25 percent remains in public ownership. There is no cargo handled at the airport.

**Memmingen Airport**
Airport is former German and American air base. Allgäu Airport GmbH & Co. KG was founded in 2002. Airport operator is owned by 71 mostly local, medium-sized companies, with only minor public shares. Passengers transport is mostly provided by LCC. Cargo is not recorded in Airport statistics.
Selected Austrian Airports

**Salzburg Airport**
Airport was opened in 1926. The shareholders are Land Salzburg Beteiligungen GmbH (75% shares) and Stadt Salzburg Beteiligungs GmbH (25% shares). Both subjects are in public ownership.

**Innsbruck Airport**
The airport was opened in 1925. The shareholders are Innsbrucker Kommunalbetriebe (municipal service company, 51% shares), Province of Tyrol (24,5%) City of Innsbruck (24,5%).

**Graz**
The airport was opened in 1913. The shareholders are 99,9% Holding Graz – Kommunale Dienstleistungen GmbH (99,9%) GSU Gesellschaft für Strategische Unternehmensbeteiligungen m.b.H (0,1%). Both subjects are in public ownership.

**Linz**
The airport was opened in 1955. The shareholders are Oö Verkehrsholding GmbH (50%) , Stadt Linz Holding Gmbh 50%. Both subjects are in public ownership.
Airport’s performance Pax and EUR

<table>
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<th>AIRPORT / PARAMETER</th>
<th>HHN</th>
<th>DTM</th>
<th>NRN</th>
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Selected Regional airport operation and performance

Despite the fact that the selected regional airports handle millions of passengers, their results are not positive.

On the contrary, Austrian regional airports make a profit, even though they carry a comparable number of passengers.

Austrian regional airports have a smaller share of LCC traffic and significant cargo traffic. The research results of selected German airports were compared with the profit or loss of other German airports, which handled less than 3 million passengers per year.
SELECTED REGIONAL AIRPORT CARGO PERFORMANCE

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Net profit of selected airports 2010-2016
The profit/loss per pax of selected airports 2010-2016
Conclusions & results

- **concentration** of regional airports mainly on LCC traffic should bring economic problems.

- Although it cannot be fully demonstrated that focusing primarily on LCC generates a loss, it is obvious that this fact has a significant effect on such a result.

- The results of the survey confirm the EC's opinion on the issue profits and financing of airports, which handle less than 3 million pax per year.

- Incomes from aviation activities do not allow for positive economic results.
Conclusions

• The Weeze case is not typical because the positive economic result is achieved by renting a land for a photovoltaic power plant.

• The economic results of Hahn Airport are surprising. Despite the fact that the airport handled a significant volume of cargo transport, it did not achieve a positive result.

• The form of ownership of the airport has no significant impact on the results achieved.

• Hahn can illustrate an example, where neither a strong owner (Fraport AG) is a guarantee of positive results and performance.

• Hahn's statistics show a downward trend in performance and Fraport has decided to sell its share to a Chinese company.

• On the other hand, Austrian regional Airports generate profit, although they handle significantly less than 3 million pax/year.
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".
Conclusions & results

• Full concentration on LCC traffic is therefore rather problematic.
• However, it is not possible to reject the LCC when the customer requests it and the LCC is the only type of airlines willing to operate an air connection.

There is no clear conclusion that the LCCs "eat the regional airports' profitability", but such airports have smaller bargaining power against LCC. It is very difficult to find a well-functioning "regional umbrella".

• German airports which handling up to 3 million passengers per year do not generate profit (excluding for exceptions) and they confirm the EC's view on this issue.
• If an airport is not subsidized, the business model must be altered, or it is necessary to find other sources of income, for example in the non-aviation area.

The question is whether this issue should be dealt with by the EU institutions in the area of significant market power and oligopolistic practices of low cost carriers.
NEAR FUTURE (FURTHER RESEARCH)

• In the next stage, it would be appropriate to extend the survey to other airports with full or overlying LCC traffic in other countries as well. Brussels Charleroi, Paris Beauvais, Warszawa Modlin, etc. would be an appropriate subject of research, although obtaining relevant data can be difficult.

• This research will be appropriate to supplement by comparing with airports that handle up to 3 million passengers per year and where the LCC share is minimal or none.

• It is also appropriate to look for other profitable regional airports and look for conditions that lead to profitability.

• The question is whether this issue should be dealt with by the EU institutions in the area of significant market power and oligopolistic practices of low cost carriers.
Ryanair case

Ryanair plane impounded in France in row over illegal subsidies

Aviation authority impounded aircraft at Bordeaux until £450,000 bill was settled

- Ryanair has been forced to pay the French government €525,000 (£450,000) to release one of its planes after it was impounded at Bordeaux airport in a decade-long legal battle over illegal subsidies.
- French officials seized the aircraft on Thursday ahead of a planned flight to Stansted and forced 149 passengers to disembark.
- The French civil aviation authority said it was “regrettable that the state was forced” to seize the plane, but that it took the measure because the low-cost airline had repeatedly ignored demands to repay subsidies a regional government handed to Ryanair.
- The European commission ruled that about €1m of subsidies paid to Ryanair in return for it providing flights from Angoulême, 80 miles (130km) north-east of Bordeaux, to London between 2008 and 2009 were illegal.
Ryanair case
Ryanair plane impounded in France in row over illegal subsidies

• Ryanair was ordered to repay all the money, which the commission said gave the airline an unfair advantage. But the French government said Ryanair had only paid back half the money, so it seized the plane and demanded the balance. The airline paid the bill on Friday.

• “It is unfortunate that the state had to take such action, which led to the inevitable inconvenience of the 149 passengers onboard the immobilised plane,” the French civil aviation authority said. “Those passengers were able to eventually reach their destination later that evening on another Ryanair plane, but with a five-hour delay.”
Thank you for attention!
Děkuji za pozornost!

Questions?
Вопросы?
Sorular?
Otázky?
Fragen?
Pytania?