

## ACI EUROPE WORKING PAPER – “OFF THE GROUND”

Report of the WS1 – Market Access – Traffic Rights

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Recommendations to EU/EEA Member States and European Commission

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### 1 INTRODUCTION

- 1.1 The COVID 19 crisis is having an unprecedented impact on the European aviation industry. Airlines massive flights cancellations resulted in a near total loss of both aeronautical and commercial revenues for airports. Yet, airports continued to generate significant fixed costs as most remained open to ensure essential air services and play their part in the fight against the pandemic. During the peak of the pandemic traffic decreased by 95%-97% at most European airports.
- 1.2 While relief measures adopted by various European Governments are helpful and appreciated, most of these measures focused on large European airlines with little attention being paid to smaller actors of the aviation ecosystem including secondary and smaller hubs<sup>1</sup> and regional airports.
- 1.3 Airlines profit margins are typically very thin on regional routes which puts these routes at a greater risk of being closed compared to larger trunk routes where airlines can generate higher returns. The European aviation market has been characterized by consolidation through bankruptcies with over 20 airlines filing for bankruptcy in the last 2 years. According to industry estimates, the current crisis could take its toll on another 30% of air carriers resulting in less connections to a wide range of airports<sup>2</sup>. Moreover, many regional airports are highly seasonal and struggle to attract traffic year round.
- 1.4 Airports play a critical role in the economic development of their regions and communities. It is estimated that a 10% increase in direct air connectivity generates a 0.5% increase in GDP per capita and vice versa.

### 2 PROBLEM DEFINITION

- 2.1 Unlike other economic sectors, the aviation sector is characterized by a system of bilateral and multilateral agreements that govern the routes, carriers and number of flights that can operate between countries as well as mutual recognition of certifications.
- 2.2 While most recent aviation agreements are relatively liberal, some are quite restrictive thus limiting air connectivity. Various restrictions may apply including: number of carriers that may operate between countries, points that may be served in each party's territory including intermediate and beyond points where applicable (so called 5<sup>th</sup> freedom rights allowing carriers to embark/disembark passengers at intermediate points and beyond points), number of weekly flights and in the most extreme cases, the number of seats that can be offered on the market.

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<sup>1</sup> As per the terminology used in the ACI EUROPE Airport Industry Connectivity Report 2019

<sup>2</sup> Traffic is not readily replaced when routes are closed. For single carrier routes, less than 20% of pre-closure capacity is regained 3 years after closure. For multi-carrier routes, 40% of pre-closure capacity is regained 3 years on. This shows that airports are vulnerable to closures, resulting in loss of traffic and reduced airport profitability. In addition, a large number of airports have a significant degree of dependence on a single carrier. At 8 out of 10 airports the largest carrier delivers over 40% of capacity. *Airport Competition in Europe, Copenhagen Economics, 2012.*

- 2.3 Faced with vastly depressed market conditions, and competing for air traffic with their peers, European airports need to maximize chances of attracting air carriers (passenger or cargo) in order to restore air connectivity and overcome the loss of revenues resulting from the crisis.

### **3 PROPOSED SOLUTION**

- 3.1 In order to provide flexibility and to avoid unnecessary barriers that may hamper the increase of air connectivity, European countries as well as the EU are encouraged to implement on a unilateral basis – or eventually on a reciprocal basis without bureaucratic complications – and for at least **3 years**, the following measures in their aviation agreements :

- Waiving restrictions on the number of points that may be served in the market
- Increasing the number of weekly frequencies
- Waiving restrictions on the number of carriers that may operate between markets
- Waiving restrictions on capacities
- Promote a liberal approach to 5<sup>th</sup> freedom traffic rights, in particular unlimited intermediate fifth freedom rights for passengers and cargo
- Promote a liberalized environment for cargo flights
- Expedited licensing requirements and permits.

- 3.2 These solutions should be assessed primarily for secondary and smaller hubs as well as regional airports. Member States and the European Commission are invited to consult their stakeholders to determine what solutions are best adapted to their market and needs.

### **4 EXPECTED OUTCOME**

- 4.1 The above solutions should allow regional and secondary and smaller hubs to approach more carriers thus optimizing their chances to rebuild their connectivity. It will also allow carriers experiencing low passenger load factors to make two stops (where they would typically have had a direct non-stop service to their home country prior to the crisis) in order to fill their aircraft and break even.

### **5 CONCLUSION**

- 5.1 The recovery from the crisis is expected to be long and slow and European airports will need all the flexibility they can get in order to appeal to new carriers and boost traffic to the benefit of consumers and their regions. The above solutions will be particularly useful during the recovery phase given the current consolidation of the European airline sector and the much reduced number of airlines likely to operate at regional airports. **Such measures should be in place for a minimum of three years.**