

# Economic analysis of the profitability of regional airports

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# Overview

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Introduction

Findings from Oxera's 2024 study

# The Aviation State aid Guidelines

## Recap of the state aid framework for operating aid

2014

### The Commission's 2014 Aviation Guidelines

- Operating aid can be granted to airports between 200,000ppa and 3mppa for ten years
- By the end of the transitional period, regional airports should become profitable



2020

### The Commission's 2020 Fitness Check

- Many airports below 1mppa will continue to need operating aid after 2024
- Operating aid to airports below 500,000ppa has limited impact on competition



2023

### Communication from the Commission

- The pandemic and the energy crisis adversely affected the profitability of airports
- The Commission extended the transitional period for 3 years



2024

End of transitional period under the 2014 Guidelines



2027

End of transitional period

# Study of the profitability of regional airports

## Purpose and approach



### Oxera's 2019 study on the profitability of regional airports

- Airports below 1mppa unlikely to cover their operating costs by 2024



### Oxera's 2024 study on the profitability of regional airports

- Are regional airports likely to be able to cover their operating costs by 2027 (i.e. the end of the transitional period)?



Our 2024 study is based on financial information provided by a sample of EU regional airports, discussions with the airports' management, and results from the empirical literature

	Country	Passengers (2022/23)
✈️ 1	Finland	100k – 150kppa
✈️ 2	France	200k – 250kppa
✈️ 3	Portugal	250k – 300kppa
✈️ 4	Belgium	350k – 400kppa
✈️ 5	Croatia	350k – 400kppa
✈️ 6	Slovakia	550k – 600kppa
✈️ 7	Italy	800k – 850kppa
✈️ 8	Italy	850k – 900kppa
✈️ 9	Germany	900k – 1mppa
✈️ 10	Croatia	1m – 1.5mppa
✈️ 11	Ireland	1.5m – 2mppa

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# Airports' size and the link with profitability

## Trends in airports' aeronautical and non-aeronautical revenues



### Aeronautical revenues

- Aeronautical revenues per passenger at most airports have recovered to 2019 levels and are likely to remain stable over the next few years
- Structural changes in aviation market increase bargaining power of airlines:
  - 1 consolidation of airlines
  - 2 problems with supply of aircraft
  - 3 competition from hub airports

### Non-aeronautical revenues

- Non-aeronautical revenues per passenger at most airports have recovered to 2019 levels; however, limited growth is expected over the next few years
- Difficult to diversify revenues through non-aeronautical activities:
  - 1 higher share of leisure traffic increases seasonality
  - 2 insufficient funding for investments in non-aeronautical facilities

Regional airports typically have limited scope to maximise aeronautical revenues and develop their non-aeronautical activities

# Airports' size and the link with profitability

## Trends in airports' operating costs



- Airports introduced various cost reduction measures during the pandemic
- However, due to the energy crisis and high inflation, operating costs per passenger have significantly increased and have often exceeded pre-pandemic levels
- Limited possibilities for further efficiencies
  - ① high share of fixed costs
  - ② limited scope for additional cost cutting measures
- Significant differences between Member States regarding the availability of government funding of costs of customs, safety, fire-fighting and air traffic control

Efforts to reduce costs per passenger remain heavily dependent on increasing the number of passengers



Airports that receive public funding of such activities are more likely to break-even financially



# Airports' size and the link with profitability

## Trends in airports' profitability



### Airports' actual profitability

- There is a strong relationship between airports' size and its ability to generate profits
- Airports with below 1mppa have generally been unable to generate consistently positive profits over 2016–23 (even after excluding the 2020-21 period)
- This conclusion does not depend on the precise profitability metric



Airports' ability to generate profits on a per passenger basis has not improved, contrary to the Commission's expectations at the time of the introduction of the 2014 Guidelines

### Airports' forecast profitability

- Airports with less than 1mppa are unlikely to achieve consistent and significant operating profits prior to April 2027
- Airports with less than 400,000ppa expect to remain consistently unprofitable before 2027
- These findings are in line with those from empirical studies

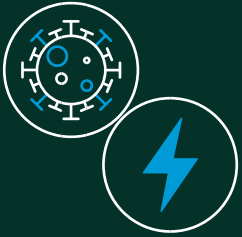


Airports below 1mppa are unlikely to reach consistent and significant profits before 2027



# Airports' size and the link with profitability

## Impact of recent shocks on airports' profitability



COVID-19 and the war in Ukraine



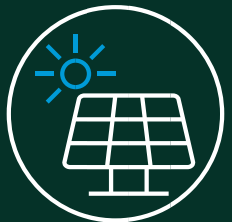
- Air connectivity significantly affected
- Varied speed of recovery due to differences in the passenger mix and government support measures
- The prolongation of the transitional period to 2027 is unlikely to be sufficient to maintain and preserve air connectivity



Structural changes in the aviation market



- Increased share of leisure traffic leads to greater seasonality
- Consolidation strengthens airlines' bargaining position for both LCCs and network carriers



EU's Fit For 55 package



- Aim to achieve a 55% reduction in greenhouse gas emissions by 2030 relative to 1990 and to become climate neutral by 2050
- Increased costs for airports and reduced passenger traffic
- Most airports in the sample have not factored this into their financial projections; hence, potentially over-estimating their profitability

# Airports' size and the link with profitability

## Conclusions



In line with the results of our 2019 study and the Commission's 2020 findings, airports with fewer than 1mppa are unlikely to generate consistent and significant profits per passenger before 2027



Profitability per passenger is unlikely to develop before 2027 as envisaged by the Commission in 2014





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