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Small regional airports operation: unnecessary burdens or key to regional development

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Abstract

Regional airports represent not only important points of access to remote locations and parts of country with limited or lengthy ground access but also have significant economic impact on the surrounding region. On the other hand, every public airport with commercial operations must fulfil strict requirements with respect to international safety and security requirements, including operational readiness of the airport infrastructure and airport personnel qualifications. These requirements, which are virtually the same for small and large airports results in high operational costs. Small airports have problem to break even not only due to low throughput volumes but also limited other resources of income, e.g. non-aeronautical services, car park fees; which are substantial part of middle and large airport revenues. It is considered that a small airport with annual throughput under 200 000 passengers is not able to cover its operational costs and needs to be subsidized. At the same time, airports are important stimulators and catalysts of regional economic growth and development. Determining whether the indirect, induced and catalytic impact of an airport on a region outweigh the cost of regional airport subsidies would contribute to informed regional development policy and decision-making.

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1. State of the art: case study of Slovakia

There are six public airports licenced to international commercial operations and providing handling, rescue and firefighting, and air traffic services in Slovakia. All six airports have a legal form of a joint-stock company. The state,

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represented by the Ministry of Transport and Construction of the Slovak Republic (here and after Ministry), is the shareholder in each of the airport companies. The share of the Ministry in airport companies ranges from 100% at Bratislava and Sliač, to 99.535 % at Žilina, 34 % at Košice and 20.65 % at Piešťany airports¹. The Sliač Airport is managed and operated in cooperation with the Ministry of Defence, with an agreement specifying the shared use of airport infrastructure and operations.

The Slovak airport system is de-centralized and to a large extent heterogeneous with respect to ownership, airport basic infrastructure (runway characteristics, runway age and conditions; terminal age, size, conditions), airport performance (number of movements and passengers) and outer conditions (catchment area, competitors etc.) (VÚD et al., 2013).

While the number of passengers in 2016 reached nearly 1.8 million² at in Bratislava airport and 435,000³ in case of Košice, the other Slovak airports were not able to reach the threshold of 200,000 passenger per year which might allow them to cover their operating costs (see below). With respect to this, both Bratislava and Košice fall to a different category of airports and they should at least be able to break-even. (see below).

In case of Sliač airport, its military-civilian status gives it an economic advantage over the other airports. Military-civilian airports are generally more efficient as they enjoy lower staff and other costs due to military personnel availability. In Sliač airport, part of the operational costs is borne by the military, but the ‘civilian’ part collects the landing charges

Taking this into account this study is focused on three small Slovak regional airports: Poprad – Tatry, Žilina and Piešťany.

The study could be further enhanced by including similar airports, such as small German airports, as a benchmark⁴. However, our partner was not able to obtain the relevant data within the set timeframe. Therefore, we are not able to specify that small Slovak airports may be more inefficient than comparable airports in other European countries.

This study confirms that small airports have significant losses per passenger, due to high fixed and high operational cost as a consequence of fire fighter, security screener, de-icer, airport dispatch, electrician qualification requirement for initial or recurrent trainings, but also reflecting costs of specific equipment and regular checks and revisions (e.g. radio navigation aids and lighting equipment flight checks).

The break-even point (minimal number of passengers, at which zero EBIT is achieved) is a dynamic figure over time depending on a number of parameters, such as the length of runway, type of airline (low-cost or traditional) operating from an airport, or average wage level.

According to Study on Competition between Airports and the Application of State Aid Rules (Air Transport Group, 2002), “French airports appear to break-even at around 200,000 Workload Units WLU⁵ compared 400,000 WLU in the case of UK regional airports,”⁶ and “the financial break-even WLU threshold appears to be between 500,000 and 600,000 WLU per annum”⁷.

The Comparative Study (benchmarking) on the Efficiency of Avinor’s Airport Operations (GAP, 2012) details that “in 2002, the most profitable airports were able to break-even with a size of 200,000 passengers p.a., but in 2010 none of them were profitable at that level of operation. In 2010 an airport seemed to become profitable only when the passenger volume exceeded approximately 800,000 passengers p.a., thereby requiring more subsidies than in earlier years to keep the airports system operating.”⁸ One of the reasons for cost drivers over the past decade include additional safety and security measures at the EU level. For different conditions in the Czech Republic (i.e. lower wages level) the break-even was defined for Ostrava Airport at 242,945 passengers in 2005 (Červinka, 2007).

Based on those studies we may conclude that an airport with a throughput below 200,000 passengers is unlikely to break-even, and probably require subsidies to maintain its operations.

¹ All data the Ministry of Transport and Construction of the Slovak Republic

² <https://www.bts.aero/o-letisku/o-spolocnosti/profil-spolocnosti/statisticke-udaje/>

³ <http://www.airportkosice.sk/aktuality/753/>

⁴ Interessengemeinschaft der Regionalen Flugplätze

⁵ Workload Unit (WLU) - without cargo the WLU would be number of passengers transported

⁶ Air Transport Group, 2002, page 80

⁷ Air Transport Group, 2002, page 77

⁸ GAP, 2012, page 16

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