

Regional airports: alliances and cooperation for better connectivity

As global air passenger capacities fall in the aftermath of the Covid-19 pandemic, airlines are likely to focus on their core routes, particularly those feeding their hubs. Regional airports and the communities living in their vicinities are at risk of seeing a significant reduction in service. To revive traffic and meet the travel needs of the local population, regional airports will need to think creatively – including exploring greater cooperation among themselves to ensure viable service.

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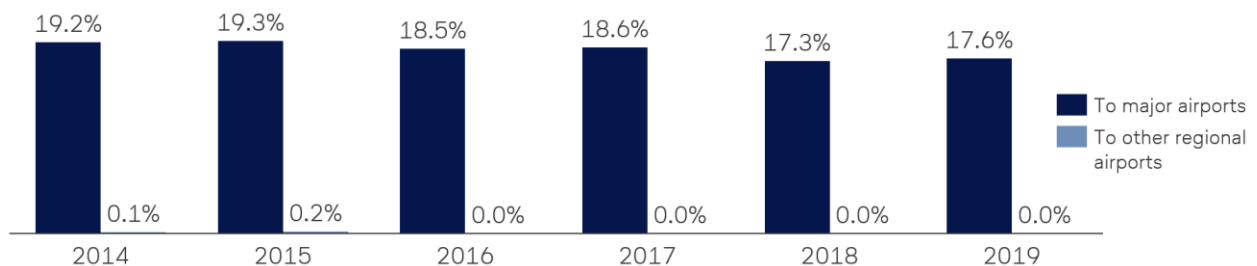
Regional airports are an important element of the aviation industry in all parts of the world. These airports generally have a significant impact on the local economy, as the local community leverages better connectivity and more employment opportunities.

Regional airport services are at risk

In recent years, regional airports in Europe have had to undergo significant restructuring to comply with EU regulations on state aid. Competition between airports has intensified, with airports often relying on strong incentives to attract service.

Further, even at the best of times, regional airports' connections tend to be overshadowed by services to large airports. Service to smaller airports has also been inconsistent on occasion, particularly on routes not flown by a large airline. In Germany, for example, several airports found themselves facing a severe loss of capacity due to the failure of Air Berlin. Some regional routes were taken over by competitors (with intense competition among the airports to attract the carriers), while others have not seen a stable recovery to date. The reasons for these are varied – the lack of the right equipment in the market, low reliability of airline schedules, high level of uncertainty for stakeholders such as tour operators – but highlight the fragile nature of regional airports' businesses.

Figure 1: Regional airports' share of scheduled passenger capacity, domestic Germany



Note: Regional airports defined as all with fewer than three million passengers a year

Source: IATA Airport-IS

These challenges are not unique to the European continent; they occur in varying levels of severity in most aviation markets around the world.

The concern for regional airports has been accentuated since the onset of the Covid-19 pandemic since airlines have dramatically cut capacity. As capacity gradually returns to the market over the course of 2020 and 2021, it is expected that

- There will likely be less capacity in the market due to airline bankruptcies, consolidation and resizing. For example, in Europe, both the Lufthansa Group and Air France-KLM have stated that they will shrink compared to the capacity of 2019. Flybe has exited the market in the UK, and Virgin Atlantic is at risk as of the end of April 2020
- Domestic and regional traffic (in Europe, intra-Schengen) will recover earlier than long haul traffic due to a phased lifting of travel restrictions
- Larger travel destinations and hubs will be served before smaller communities as these are the primary drivers of economic activity in each region, and offer volumes for the traditional hub and spoke airlines

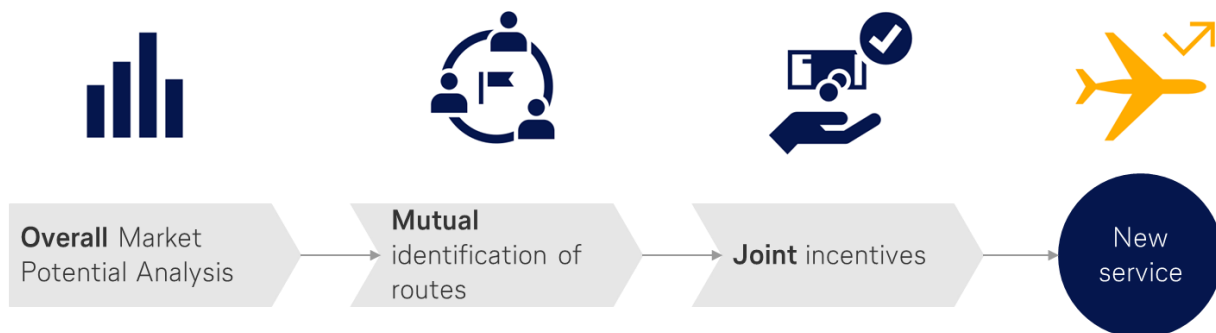
In this context, the challenge for regional airports lies in securing air traffic and connectivity. Given the challenging conditions and financial pressures on the airlines normally operating in the market, regional airports should explore innovative and collaborative approaches.

Airports must unite for the greater good

There is a strong case to be made for regional airports coming together to jointly develop an action plan, avoiding internecine battles to attract service.

This begins with a thorough understanding of the overall (country-wide) market and underlying demand in regional centers. In particular, overlapping catchment areas must be estimated, acknowledged and understood in the interest of preempting challenges.

Figure 2: Establishing a joint approach to air service development





Armed with this view of market demand, airports must next align on the most important routes in a market for which service must be established. These could vary in characteristic – domestic routes or regional/international ones, leisure or business driven, seasonal or year-long.

Airports can then collaborate, under the aegis of national authorities and regulators, to offer appropriate incentive packages to airlines to encourage service across the portfolio of routes identified.

To begin with, regional airports can **approach existing carriers** to fly a network of routes, supported by appropriate incentives. Alternatively, the airports or regional authorities could **establish a new regional carrier** provided the business case is feasible and the economic benefit to the community outweighs potential losses. This option may sound ambitious, but is worth considering; a thorough situation analysis and business case is essential prior to any action being taken.

Making the economics work is key

Underlying demand has a direct impact on airlines' route financial performance. In cases of strong demand, airports have compelling arguments for airlines to launch or relaunch services. However, as the demand is expected to be weaker and airlines are the party carrying the risk, some sort of support needs to be considered.

Incentive and public support schemes in the form of discounts and payments to airlines are the traditional tools to share risk between airports, the government, airlines and sometimes local businesses. Airlines being approached by several parties allows for “double dipping” of incentives, and does not leverage the joint negotiating power and attractiveness of a larger route bundle proposition. An airport alliance with a coordinated approach to the market would have greater power. A well-defined scheme would facilitate traffic growth through new routes, frequencies and up gauging of aircraft capacity.

In funding such an approach, however, airports and governments should ensure they are investing only in growth and stimulation, and avoid becoming the financier of the status quo. This requires careful design of the scheme to share risk, support the carriers and manage the cost of the incentives. A thorough cost-benefit analysis is a prerequisite of an effective airline support scheme.

A **new regional airline**, while possibly more complicated to launch and operate, offers a more stable alternative across the larger group of regional routes. Here, too, a clear understanding of the market potential and underlying business case is essential to drive investment decisions, particularly the fleet.

The economics of regional airlines can be challenging, especially at low scale and in spite of the benefits of low competition and operations tailored to the communities' needs. The airport alliance, in cooperation with local governments, should ensure that the ownership and financing model for the airline is rational, and keeping in mind the greater good of benefits for the region(s). Given the strong peripheral economic impact of improved air service, the approach to financing needs to be holistic, considering net system-wide benefits while assessing the appropriate level of support or compensation for the airline's losses.



This crisis is an opportune time to act

The current pandemic has had a devastating impact on aviation. However, as the industry recovers, this is also the best time to pursue bold initiatives such as deeper collaboration among regional airports. An integrated approach that aims for mutual support and growth could be a blueprint for more stable and viable regional airport networks in the future.

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