

For this column ARC invites guest writers to discuss and debate current and burning airport-related matters.

## Small Airports: Developing traffic while minimizing risk

During the last decade, in spite of being a well developed aviation market, Europe has expanded quickly benefiting, among other things, from low costs development and the enlargement of the EU. However during this economic downturn traffic decline has been the most significant in Europe and looking forward Europe's economic recovery is fragile.

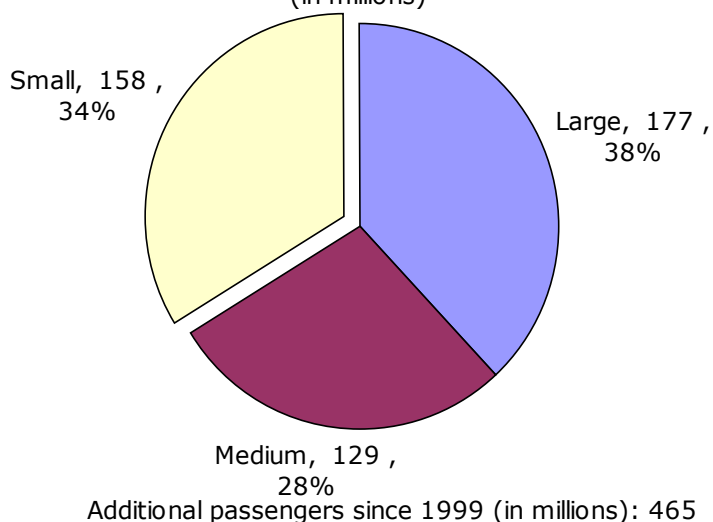
### Historical Passenger Growth

	1999-2009	2008-09
Africa	5,2%	-1,6%
Asia/ Pacific	5,3%	3,9%
Europe	3,4%	-5,7%
Latin America & the Carribean	4,0%	1,2%
Middle East	7,5%	6,8%
North America	0,3%	-5,2%
<b>Total</b>	<b>2,8%</b>	<b>-2,6%</b>

Source: DKMA analysis based on ACI statistics

Volume wise the majority of the European air traffic is concentrated at the large airports where last year large airports accounted for over 50% of passenger traffic but the smaller airports are more dynamic. In fact, as can be seen in the pie chart, since 1999 over a third of the additional passenger demand has been created by small airports. To put things differently during the last 10 years small airports grew, on average, by 6.4% annually compared to 4.1% for all European airports and only 2.8% for the large airports.

Absolute Passenger Growth at European Airports between 1999 and 2009  
(in millions)



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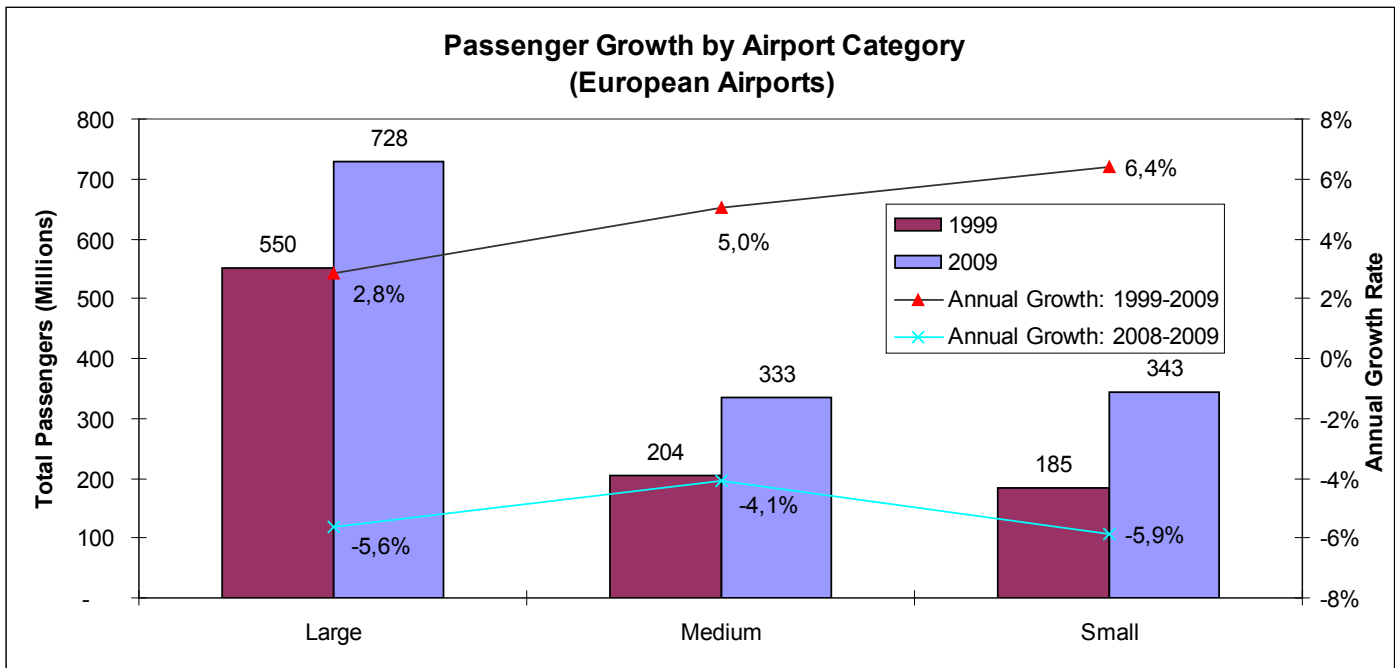
Moreover in the soon to be published 2010 ACI Traffic Forecast Report figures indicate that over the next two decades growth at small airports will continue to outpace the industry average.

However during economic downturns large airports normally resist better than smaller ones because carriers, faced with declining passenger demand, typically cutback marginal routes which are often at smaller secondary airports choosing instead to focus on their home base. As such, if during the last decade small airports grew the fastest, they also experienced the greatest decline last year (-5.9% YOY versus -5.3% YOY for all European airports).

Downturns are unavoidable in the air transport industry but an airport with a diversified network composed of a portfolio of carriers and routes can help lower the risk/exposure during downturns while ensuring long term growth. However smaller airports often rely on a single carrier operating a handful number of routes and although in some cases demand is simply too small to justify a multiplication of carriers and/or routes, we can think of many airports which over the years have been able to successfully diversify and perform well in light of the current downturn.

The following table highlights (see next page) a series of small dynamic European airports which over the years have grown more than twice as fast as their respective country average having been able to increase the number of airlines serving their airport while expanding their network.

**The case of Nantes-Atlantique:** Of the selected



Sources: ACI and OAG

airports Nantes is the smallest one with less than 3 million passengers handled in 2009 yet it serves as an example that in spite of their small size airports can diversify and be successful. Since 1999 the airport has expanded more than twice as fast as the French average and last year the traffic declined by 3.0% which is materially better than France (-3.9%). Year to date figures indicate that Nantes is once again expanding while France (and Europe) continue to struggle.

In 1989 Nantes, located in Western France, became one of the first French airports to be directly impacted by the High Speed Rail (TGV) when the city was linked to Paris. If in 1989 the air route to Paris accounted for half of the passenger traffic at the airport, in less than

2 years half of the passenger traffic disappeared and 20 years later traffic on this route still remains materially lower. Faced with this situation management repositioned the airport where today the airport sees a combination of business and leisure passengers served by low cost, network and charter carriers operating to 87 domestic, European and international destinations (42 scheduled and about 62 charter). In the early 90s the airport was strategically positioned to become the airport of choice for outbound leisure passengers in Western France focusing on charter operations while maintaining a complementary scheduled network operated mostly by Air France. In light of the declining charter operations the airport kept its stronghold in the leisure market by having both Ryanair and easyJet

#### Year evolution of key traffic indicators for a selected list of small European airports

	Bilbao		Nantes		Seville		Valencia	
	1999	2009	1999	2009	1999	2009	1999	2009
Total passengers (000)	1 969	4 730	1 756	2 561	1 687	4 039	1 969	4 730
Annual growth rate (%)	9,2%		3,8%		9,1%		9,2%	
Country Annual growth rate (%)	1,5%		2,8%		1,5%		1,5%	
Share of Charter	7,8%	4,4%	28,5%	30,1%	8,6%	3,5%	5,6%	3,4%
Share of Domestic	65,9%	75,4%	87,7%	67,9%	86,8%	73,9%	71,4%	55,7%
Share of International	34,1%	24,6%	12,3%	32,1%	13,2%	26,1%	28,6%	44,3%
Scheduled airline profile								
Number of scheduled airlines	13	15	11	15	10	13	11	26
Annual growth rate (%)	1,4%		3,2%		2,7%		9,0%	
Share of top airline (1)	32,9%	26,8%	22,8%	34,5%	31,3%	31,4%	39,3%	41,4%
Share of top three airline (1)	68,3%	59,7%	79,7%	85,7%	90,5%	66,5%	83,0%	60,7%
Share of low cost airlines (1)	0,0%	18,2%	0,0%	17,3%	0,0%	53,8%	0,0%	41,8%
Scheduled network profile								
Number of routes served (2)	25	36	26	42	17	44	23	70
Annual growth rate (%)	3,7%		4,9%		10,0%		11,8%	
Share of top route (1)	24,1%	26,3%	8,7%	8,1%	15,0%	21,5%	18,0%	31,6%
Share of top three routes (1)	64,1%	49,7%	44,1%	44,7%	73,6%	39,1%	59,7%	41,5%
Share of routes with competit. (3)	33,3%	37,1%	16,0%	9,5%	31,3%	32,6%	18,2%	33,3%

(1) in terms of scheduled departing seats

(2) scheduled airlines

(3) 2 or more scheduled airlines

Sources: ACI and OAG

serve the airport; a feat which few airports can claim. In 2010 Transavia set up a base in Nantes making Nantes the first base outside Paris for Transavia and today charter operators tend to be complementary to low costs focusing principally, although not entirely, on longer routes. An added benefit of the low cost development is that it has enabled the airport to attract more inbound passengers meaning that the airport now has a better balance between inbound and outbound passengers. Nantes saw its service to London dropped by both easyJet (Gatwick in November 2008) and Ryanair (Stansted in March 2009) translating into a loss of nearly 150,000 passengers (or about 5.5% of total annual passengers). At the time London was the third largest market (largest international) yet total traffic at the airport only declined by 3.0% in 2009 because in parallel new routes were opened.

It is true that recently most of the European traffic development has been driven by low cost carriers, and in this area many small airports have benefitted, but many airports are highly dependant on these carriers for their development but Nantes serves as an example that regional airports can benefit from low cost development and this development can be complementary with others.