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The Economic Impact of Airports

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About the Airport Regions Conference

The Airport Regions Conference (ARC) is an association of regional and local authorities across Europe with an international airport situated within or near its territory.

The ARC brings together a wide range of expertise at the interface of air transport and local and regional policies. A common concern is to balance the economic benefits generated by the airports against their environmental impact, notably the effect on the quality of life of local residents.

ARC works with the European Commissioner for Transport and his Cabinet as well as the EC Directorates for Transport, for the Environment, and for the Regions.

About Madrid City Council

The City Council Plenary, made up of the Mayor and the City Councillors, is the highest-ranking municipal political governing body representing the citizens of Madrid, and has the task of debating major local policy affecting the city, and of adopting strategic decisions.

The City Council Plenary has 57 members, including the Mayor, with the councillors operating collectively in political groupings. Their main responsibilities include the election and dismissal of the Mayor, scrutiny and monitoring of the governing bodies, approval and modification of legal and taxation regulations, approval of budgets, rulings as to the demarcation and modification of municipal boundaries, agreements as to involvement in supramunicipal organisations, etc.

Mayor

The Mayor directs municipal policy, government and Administration, and is the council's highest-ranking representative, answering for his or her political actions before the Plenary Session

Executive Board

The Executive Board cooperates in the field of political direction, exercising the executive and administrative functions established in law. It may have a maximum of one third of the legally stipulated number of council members, and is chaired by the Mayor.

The Municipal Administration

The Municipal Administration has a threetiered structure:

• The central, or general, tier, made up of the Executive Divisions.
• The regional tier, made up of each of the Districts.
• The institutional tier, made up of public bodies with their own separate legal status, specialising in the administration of public services.

Contents

Welcome address

Dolores Flores Cerdan

General Coordinator of Economy and Employment, Madrid City Council

Madrid has to rethink its future. A future that cannot be improvised, but rather reinvented. For this reason, a conference on the Economic Impact of Airports cannot come at a better time.

In this conference, we will debate about the challenges and solutions facing Madrid and all European airport regions at this time of economic crisis, through the eyes of the significant influence Barajas Airport has on the region.

For us, the airport is an important vector, not only because of the nearby economic activity it generates, but also because it is the gate to Spain, to Madrid. What we have to strive for is putting more value in this very large airport we have, which, is one of the most important sources of employment and economic development for our capital and for the country.

In that respect, we need to find solutions to our current challenges and reflect on what the future will bring to airports in big cities, and how to connect them by public transport.

Through this conference we expect to get a wider perspective on the future and learn more from other regions' experience in order to be able to take full advantage of this great resource that an airport can be.

Most importantly, Madrid is an open city, with a cultural offer that is very wide, but what we are most proud of, the brute force behind our success and our future are the people of Madrid, the Madrileños.

Welcome address

Sergi Alegre Calero

Sergi Alegre Calero is the president of the Airport Regions Conference and the vice mayor of the city of El Prat, where Barcelona Airport is located. The ARC is the only organisation in Europe which represents regions in their dealings related to airports.

The ARC is celebrating 20 years of activity in 2014. It works in the field of connecting regions to airports and vice versa. The membership is diverse, from the largest airport regions in Europe, such as the ones hosting Charles de Gaulle in Paris, Frankfurt, Heathrow or Madrid to areas with regional airports. The members hold expertise on fields such as environment or economic development, and the political representatives of the regions bring forward the concerns of citizens.

The question that surfaces is what kind of relationship do the politicians have with the airports? It depends on a variety of factors, one of which is ownership.

For example, in Spain, one company owns all airports, this is AENA. Heathrow is owned by a Spanish company while the City of Vienna retains a large number of shares in the airport. The direct owners to the airport can be varied, so there are many diverse relationships that the regions and their politicians can have with the airport.

An important issue to be discussed in the framework of this relationship is the economic impact that the airport has on the region. This is evidently not a one way effect.

What can be discovered in this case is a sort of "virtuous triangle" between the airports, regions and the airlines. These three actors have to connect and collaborate if the expectation is for positive and mutually-influenced results.

The regions can make the situation problematic for the airport, some regions are entirely against the presence of the airport, making for a very tense relationship in between the two.

But equally, there are times when the airport completely ignores the existence of the region, and does not establish any contact with it.

Last, the airport is nothing without the airlines, and these also have to play a part and integrate with the other two.

If these three do not work together properly, the consequences range from job and money loss, to lack of development.

This is essentially what the ARC does, it tries to identify the grounds for successful common strategies, where a balance is kept in our mutual interests, aiming for a content triangle, where all the parties are working together and satisfied with each other. Of course, this is not an easy job, but it can be done.

I would like to wish you a fruitful discussion and many ideas will certainly arise from this event.

The Impact of Airport Regions - A tale of beauty and the Beast?

Léa Bodossian

Lea Bodossian works for the Airport Regions Conference as Secretary General.

The ARC represents two thirds of European passenger air traffic. Its politicians are of all colours and political flags, but nonpartisan when it comes to their activity inside of the ARC. This is due to the fact that the sharing of knowledge and expertise is most important.

No airport is a destination *per sé*. Nobody sends postcards from the airport. The journey starts at the airport, but the destination is rarely the airport itself. The airport has to be seen in the broader picture as part of an ecosystem which it influences but which it does not completely define.

Airport Hubs

If we are to give a definition to what a hub airport is, it would be something along the lines of:

"An airport with more than 20% connecting flights, major usage at peak hours, with large and very large carriers present."

"Hub" airports in the European Union:

Country	City	Airport	IATA Code	Traffic (Pax 2011)
Austria	Vienna	Vienna Int'l Airport	VIE	21,106,292
Belgium	Brussels	Brussels Nat'l Airport	BRU	18,786,034
Denmark	Copenhagen	Copenhagen Airport	CPH	22,725,517
France	Paris	Paris-Charles de Gaulle Airport	CDG	60,970,551
Germany	Frankfurt	Frankfurt Airport	FRA	56,436,255
Germany	Munich	Munich Airport	MUC	37,763,701
Italy	Rome	Fiumicino Airport	FCO	37,651,700
Netherlands	Amsterdam	Amsterdam Airport Schiphol	AMS	49,755,252
Spain	Madrid	Madrid-Barajas Airport	MAD	49,671,270
Spain	Barcelona	Barcelona El Prat Airport	BCN	34,398,226
Switzerland	Zurich	Zurich Airport	ZRH	24,337,954
United Kingdom	London	London Heathrow Airport	LHR	69,433,230
United Kingdom	London	London Gatwick	LGW	33,674,264
			TOTAL:	516,710,246

Source ACI 2011 Data

These are some of the criteria defining the airport as a hub. A large part of EU air traffic goes through such hubs. Even if much of the latest traffic growth in the European Union has been due to regional airports, rather than hubs, the hubs still represent an overwhelming majority of the European traffic.

Economic and other types of impacts

Looking at the various types of economic impact which airports can convey to a region, they will vary from **jobs** (which can be direct or indirect), increase of **mobility** (allowing people to travel around the world) and also providing a **gateway** to the rest of the world.

However, in order to get the big picture other elements have to be analysed. An important role is played by the environmental impact, with the CO2 emissions of an airport together with the noise disturbances, or other air quality impacts (PM: Particulate matters for example). Housing issues nearby the airport, in regions that are densely populated, employment matters whilst regional and local authorities strive to improve the economic welfare of the citizen, health, spatial impacts are also important. Regional and local authorities are taking these matters seriously: in most cases they have a direct competence to deal with these matters. Regions have to take these into account when considering their relationship with the airport and possibilities for development or further collaboration.

The ARC members are in the front row of managing all these types of impacts. They are all difficult to control and count, every region is different so their proportionality with each other is widely dissimilar. But the common denominator is the role of the local authorities in relation to the impact.

Capacity challenge

A study made in 2010, on behalf of the European Commission shows that the European major hubs are encountering, or will soon be encountering, a capacity challenge and thus are considered as congested. These include most of the major European hub airports, from Paris to Madrid to London.

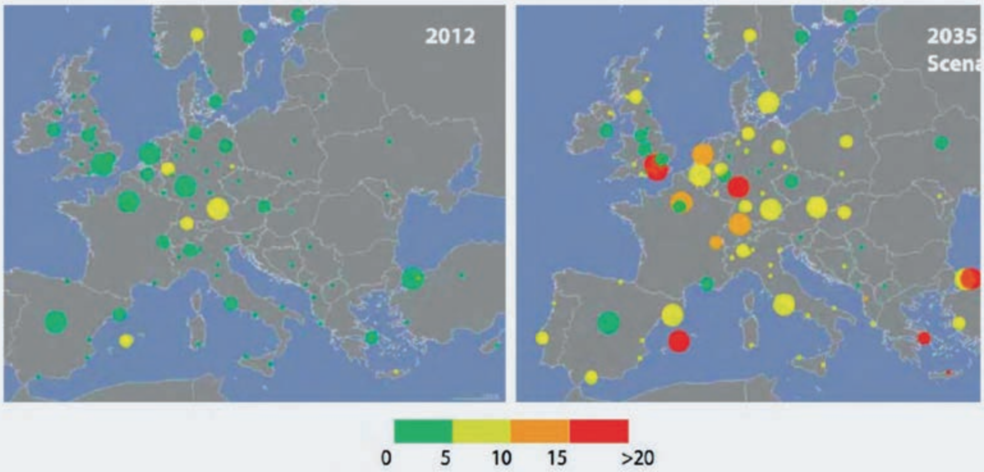
State	Airport	Fully coordinated all year?	20 million or more passengers?	Congested?
Austria	Vienna	✓		✓
France	Paris CDG	✓	✓	✓
	Paris Orly	✓	✓	✓
Germany	Dusseldorf	✓		✓
	Frankfurt	✓	✓	✓
	Munich	✓	✓	
Ireland	Dublin	✓	✓	
Italy	Milan Linate	✓		
	Rome Fiumicino	✓	✓	✓
Netherlands	Amsterdam Schiphol	✓	✓	✓
Spain	Madrid Barajas	✓	✓	✓
	Palma de Mallorca	✓	✓	✓
Sweden	Stockholm Bromma	✓		✓
United Kingdom	London Gatwick	✓	✓	✓
	London Heathrow	✓	✓	✓

How can airport congestion be prevented is a question that is being debated in most of these places. Planning in advance is certainly one step in achieving a situation where delays from congestion will not suffocate the entirety of European hubs, and where the consequence of such congestion will not affect adversely the entire European hub system (a plane late at departure will consequently be late at arrival and affect all the system).

Future trends

The forecast for traffic for 2035, shows that in Western Europe the main turnpoints for traffic remain somehow the same (geographically speaking), but that on the contrary, the congestion situation worsens significantly in terms of delays encountered at these very airports.

Yet, the more concerning part is when flight delays are added to the equation. By 2035 delays are expected to increase ominously from what they are now. Over 12% of passenger air traffic may not be accommodated because of the delays and thus more capacity will be needed at airports to compensate for this situation.



Increasing numbers of airports with summer delay (minutes/flight)

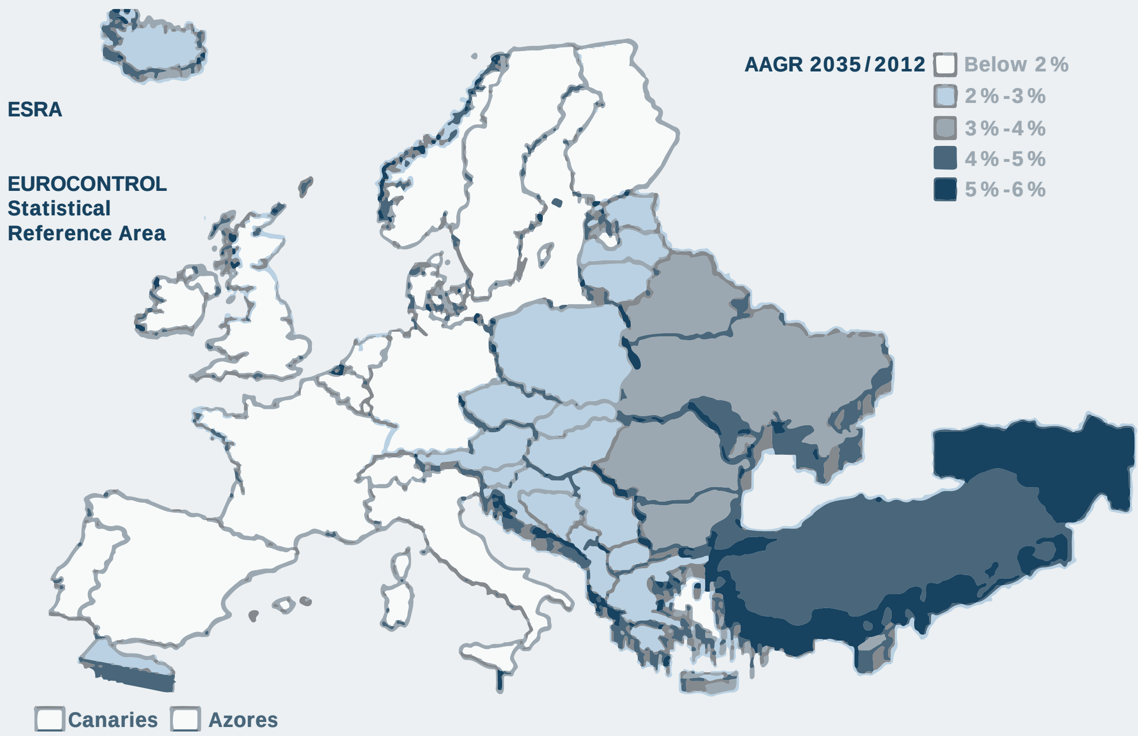
Then we stumble over the definition of capacity: one part of it may be the need for additional runways, terminals or other infrastructures. But as importantly, there are other types of capacity: the network capacity in the Air Traffic Management System as well as the environmental capacity. It is important to realise that the addition of infrastructure capacity in Western Europe is mostly depending on the environmental capacity.

Airports expand into regions, affecting people who live nearby, driving prices down or up for property, driving employment up or down, having their cohorts of impacts that have to be dealt with by political authorities.

When there is a political will to initiate a capacity increase, there will be the possibility to add additional infrastructure. But when the citizens are against it, the political resolve will disappear as well.

Evolution of traffic patterns

Continuing to analyse the evolution of traffic until 2035; while Western Europe will remain at the same level of traffic, Turkey and Eastern Europe will grow their own traffic, and thus will be growing in influence as well. With the rise of Turkish Airlines and the Middle Eastern Air Carriers (Emirates, Etihad, Qatar), and of Turkish Airlines, the Eastern European – Turkey – Middle



East region is becoming the hotspot for air traffic development. We have recently seen the decision to build a new airport in Istanbul, which is deemed to be one of the largest in the world.

This comes at a price for both airports and airlines in Europe, which are even now being affected by the shift of passengers travelling long haul, especially to Asia via Istanbul, Dubai, Doha or Abu Dhabi. The ARC has released a study on the impact of Middle Eastern Air Carriers on European Hub Airports.

Lastly, the low cost carriers (LCC) have modified the situation even further. They have allowed for the growth of regional traffic in Europe. Up to 45% of the market share is currently held by LCC at European level. This is good news for many regional airports which were not even on the map before the proliferation of low cost carriers, but their traffic takes away from what would have otherwise been hub connecting traffic.

If we combine the two factors together (Middle Eastern Carriers and LCC) we have a fair explanation for the decrease of direct flights from Europe to Asia since 2009: -0,3% in figures released last week by ACI Europe. That does not mean less connectivity, but it means different connectivity, with economic impacts that may have shifted away in part.

Environment cities and public authorities are changing as well

About 20 years ago, environment was a harsh word, nobody wanted to hear it. Today, it is taken seriously, because of different factors ranging from stricter regulation to neighbours' complaints.

The airports themselves have evolved. There are numerous good proposals on environment and views on innovation and use of space at airports. We see that they need more and more non aeronautical revenues, coming from their real estate programmes (at the large airports, around 75% of the revenues of the airport are non aeronautical). They play a role that is increasingly important in the shaping of the regions: the economic impact, the landscape and the functionalities of the territories.

Finally, the cities also are changing and evolving through time. The role of local authorities is not to be a victim of the change, but an actor of the change. One of the keys to managing the change is to raise the awareness on what the future trends are. No city can be sure of what the future will be, but one of the aim is to be a smart player in the competition that regions and cities are also having.

The ARC represents a wide range of cities and regions, which are both friends and competitors. They all want to attract businesses to their territory, but they should not all aim at attracting the same businesses. The concept of smart specialisation of territories is key. Each region needs to find in its own identity what makes it different.

Each region has its own strength and each region can provide a different point of view on the economic impact of the airport. One thing is sure, though no matter the situation, there will always be an economic impact.

Economic Impact of Airports: The need for a new approach?

Donagh Cagney

Donagh Cagney works for Airports Council International Europe (ACI EUROPE), a trade association representing European airports. Approximately 90% of commercial air traffic in Europe goes via airports which are ACI EUROPE members, representing some 1.5 billion passengers every year.

ACI Europe considers that at EU level there are currently a number of developments and potential future rules that could jeopardise future aviation development on the continent.

One of the recent issues has to do with getting access to public funding, which is the lifeline of some smaller airports. These are generally regional airports, which do not have sufficient passenger numbers to allow them to be profitable, but which provide a crucial link to the continent and the world for the communities around them.

Policy makers will have to take some decisions, but there has to be quite a complete understanding of the potential long-term consequences of curbing aviation growth.

Typology of airport impacts

There are a few major types of impacts that a given airport can have over the communities that surround it.

- **Direct impact** is the employment and economic activity at the airport or its immediate vicinity for associated activities. The direct impact refers to the actual number of people employed by the airport, the airlines and the businesses that work directly for these two.

- **Indirect impact** refers to the direct wealth generated for the wider aviation chain. It includes the people preparing the inflight catering, the corporate support services which may not be based at the airport, and it is regarded as far reaching as to comprise of the companies that are manufacturing components and airframes.

There is a catch and a cautionary message – indirect impact is dictated by the nature of the national economy. If a sector, such as airframe manufacturing is not present, more airlines won't mean additional airframes manufactured in the country.

- **Induced impact** is the employment and value added associated with the staffs of firms directly or indirectly connected to the airports spending their income in the economy. Induced impact can be considered the money that is earned from the airport, which then travels through the economy. This is an element that is dismissed quite often, even though it is a key component of economic impact and is tightly correlated to the mode in which modern economies work. Caution must be taken to ensure that this measure accurately reflects the actual impact.

Credit: IATA & InterVISTAS Consulting Ltd

- **Catalytic Impact** is represented in the many ways in which the airport facilitates business and productivity beyond aviation and it involves quite a few different components. First is **tourism**, both inbound and outbound, which is considered as a key source of revenue and growth for major national economies in Europe. However, there is a difference between inbound and outbound tourism, since the outbound tourism may detract from GDP, with people travelling to spend money elsewhere.

A few concepts associated with catalytic impact

Foreign Direct Investment is a key word when talking about catalytic impacts, because it has been proven that it is highly connected to it. FDI refers to firms arriving into a country and spending their money there through investment, thus creating jobs and generating wages.

The statistics also suggest that for every 1% increase in air connectivity, there is roughly a 0.3% increase in FDI. Being better connected is an advantage for the airport regions.

Trade is paramount to any economy and it is highly facilitated by fast, efficient routes. Access to a wider global market, means the possibility to sell more and have a higher level of economic activity, in turn creating more jobs. Similarly to FDI, statistics suggest that for every 1% of growth in connectivity there is roughly a 0.3% increase of trade.

Finally, when looking at the catalytic impacts, **productivity** comes to mind as a more complex type of influence. It manages to encompass tourism, FDI and trade but it also has a superior value to that.

The theory states that when air links are present, the time and money to link a region to the wider economy decrease. The regions will be able to secure the right people, with the right skills in the right market, ensuring added efficiency and productivity.

Connectivity and the value of one passenger

There have been various attempts to put a economic impact of an airport, in terms of passenger numbers. Of course this is not a single number, and it probably varies depending on the type of connection, airline or purpose of the trip.

Indeed, the nature of the connectivity will have an impact on the economic growth expected from the aviation activity. There may be a difference between regional and metropolitan connectivity, with some regions having stronger connections to certain parts of the world than others.

This is the context in which the value of a passenger has to be taken into account, based on a number of factors. Clearly there is no correct magic formula in this case. Economic modeling is an estimate of a simplified version of a complex reality – the hope is not to get it right, but close enough.

Causality - it is not a one way impact

While an airport has an economic impact on the region, the reverse is also true. The region in which an airport is located is very important to the success or failure of an airport. Economic activity can substantially enforce the aviation activity. It is a virtuous circle. Circumspection is necessary when talking about the economic impact of airports, and the economic activity of the regions should not be taken out of consideration.

Getting closer to real values?

ACI EUROPE is in the process of producing a study to find out the economic impact of airports. One of the keys to this study coming close to the actual numbers is having a clear good methodology and structure. The idea is to combine methodology with a better understanding of all the factors that are in play at a given time in detail, in order to have sensible comparisons, therefore bringing consistency back to the debate.

The study should be completed by October or November 2014.

Sustainability in aviation: What is going on?

César Velarde,
Inmaculada Gómez

César Velarde is the OBSA Manager and Inmaculada Gómez coordinates the ITAKA project. They work for SENASA, a state-owned company which is an aviation consultant linked to the Spanish Civil Aviation Authority. In 2007 SENASA launched the Spanish Observatory of Sustainability in Aviation (OBSA). Its main aim is to be a reference point on aviation and sustainability, considering its social, economic and environmental dimensions.

Acknowledging all the impacts of aviation

Because of the increasing demand of information on the impact of aviation on the environment, and also the increasing regulatory pressure on aviation activities, the best possible information to support policy making in this field had to be processed and gathered.

The goals of OBSA are: to support decision making in the development of policies and action plans, to encourage participation of the stakeholders, to share the best technical information and to encourage sustainability initiatives in the aviation sector. This essentially means taking the best out of the benefits of aviation while also acknowledging its negative environmental impacts and striving to correct them.

OBSA has signed agreements with numerous stakeholders in aviation, airport and regions. It works on developing technical work, analysis and research as well as exploring the potentials and benefits of alternative fuels for aviation.

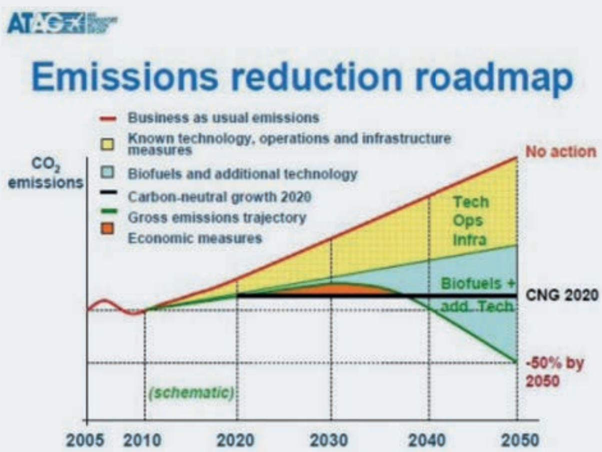
Environmental protection is a paramount factor when looking at the aviation industry and it can also bring social and economic opportunities, not only for the airlines, but also at local and regional level.

Initiative Towards sustAinable Kerosene for Aviation (ITAKA)

SENASA is also coordinating the flagship alternative fuel project at EU level, called ITAKA.

Madrid Airport consumes around 2 million tonnes of fuel every year. Through this project, its partners are searching for alternative sources. Current fuel is being produced through challenging and dirty techniques, these methods themselves generating a vast environmental impact, even before the fuels are used and released into the atmosphere. A sustainable future has to be powered by other types of fuel that do not have the same effects as fossil fuels.

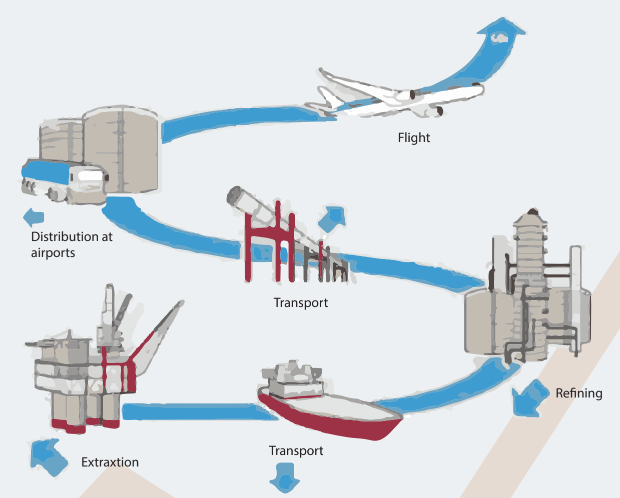
It can be argued that the solution to avoid climate change is to stop flying. But in order to preserve



and develop mobility, alternative solutions need to be sought. The current technology employed in attempting to curb the environmental impact of fuels, combined with continuous infrastructure and rules are still not even close enough to compensate for the harm being done to the environment.

Second generation biofuels (from non-food feedstock and sustainably produced) should be considered as a serious and sustainable alternative. Using the current fuel system, the reaction is a linear one from extraction to emission. Once released into the atmosphere the by-products of

Lifecycle emissions from fossil fuels



At each stage of the distribution chain, carbon dioxide is emitted through energy use by extraction, transport etc.
Source: ATAG

these fossil fuels will linger and produce negative effects in terms of climate development.

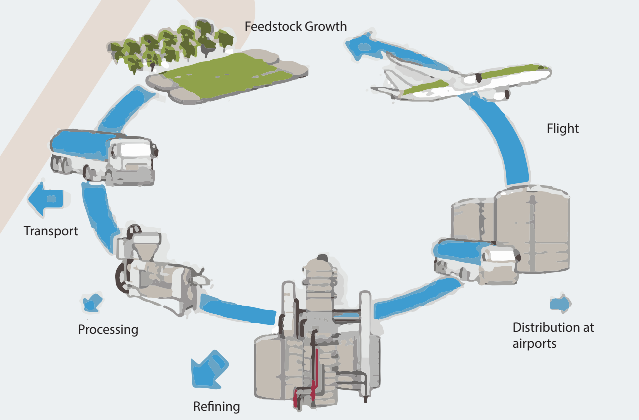
Conversely, using biofuels, one can observe a cycle is formed, with significant reduction in loss and pollution overall. Yet, at this time, biofuels are not all entirely sustainable. Aviation does not want to repeat past mistakes, and superior stocks are needed. What is important is not prioritising biofuels over regular food crops, but using lands that have to rest after an ordinary usage period or are disused.

Even with biofuels still having to walk quite the path before being the preferred alternative, some benefits can already be identified for the regions. One of them is the reduced dependency on crude oil imports and better local air quality. Sustain-ability also attracts more responsible tourists and business people.

What is vital is also getting the airlines on board and aware of the subject. If the carriers are not convinced that this is the worthy alternative to fossil fuels, then there is no reason to further reflect on the importance of biofuels. KLM has been a frontrunner of the effort to get biofuels in the air, with test flights that have already been completed as well as a sponsorship programme.

Lastly, and perhaps most importantly is the business case for the region. A green solution not

Lifecycle emissions from biofuels



Carbon dioxide emitted will be reduced as the next generation of feedstock is grown

only has to be good for the environment, but it also has to be profitable for its clients and users. The logistical efficiency is highly visible, as it will be more cost effective to carry fuel from the airports proximity rather than it spending weeks on oil tankers.

The added opportunity is for the regions around airports, which will be able to produce these feedstocks and create a long-lasting economic link.

Introduction to the Roundtable

Francois Scellier

Vice - President, Val-D'Oise County
Member of the French Parliament
ARC Vice President

The ARC Members are the representatives of the population and the actors who are impacted by airport activities.

Airport issues in Europe are negotiated between European Union, the Member States, Airports, Airlines, Aeronautical industry and to a lesser extent passengers, but rarely with the impacted regions.

Whilst we, local and regional authorities, support airport activities, we also have to remain attentive to the evolution of these activities.

Firstly, the change of the airlines market with the arrival of low cost airlines, and then the arrival of Middle Eastern Air carriers is deeply impacting traditional airlines as well as the airports on our territories and consequently our regions.

We must remain attentive also to evolutions in relation to the environmental and territorial impacts that airport activities have on our regions.

Vigilance begins by a good knowledge of both the economic and environmental impacts. This is the reason why we have led a "state of the art" research on the territorial impacts of airport activities. This research was essential to us, as all public policies (from European to regional level) shall depend on a sincere knowledge of these impacts. This work demonstrated that now what we need before all is scientific, standardised, harmonised methods to understand the impacts.

This is true for all impacts, including the economic impact. In this respect, we must remain vigilant against any risk of overestimation or underestimation, which is no better.

ACI also share much of this point of view, and is currently reviewing the analysis methodology it provides to airports, as we saw this morning.

We all know here that airports and development are interdependent. An incorrect assessment of impacts - airport development, such as development of airport activity - can lead us to bad strategies or good strategies for our regions as well.

In this regard, the ARC last year led a study on the impact of European companies in the Middle East. It is clear that Europe, and every airport territory must now take stock of the modifications of traffic patterns and renew our airport attractiveness.

In the USA, Atlanta Airport, has chosen to strengthen the economic ecosystem related to the airport, rather than increasing its capacity. Closer to home, Amsterdam chose to emphasise rather the quality of the airport and its environment, and to develop the Dutch regional airports.

It is up to each of us to find out how to constantly renew the attractiveness of our airport region. I think we would all be winners in clarifying the steps necessary to renew our attractiveness, at the scale or our continent and at the scale of each of our territories.

So it is with the utmost attention I listen to your views, and more particularly that of our friends from Madrid.

The Economic Impact of the Madrid Barajas Airport

Daniel Costa Seijas,

Daniel Costa Seijas in a Transport Planner consultant for SENER, an independent engineering firm that conducted the study related to the economic impact of Madrid Barajas airport

Estimating the impact

SENER attempted to evaluate the economic impact of Madrid Barajas Airport, not only to the Madrid economy but to that of the entirety of Spain.

Barajas Airport has had in 2012 an annual traffic of 45 million passengers and 370,000 tons of freight. This makes Barajas the first Spanish airport with a market share of 23% in passenger terms, 55% in freight and 19% in number of operations. It is the fifth largest European airport, and ranks 16th worldwide in passenger numbers, even if in terms of cargo traffic it is far from being a busy airport.

Airports are more than transportation terminals; they have a major economic role as activities are generated also by other services. In the case of Barajas, these activities have abundant impact on the regional economy. In this respect, there are five main sectors that can be identified:

- Airport operations
- Passenger air transport
- Freight air transport
- Commercial activity
- Industrial activity

What the study eventually concluded was that the airport contributes to some 5.000 million euros to the GDP of the region of Madrid, which is 3% of the regional GDP and thus provides some 100.000 jobs in the area as well.

Methodology

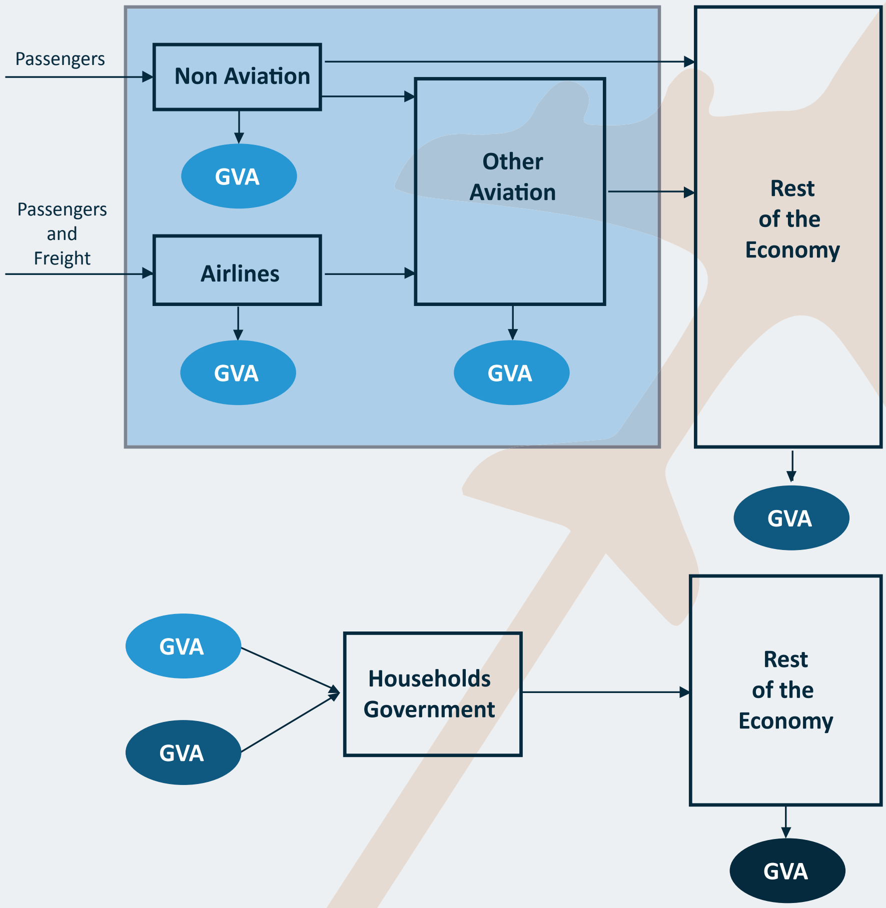
To explain how the numbers were eventually found, one has to look at the methods of calculating the economic impact of an airport: i.e. within its boundaries, but not only transport activities of the airport itself, they also include commercial and business activities.

Activities at airports include airlines, non-aviation, and other aviation, the airport itself, handling and fuelling. All of these activities at the airport generate wealth and that is the direct impact of the airport. This starts a chain of intermediate consumption that affects the economy of the region, which in turn generates more wealth through indirect impact. All of this goes to the recipients, i.e. households and governments.

Another type of impact is the catalytic impact, which refers to the expenditures made outside the airport but which are related or influenced by the existence of the airport and that of the direct and indirect impacts.

One example of direct impact is that IBERIA does its major scheduled maintenance of aircraft at Barajas airport. What is interesting about this type of maintenance is that it is not directly connected to the number of passengers IBERIA transports at a given time, just to the number of planes they own, thus being less susceptible to seasonality and economic crises.

To begin estimating numbers, after establishing the



number of impacts, the estimation of revenue begins, from observed estimates of traffic and observed revenue per passenger kilometre as well as official data from airport operator AENA. These numbers include the revenue from air transport collected by the airlines, spending of travellers at airport shops as well as wages received by staff working at the airport.

For example the average revenue of AENA from commercial activity at Barajas is 3.11 € / passenger.

Barajas as a major driver of Spanish Economy

Impact	City of Madrid	Community of Madrid	Spain
Direct	1.317	1.959	1.959
Indirect	211	377	3.185
Induced	475	853	4.748
Catalytic	1.070	1.951	5.286
TOTAL	3.073	5.140	15.178
GDP	*124.650*	*190.391*	*1.051.342*
% of GDP	2,5%	2,7%	1,4%

Overall, SENER estimates that the revenue of Madrid Barajas Airport in 2012 was of approximately 3.9 billion euros, with its actual impact in the Madrid area estimated at over 5 billion euros, and the entire country 15 billion euros.

Beyond that, the airport generates, through its various methods upwards of 300.000 jobs at national level, which would add up to 4.000 jobs per million passengers.

Impact	City of Madrid	Community of Madrid	Spain
Direct	18.894	33.475	33.475
Indirect	2.760	5.447	51.741
Induced	9.448	18.643	102.429
Catalytic	24.246	47.844	117.763
TOTAL	55.347	105.408	305.408

AENA and Madrid Barajas

Elena Mayoral Corcuera

General Director, Madrid-Barajas Airport

Madrid Barajas Airport is run by the same company that manages all 46 Spanish airports and 2 heliports in Spain, Aena Aeropuertos S.A. This essentially means that Madrid Barajas Airport is integrated into a very large ecosystem, and is the most significant piece of the puzzle for numerous stakeholders, including IBERIA.

The airport is very large, both in terms of traffic and space occupied, with 40 million passengers in 2013, covering 4.000 hectares of land.

At the moment 79 airlines providing 176 non-stop connections to 66 countries are present at Madrid Barajas, which is also the main hub for Spanish flag carrier, IBERIA.

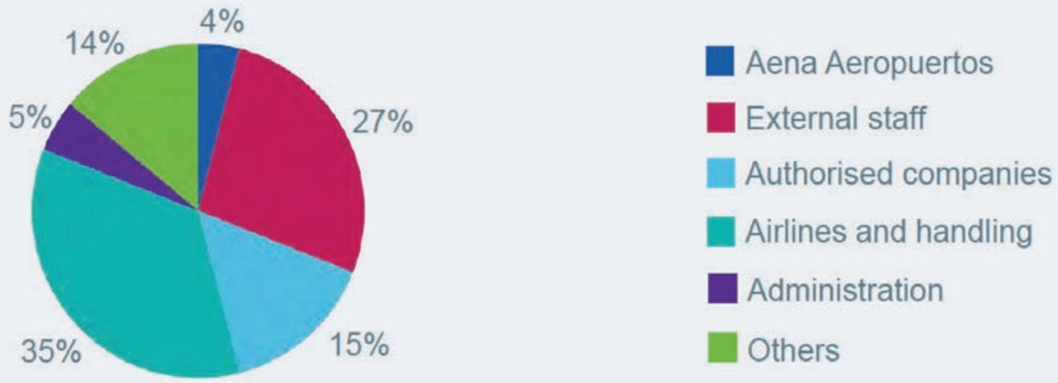
If necessary, capacity can be extended at the airport which currently uses 4 runways and allows for up to 120 operations per hour. Currently at peak hours the airport is under capacity. Half of the boarding gates are equipped with jet ways which make passenger's transfer to the terminals easier.

The economic value of Barajas

There are more than 40.000 people working at Madrid Barajas, with 10% being foreigners of 95 different nationalities. Only 4% of these people are directly employed by Aena Aeropuertos S.A., the rest being comprised of external staff, authorised companies, airlines and handling and administration. Through the existence of the airport, it is estimated that over 100.000 jobs are being supported in the region.

Also, each landing and take-off adds an average of 11.900 euro to the regional economy, or in other terms every two landings or take-offs support more than one job. Barajas represents almost 10%

More than 40,000 direct employees



of the whole employment in the Community of Madrid.

In terms of the financial contribution, 12% of the Gross Regional Product comes from the airport, through a contribution to the economy of over 10 billion euros per year. The estimate of AENA in relation to the contribution of the airport to the Gross Domestic Product of Spain is 2%, which is a very important slice of the nation's economy.[1]

Environmental issues

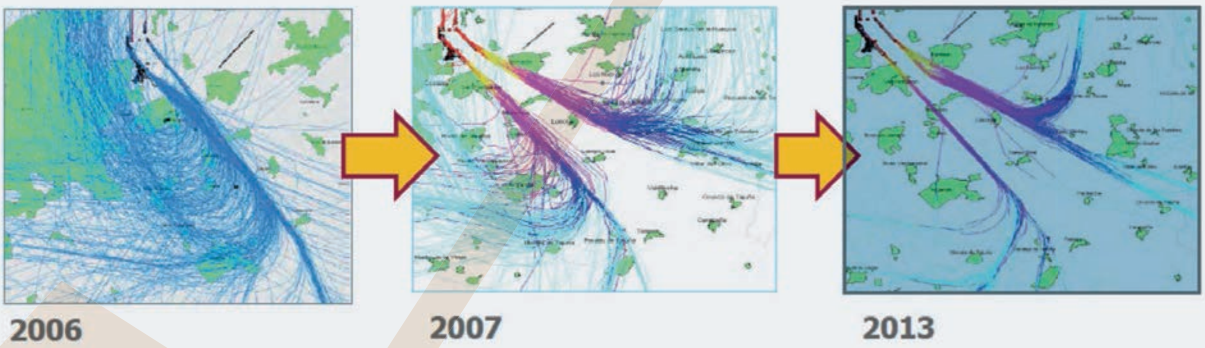
Madrid Barajas was built 80 years ago, and in 2006 two new runways and the terminal 4 were added. The airport has been working with the neighbouring communities on environmental issues in order to make this growth possible. Also, since the building of the additional runways, the airport has updated and upgraded the take-off and landing routes, in order to avoid disturbing the surrounding communities. This also involves using an advanced noise and flight path monitoring system, which limits the use of some routes for the noisiest aircraft. During the night, from 11 p.m. to 7 a.m. only two of the 4 runways are being used.

Beyond that, the airport has invested over 137 million euros in soundproofing over 12.500 houses as well as 7.7 million euros for building new houses. Other notable initiatives include a centre for wildlife recovery, restocking trees and environmental recovery of river banks.

Further investments and actions in environmental protection include:

- Air Quality Monitoring Network (REDAIR) which analyses the levels of pollutants resulting from atmospheric emissions
- Wastewater and rainwater treatment systems intended to prevent the potential discharge of pollutants and toxic substances into the public network.
- An Environmental Information and Service Office (OFIMA) that handles information requests and any complaints associated with the environment (noises, smells, etc.)
- Noise technical work group (GTTR) working with local community.
- The Expoenvironment Hall, which uses educational projects to familiarize visitors with the airport's commitment to the environment.

All in all, Aena Aeropuertos S.A. is committed to both expanding and upgrading the airport, while trying to limit its environmental impact and maximise its economic impact.



Note: Taking off toward the south. Taking off towards the north has similar improvements

1 The difference in numbers between the figures presented here and the ones in the section from SENASA comes from data that has been tracked in different years. The numbers here refer to 2013 figures.

The Benefits of City and Regional Destination Branding

Malcom Allan

Place Matters, UK - Director

Why focus on cities and their regions? It's simple. By 2050 75% of the world's population will live in cities, and this implies that airports will be at the centre of future mobility. Creating brand strategies for cities and regions is bound to become a norm and necessity for cities which want to have a competitive advantage, especially in a world where regions and cities are also competing with each other to be more attractive.

Why create brand strategies for cities and regions?

One of the main reasons for cities to create robust destination brand strategies is the need to differentiate themselves. If a city wants to attract businesses or tourists, these groups must have strong reasons to want to go in the first place. Economy, culture, heritage and uniqueness are key differentiators in this case.

There are in existence numerous city brands throughout Europe, but most of them are uninspiring, and when you examine the logo of the city, the imagery or motto very rarely represents anything substantial or meaningful. As symbols they are not unique and evocative enough. Branding is not about having a logo, and a branding only based on a logo will always fail.

What needs to be developed is a recognisable identity, an identity beyond a motto, which can appeal to audiences from all over the world. Cities are in competition with each other, and not only with the ones which are situated nearby each other, but with cities all over the world. Consumers have to be given identifiable reasons to differentiate between cities

Cities compete with each other

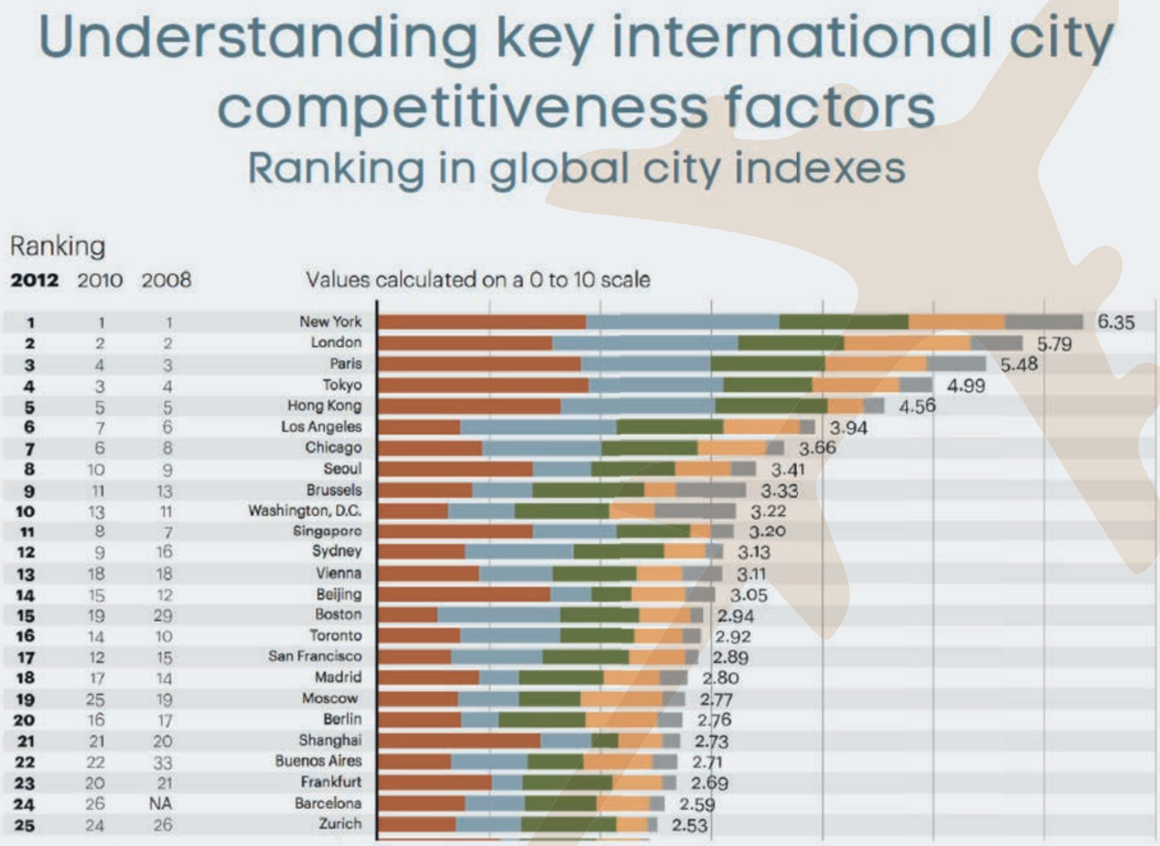
Barcelona, for example, is in competition with Madrid, but it also competing with Miami or Dubai for investment, for businesses and for visitors. In a well-connected and competitive world boundaries no longer exist in terms of distance.

Cities also compete for talent. Every city in the world wants to attract as many intelligent young people as possible. In this case airlines and airports have a role in targeting these groups towards their optimal destinations.

Tourism has long been seen as one of the great drivers of airline businesses. And recently it's been recognised that what attracts the tourists also attracts investments. A mix of culture, rich history, and great entertainment is a high selling point for any city.

People who work in a city aren not there against their will; they have made a conscious choice to live, work or study there. And most of the time they do so because they like the place where they are; it provides offers and experiences of interest to them.

For cities retaining their existing population and existing talent is crucial, and even more important in some cases than attracting new investment. This applies in terms of retaining not only individuals, but also companies and existing job providers. Cities need to face up to the competition from



other cities, and identify their home advantages, where it may be easier for them to compete.

How are airports involved?

Airports are the principal point of arrival in most major cities, the first taste of the city or country that a person gets. In that capacity, the airport has a great responsibility to present an accurate experience of what the city has to offer. And, as the proverb says "there is no second chance to make a good first impression". That is where the brand / the experience of the city, or the region will first be experienced, and that is where the tone will be set. It is good practice to showcase the brand at the airport both in terms of existing infrastructure, culture (the branch of the Rijks Museum at Schiphol airport for example) but also in terms of atmosphere, quality of service, in order to give a positive image, an appetence for the region itself, the desire to go further the boundaries.

This type of attraction and experience is likely to be of interest to travellers whose final destination may not even be the specific city where they first land. Schipol is an international hub airport where many change planes and make flight connections.

Passengers that may not be thinking to come back to Amsterdam and explore the city can be given reasons to do so by sampling what the city has to offer while they are in transit, a good example being the branch of the Rijks museum, giving connecting passengers a taste of the city and a reason to return.

So, the airport is a key stakeholder in the process of welcoming people into a ciy, and it is crucial for the cities to inform and involve their airport and airlines about the destination brand development process and share forecast of growth investment, exports and visits. The airport should also showcase local products and services and be as welcoming and customer friendly as possible.

The future of city branding

What should the future city branding look like? It should be different from most branding attempts of today. It is not about spending large amounts of money on the design of logos and taglines or buying air time on TV channels. It is more about being strategic in the planning of what the city is going to offer consumers, investors and travellers; its about having a long term vision and being competitive.

The cities which will win in this game will be the ones which will be able to identify their distinctive offer and experiences and will also be able to leverage the assets that they have to encourage consumers and travellers to spend time and money in the city. It does not always have to be new investment or any investment for that matter.

What cities need to do is clearly put their finger on exactly those things that make them different – be it their educational system, cultural offering, entertainment, sport or the sustainability of their development. Future generations are bound to be more concerned about sustainability, CO_2 and pollution reduction and will not want to live in polluted or unsustainable environments. Promoting green approaches to city development can be a significant leveraging factor for cities.

In marketing their brand offers, what is important is that cities should be telling a story which is compelling. People and companies are not interested in local authorities explaining them what their services are and what areas are interesting for investment. They would far rather listen to success stories of already established companies.

Case Study: Cork Region, Ireland

The Cork region in south west Ireland is an area with over 3,000 sq km of mountains and countryside, wild Atlantic coast line, as well as a sizeable city and many attractive country towns. Cork has been very successful in attracting Foreign Direct Investment over the last 15 years with over 25 companies from abroad now established and growing there. What differentiates Cork as a location for investment is its strong food and dairy, biopharma and medical technology sectors, a large institute of technology, a music school and a huge range of cultural events.

Last year a number of key stakeholders in the region got together to create a new brand proposition for the region, and the result is summarised in the brand pyramid on the next page. This sets out the defining attributes, benefits, personality and value of the Cork brand proposition. The brand essence is "A unique fusion of opportunity to live a great life and build a great business." The brand conveys that the Cork region is an energetic place of local and global business; a place of innovative and applied learning, research and development capability; a very liveable cosmopolitan place with a good quality of life; a place to visit steeped in history and culture.

Airports can showcase the City Brand

PM

The proposition is based on the unique mix of traits that differentiate Cork from cities it may be in competition with, and together form “the right mix” for its current businesses, residents and learners as well as potential tourists or investors.

A key lesson that Cork learnet early on in its brand building process is that “You cannot tell all of the people everywhere everything about your place all of the time.” Still, this is what a lot of places are still doing with the consequence that people do not hear the essence of the brand and the message gets blurred.

This is why having a destination brand strategy is essential – it helps cities identify their competitive edge.

Economic impact of airport: the Roissy Charles de Gaulle airport example

Jean-François Benon

Director of Val d`Oise Development Agency, France (CEEVO)

Roissy Charles de Gaulle (CDG) is one of the largest transport hub in Europe and the second cargo hub in Europe after Fraport in Germany. With 62 million passengers in 2013, which ranks it second in Europe, and 7th in the world, the airport supports 86.000 direct jobs, according to Aéroports de Paris (AdP).

The last few years have brought significant traffic growth for the CDG airport, combined with an important economic growth in the area and increased number of jobs and population settling there.

Over a 15 km radius from the airport itself, over 9.000 companies providing over 200.000 jobs are settled in 170 business parks. The reasons these companies have chosen the CDG adjacent area relate to

1. their activity, which is usually aviation-related,
2. the presence of advanced transport infrastructure, such as the High-Speed Train TGV stations and motorways,
3. the attractive cost of the land, and the availability of more land for future development.

The airport has also brought into the area an influx of educated population and skilled work force.

The most represented activity sectors in the CDG airport area include aeronautics, freight / logistics, airport services, safety and security activities, offices, hotels, shopping and conference centres.

The economic and social impact of the airport

The Paris Airport Authority (ADP) conducted a study in 2013 to measure the link between the traffic growth of the Paris region's airports and the job creation in the surrounding area, region and country.

The conclusions that were reached in this study highlighted the overwhelming importance of the presence of CDG in the area. According to it, around 2% of the total employment in France is linked one way or the other to the presence of the airport, while job growth in the CDG airport area is 7 times more dynamic than in the whole Paris region. The study concluded that for every million additional passengers at CDG, 1.400 direct jobs are being created.

This ratio, however is not sufficient to quantify economic impact in its entirety, and there are a number of factors which may be taken into consideration when analysing direct impacts from passengers, since each one of them has a unique profile, spends a different amount of money and comes in the area for a different purpose.

For example, the type of airline and the class of travel are important in estimating the impact of passengers. The airline bases are very important as well. In Paris, Air France's economic impact, with their aircraft based mostly at CDG is far higher than, for example Emirates which is based in Dubai and only "visits" Paris. Lastly, the length and duration of the flight is important, since more resources and ground handlers are necessary to operate such a flight at the airport.

In 2014, Val d'Oise Economic Development Agency has released a study on the impact of a single long haul aircraft take-off at CDG. It has been identified that this aircraft would need over 1.000 products on board from over 900 suppliers based in France (half of which are in the Paris region). This illustrates that the economic impact on the surrounding economy is heavily based on small and medium sized enterprises.

This, however would mostly apply to a flight for an airline based at the airport. By contrast, an airline based elsewhere would purchase most of their products in their own local economy. Thus, what the study highlights, more than anything else is the need for a strong local based airline, which will use the full force of the local economy.

Due to global competition amongst airports and airlines, as well as the arrivalof, and increasing market shares of Turkish Airlines and Middle Eastern Airlines, there is a risk of major job loss in areas like CDG, should the main based airlines be undermined from their dominant position.

In a study, published in collaboration with the Airport Regions Conference, the impact of Middle Eastern Carriers has been studied in more detail. One of the findings was that there can be different approaches involved, depending on the size of the airport. The rise of Middle Eastern Air Carriers are more likely to affect adversely European hub airports. On the other hand smaller secondary and regional airports would benefit from it and receive better and powerful intercontinental connectivity, and development of the attractiveness of the region.

All in all, for Charles de Gaulle the future is at least interesting. Facing the challenges provided by all the factors discussed here will not be an easy task, but one of the most important things that will be at the centre of the survival of European airport hubs in the years to come is adaptability and reinvention.

What can airlines do for cities and regions and vice versa?

Manuel López Colmenarejo,

Director of Network Development & Alliances, IBERIA

Cities and regions can do a number of things for airlines, but this is not a one way relationship. There has to be a circle, in which the airlines contribute to the well-being of regions and cities. IBERIA is the national carrier of Spain, is based in Madrid and it has had a significant impact over the city. We are not planning to give up on its only hub, despite the recent economic troubles.

An outlook on North America

To understand what is happening at IBERIA level, an outlook on the world situation is useful. In North America, airlines have managed to achieve excellent margins over the last few periods, showing the rest of the world that even when the barrel of oil is over 100 USD, airlines can remain profitable. On the other hand, the situation in Europe has been deteriorating due to factors ranging from the economic crisis to a general lack of consolidation and a very fragmented market.

What the North American example shows best is that consolidation is at the foundation of restoring profitability for legacy carriers. The industry has been able to service and adapt to the increased fuel price and to the competition from low cost carriers.

Beyond consolidating airlines themselves, strong alliances are also playing an important role in this equation. Europe has been at the forefront of alliance building and consolidation, and benefits are starting to show from such agreements.

It still remains the case that the US is getting a lot of benefits from this system, coped with the many airline mergers in the last few years. Even if their growth over the past few years has been very low, their value has increased more than anywhere.

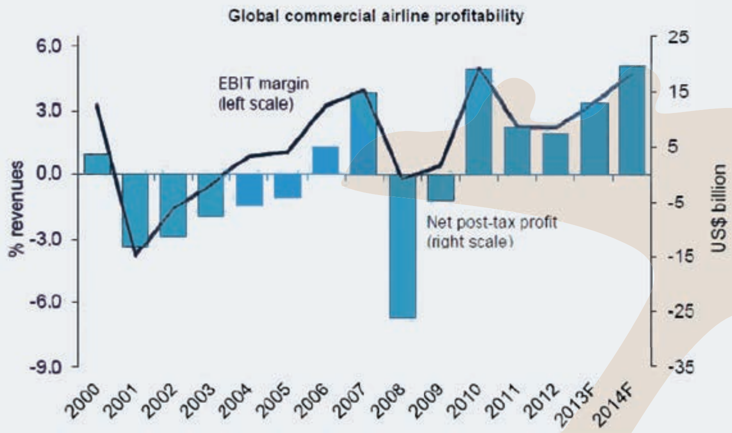
Madrid and Spain

If we are to look at the Spanish case, we see that Spanish airports have been hit hard by the economic recession, but tourist destinations are still performing very well.

Madrid, while still being the number one airport in Spain by passenger numbers has been hit quite hard, due to a couple of factors. Firstly, Madrid is very dependent on its own demand, with most (over 50%) of the flights originating at Madrid. Conversely, in Barcelona, the second biggest Spanish airport, over 70% of the flight originate elsewhere, which means that the Spanish crisis did not hit this airport with the same strength. As a matter of fact, in 2013 Barcelona as opposed to Madrid, achieved a slight increase in passenger numbers.

The main idea in the graph on the next page, which can be compared with the situation of hotel night stays in Barcelona, (where over 85% of hotel nights are non-Spanish travellers), is that Madrid is dependent on internal demand and tourism more than any other airport in Spain.

Beyond that, low cost carriers have been reducing capacity. EasyJet had 40% less seats in 2013, and Ryanair reduced their capacity by 25%. This, coupled with IBERIA's loss of over 4 million passengers in 2013 has created a situation in which the airport of Madrid has lost over 5 million passengers compared to 2012.



System-wide global commercial airlines	EBIT margin, % revenues					Net profits, $ billion				
	2010	2011	2012	2013F	2014F	2010	2011	2012	2013F	2014F
Global	5.0%	2.2%	2.2%	3.3%	4.7%	19.2	8.4	7.4	12.9	19.7
Regions										
North America	5.7%	3.0%	3.4%	4.8%	6.4%	4.2	1.7	2.3	5.8	8.3
Europe	2.4%	0.8%	0.7%	1.3%	2.0%	1.9	0.3	0.4	1.7	3.2
Asia-Pacific	8.0%	3.5%	3.3%	4.1%	4.4%	11.1	5.1	4.0	3.2	4.1
Middle East	3.7%	3.1%	3.0%	3.8%	4.7%	0.9	1.0	1.0	1.6	2.4
Latin America	5.1%	2.0%	1.5%	3.1%	5.1%	1.0	0.2	-0.2	0.7	1.5
Africa	1.7%	0.6%	-0.4%	-0.5%	0.7%	0.1	0.0	-0.1	-0.1	0.1

Source: ICAO revised data 2009-11. IATA estimates for regions in 2011. IATA estimate for 2012 and forecast for 2013-14.
Note: bankruptcy reorganization costs are excluded. Also ICAO made some substantial revisions to historic data in their 2013 Annual Report to the Council.

What can the cities and regions do for the airlines?

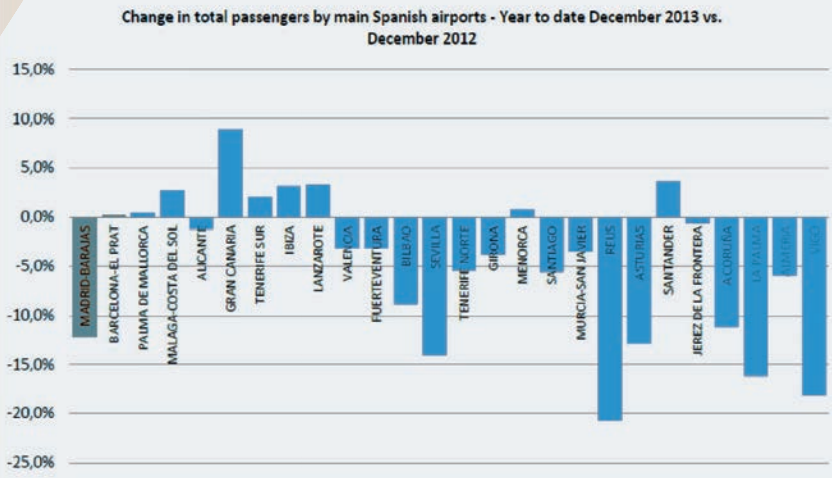
One of the necessary goals for cities and regions is to develop a strategic plan for the region starting with its brand and worldwide position, objectives and marketing strategies. Local authorities are doing a successful job in promoting satisfactory customer experiences in their cities: Madrid has a lot of work to do in order to fill the gap.

The attractivity of the city for the economic activities is important. Capacity is necessary, but for example in Madrid and Barcelona this is not a problem, as both airports are capable of handling many more passengers than they are currently.

What can airlines do for cities and regions?

On the other hand, airlines can provide many advantages to cities and regions, especially through the

Aeropuertos	Total Pax (Mill)
MADRID-BARAJAS	39,7
BARCELONA-EL PRAT	35,2
PALMA DE MALLORCA	22,8
MALAGA-COSTA DEL SOL	12,9
ALICANTE	9,8
GRAN CANARIA	9,6
TENERIFE SUR	8,7
IBIZA	5,7
LANZAROTE	5,3
VALENCIA	4,6
FUERTEVENTURA	4,3
BILBAO	3,8
SEVILLA	3,7
TENERIFE NORTE	3,5
GIRONA	2,7
MENORCA	2,6
SANTIAGO	2,1
MURCIA-SAN JAVIER	1,1
REUS	1,0
ASTURIAS	1,0
SANTANDER	1,0
JEREZ DE LA FRONTERA	0,8
A CORUÑA	0,8
LA PALMA	0,8
ALMERIA	0,7
VIGO	0,7



The situation in Turkey, Egypt and Tunez has affected positively to Sun & Beach Spanish airports

creation of a hub airport. A hub is not created in a void, it is usually nearby a populous city which has potential for increased economic activities and growth.

Iberia chose Madrid for this reason as well as the central location within Spain, which makes it great at connecting to all other airports in Spain in very good amounts of time. Iberia in Madrid is currently operating with 48% connecting traffic and 52% point to point operations.

It is because of the 48% connecting traffic that the airline can offer the city destinations which would otherwise not be operated. Because of this hub, over 4 million passengers are generated by these connecting routes.

It is also this kind of connectivity that is important for companies that chose where to place their offices and where to invest.

Some of the problems that surfaced in the last few years and that prevented some growth from the airline have been related to regulatory issues, where the airline was prevented from operating and expanding Iberia Express, their regional subsidiary.

However, Iberia is strongly committed to continue developing Madrid as a prime tourist destination.

It is important to note that the airline operates absolutely all of its flights from Madrid, not using any sort of secondary hub. In this way it has very strong ties with the city and is participating in numerous projects with the local authorities.

What can airports, cities and regions do together for airlines

Ignacio Biosca Vancells

Airlines Relationship Manager, AENA

AENA manages 46 airports and 2 heliports as well as a number of airports in Mexico and London Luton.

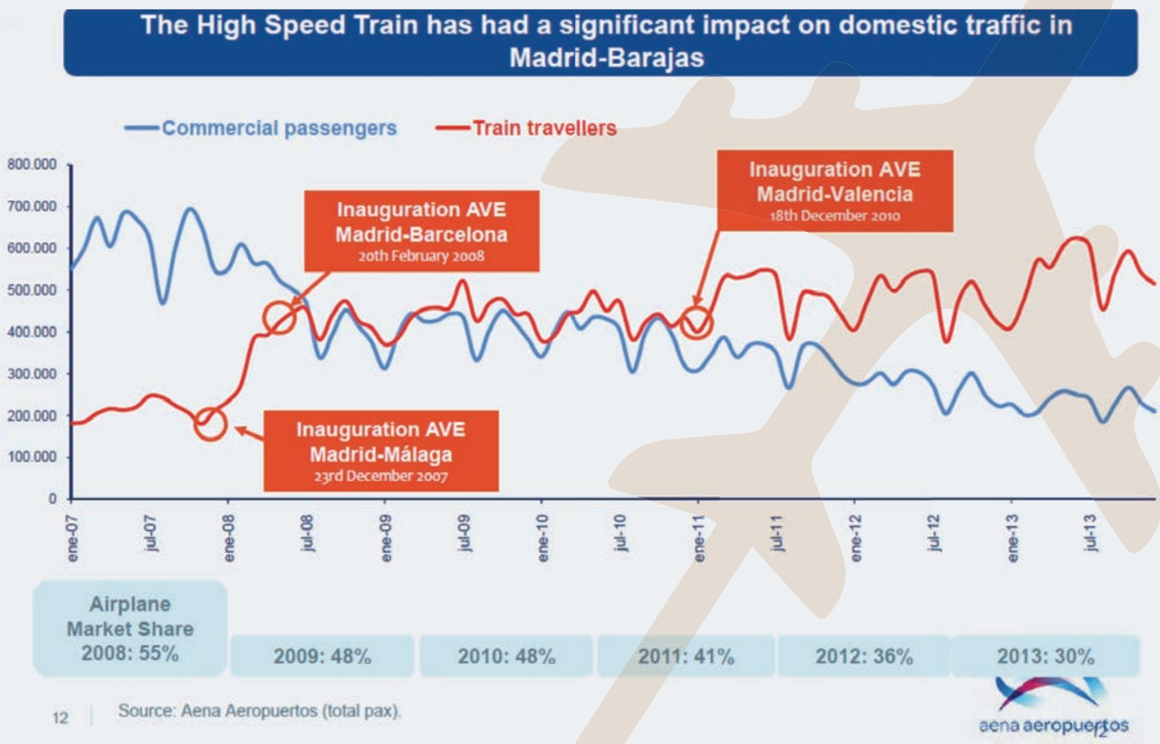
For AENA cooperation is very important. Cities, airlines and regions have to work together, not one for the other.

The downfall of 2013

The drop in passengers of 2013 in Spain is very well known, but there are some redeeming qualities about it. It was a record year in international traffic, signifying an upsurge of the market as well as revitalising signs of recovery on long haul routes. However, Spanish domestic travel has been in very deep trouble.

Madrid lost over 12% of passengers in 2013 compared to the previous year, which translates into a loss of over 5 million passengers. Other airports, mainly the tourism-driven have seen significant growth. This is the case of Alicante which grew by over 9%. Overall, at Spanish level, two airlines have been big growth vectors: Air Europa and Vueling.

Despite the dramatic fall in traffic terms, it seems that the worst is over. The trend looks statistically



positive, with a cycle that should mean 2014 will be a stabilisation year with very little loss or gains for Spanish airports and Madrid in particular.

Taking the individual case of Madrid we know that international and domestic traffic have behaviours that vary significantly. In terms of domestic traffic, which dropped by 17% in 2013, the high speed train connection has had a big impact. It has taken a significant share of the market, especially with the opening of new city routes. On routes currently operated by both air and rail, the rail has now 50% of the market, and the airlines have decreased to 30%.

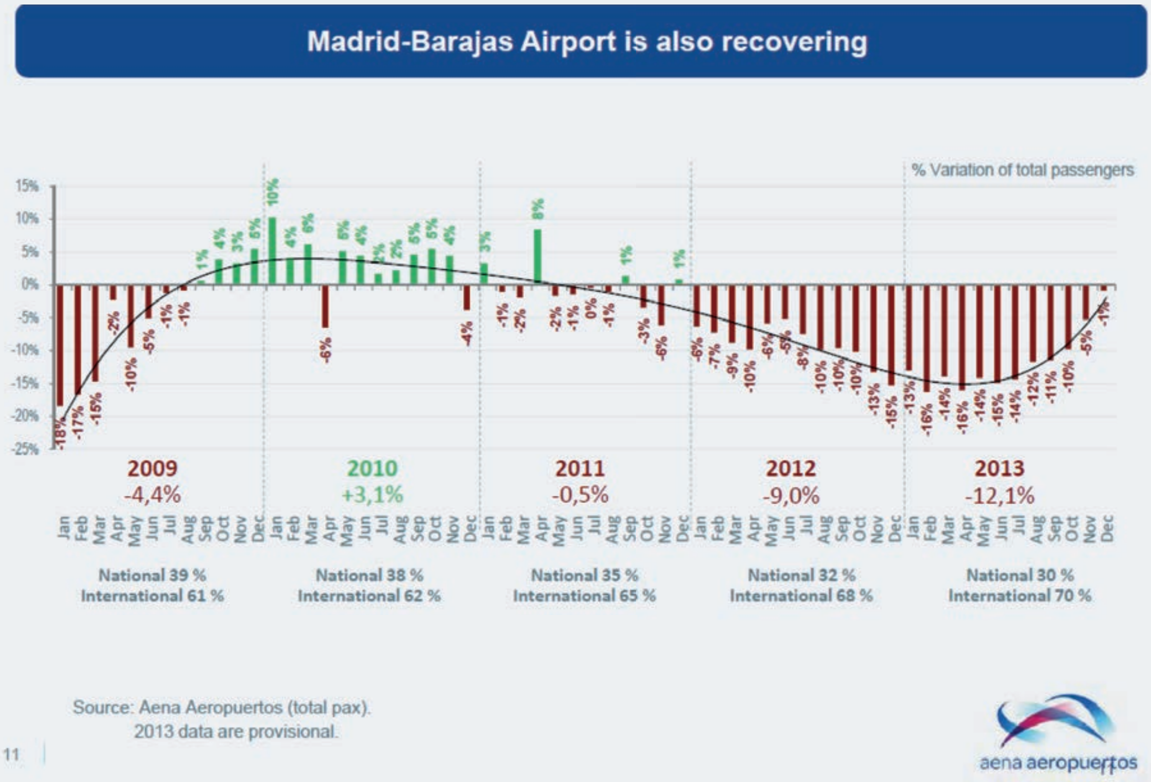
Even with this setback, the positive trend cycle is looming for Madrid as well, with a relatively good year expected.

What AENA is selling is a product, which is the destination. Making sure that it is attractive from a touristic or business point of view and in line with the purchasing power of the population in the area is very important. The main goal of AENA is to make airlines grow in order to profit from their increased presence at their airports.

It also helps that all the Spanish airports are operated by AENA, which means that the strategy for development can be consistent and long term, not constantly disrupted by the possible major actions of other airports. There are many synergies in having a network. For example, when buying security equipment, it is much more efficient to buy for 46 airports rather than one. It is all about economies of scale and efficiency, and also providing the customer with a seamless experience no matter what airport they are travelling to.

AENA also offers a number of incentives to airlines, including marketing support, discount for new operations etc. and cosidering that opening a medium haul route means nearly 10 million euro in investment, while a long haul route can be up to 100 million, AENA wants to make sure that airlines are confident in making these investments and to know that the operator will support them.

In terms of working with local authorities, AENA has a route development committee in Madrid, together with City Council, Chamber of Commerce and Turismpain. They are also in the process of formalising an Airport Coordination Committee which will discuss issues of traffic and noise. This is a new project, but the stakeholders have already been identified and gathered, and the benefits for airlines and airports will be imminent.


Madrid-Barajas Airport is also recovering
% Variation of total passengers
15%
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
2009
-4,4%
2010
+3,1%
2011
-0,5%
2012
-9,0%
2013
-12,1%
National 39 %
International 61 %
National 38 %
International 62 %
National 35 %
International 65 %
National 32 %
International 68 %
National 30 %
International 70 %
Source: Aena Aeropuertos (total pax).
2013 data are provisional.
11
aena aeropuertos

What can cities and regions do for airlines?

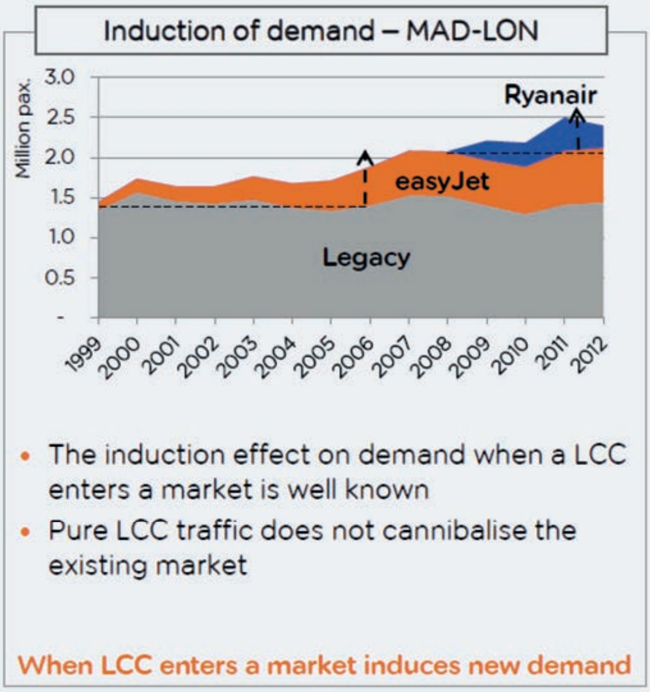
Javier Gándara

CEO of easyJet- Spain

easyJet is the biggest airline in terms of traffic in the United Kingdom and second biggest in France and Switzerland, and has an important presence in Spain. Over 300 million people live within a one hour travel time from an EasyJet airport.

easyJet remains one of the few profitable airlines in Europe which is related to its very low unit cost and fares, combined with very high passenger numbers. The number of passengers allows translating the low profit per seat into a high overall profitability for the entire airline.

One of the key drivers for having low unit cost is high asset utilization. easyJet has an average fleet utilisation of 11-12 hours per day. This means that all the aircraft are flying almost all the time, which is quite challenging from both an operational but also a commercial point of view. It is very important to be able to fill seats year round on most routes.



easyJet starts selling the seats at a price that covers the marginal variable cost, and only a few days before departure (30 days in the example route shown in the presentation) are the seats starting to be sold at a price that covers the full cost and begin making a profit. This means that high load factors (in the area of 85-90%) are absolutely necessary to make the business model profitable. Every time a new route is opened there has to be a certainty that the flights will be almost full, or else the route will be unprofitable. This is mostly done through price adjustments.

easyJet is also inducing new demand when opening a new route more than cannibalizing existing demand from incumbent carriers. The problem is that the same applies when a route is dropped, as a big part of the demand is not transferred to other carriers in the same route, but demand shifts to other destinations where capacity is deployed into.

That is generally the difference between a low cost customer and a legacy carrier traveller. What the low cost industry has done is creating a new type of passenger who is not necessarily looking for a specific destination. These are travellers who just search for the cheapest available rates and fly to that destination based on price rather than the express wish to go there.

What the cities and airports can do is to inspire inherent demand by making a destination more attractive and also making the airport charges more competitive thus driving this particular type of passenger to that destination.

easyJet also works with the authorities in a number of cities to promote attractions and areas, since it is in the interest of both parties. Normally the airline collaborates with the tourism authorities and release joint campaigns.

Lastly, easyJet is also committed to recruiting the crew with local employment contracts in the jurisdiction they set bases, thus being attached to the regions they operate in.

What can cities & regions do for Airlines: Air Cargo approach

Juan Ignacio Díez Barturen

MADCARGO Vice-President

Madcargo is a group of professionals and companies in the entire Madrid air logistic chain. It is mainly comprised of Exporters/ Importers, Airlines, Handling Agents, Forwarders, Governmental/Airport Agencies, Couriers, Infrastructures Companies, Customs and Inspections Bodies, University/Press members.

Its main target is to improve the competitiveness of Madrid as an Air Cargo HUB.

Strategies

The consortium, in order to be efficient, needs high levels of participation from all the stakeholders in all the areas of activity. It also forms a number of working groups.

Part of its work revolves around the creation of a Strategic Plan to strengthen the city and the region as an attractive place to develop economical activities in relation to industrial processes, tourism and commercial businesses. Madcargo expects, through the output of this plan, for passenger and cargo volumes to be affected positively.

Beyond that, the airport and airlines have a specific role, to focus on a better utilisation of the airport infrastructures and efficient air traffic. Also, the group is supported by the Madrid airport operator AENA.

Operations

Some of the future goals and plans of Madcargo include the development and consolidation of the intermodal passenger and cargo traffic within the city and the whole region, with high quality logistic spaces or platforms, customs and inspection services, roads, and more.

Good connectivity between domestic and international traffic is a very important facet of the operation as well. Madrid, being a transit hub for a number of operators, plays an important role in the development of cargo operations. However, this system can be expanded significantly, allowing for the airport to rely more on cargo as well. This will come after more infrastructure and connection development, such as improved train and road connection as well as dedicated cargo facilities.

The regional and local authorities have a role to play here as well, as the airport is the main logistics infrastructure in the city of Madrid and it needs support from these authorities.

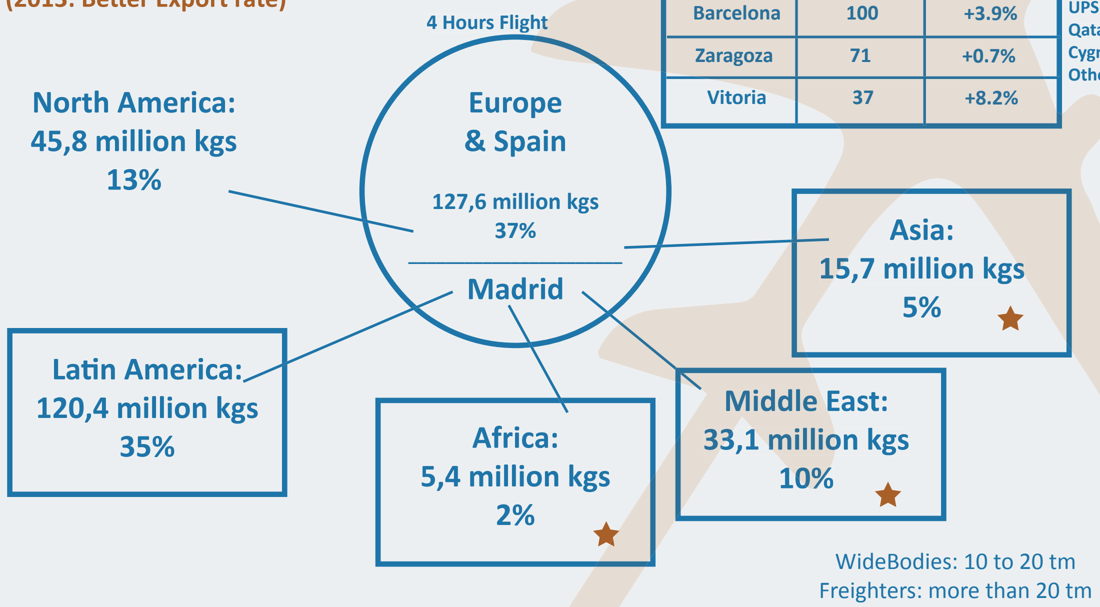
In detail, for cargo, this means infrastructure and improved processing for specific cargo products of high value such as perishables, pharma and luxury cargo. There must be proper technical means and non-stop operative support both in the airport as well as outside the airport.

2013 MADRID Airport Cargo data:

(2013: Better Export rate)

2013 Market	Million kgs	2013 vs 12
Spain	640	-2.0%
Madrid	348	-4.2% ★
Barcelona	100	+3.9%
Zaragoza	71	+0.7%
Vitoria	37	+8.2%

IB -19.5%
EAT +8.1%
A.Europa +17.7%
Emirates +30.9%
Swiftair +18.8%
FedEx -0.2%
UPS +9.1%
Qatar +23.0%
Cygnus -18.3%
Others -1.9%



Economic Aspects

Madcargo needs support from outside actors in order to perform the activities in an efficient economically productive manner. This includes the main actors (airports, airlines) offering competitive cost and time versus other competing cities and regions. Furthermore authorities need to facilitate new markets and air routes, licence and traffic rights.

What Madcargo is expecting from the community is that enough effort and support is going to be applied, and recognition of the weight of the logistic activity in a region which is increasing the export volume as well as the employment figures.

Overall, intermodal cargo transport is at the pinnacle of development in this industry, which has been hit hard by the economic recession, and revitalising it will depend on all the actors pulling their weight.

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