Improving, yet testing trading conditions for European airports

(Lisbon, 16 June 2011)

AIR TRAFFIC OUTLOOK

- Jan-Apr 2011: +10.8% for passenger traffic, +7.2% for freight traffic.

Generally speaking, air traffic has shown resilience and outperformed economic growth. However, these figures largely reflect the impact of last year’s volcanic ash shock, leaving the adjusted growth at close to +4.9% for passenger traffic and freight traffic.

- Air traffic recovery has been held back by several factors: sovereign debt crises affecting demand in several European countries, political unrest in North Africa/Middle East, the events in Japan and the eruption of the Grimsvötn volcano.

- New air traffic patterns in Europe which emerged last year, look set to continue, with extreme disparities not just between national markets, but also between airports within the same market. This is a tangible sign of the varied performance of European economies and increasing competitive pressures on airports.

FORECAST FOR 2011

- +6% for passenger traffic and +5% for freight traffic.

These figures assume continued yet moderate growth in the low cost carrier segment as well as no major disruptions to aviation.

- Demand for air transport in Europe will continue to be affected by sluggish economic growth in Western Europe. Although business confidence is strong and consumer confidence has rebounded in recent months, ongoing uncertainties surrounding sovereign debt crises and inflationary pressures are likely to weigh on consumers. This will affect the demand for discretionary air travel.

Moreover, aviation tax will continue to hold back air traffic growth in the UK and will also affect demand in Germany and Austria. The current level of oil prices is adding to the equation, leading airlines to remain cautious on route expansion and focus on network optimisation to protect yields.

NETWORK VOLATILITY IS THE NEW NORM

- Traffic recovery to date has come with a great deal of network volatility for Europe’s airports. More than 4,741 new air routes were opened last year between European airports. However, an equally impressive 3,330 air routes were closed.

These figures are a sign of the changing structure of the European aviation market and the increasing flexibility of airlines in moving aircraft and crews - shopping around for the best airport-market location. Clearly, the low cost operating model and product offering is becoming the norm for air travel within Europe. Though they would never admit it, airlines are the ones holding the market power.
ECONOMIC & FINANCIAL PERFORMANCE

- While the trading environment for European airports has improved, the overall economic and financial environment has not. Air traffic growth has not led to corresponding revenue growth.

  This is the result of significant pressure exerted over aeronautical revenues (charges levied on airlines and passengers) and growing difficulties in generating non-aeronautical revenues. External costs have remained high, especially in relation to security - the largest functional cost area for airports in Europe.

  Capital costs are also a worry, as access to capital markets continues to be difficult for many airports. Significantly, almost all of the major European airports have yet to recover their pre-crisis credit rating levels.

- Trading conditions are extremely tough for smaller airports in the regions. These airports are heavily exposed to airline network volatility. In 2010, 47% of these airports kept losing traffic.

  Counter-productive national aviation taxes are not helping. On top of that, the fact that financial support from governments is receding means that the risk of airport closures is becoming very real in some countries. This ignores the indispensable role that airports can play in defining a region’s economic prospects.

- The combination of moderate revenue growth and a difficult cost environment has limited profitability gains at the largest airport operators.

  2010 net profit for the top 20 European airport operators amounted €475 million (on €19.1 billion in revenues).

  This compares with 2008 net profits of €986 million (on 20.3 billion in revenues) and 2009 net profits of €495 million (on €18.7 billion in revenues).

  The top 20 European airport operators account for 60.8% of European air traffic (2010).

- Capital expenditure remains significant with airports set to spend some €44 billion between 2010 and 2015, investing to accommodate future growth and to secure long-term competitive positions.

- Airport charges paid by airlines only account for 19% of our income and even when we take into account those charges paid by passengers, that still leaves us with unrecovered cost of more than €5 billion.