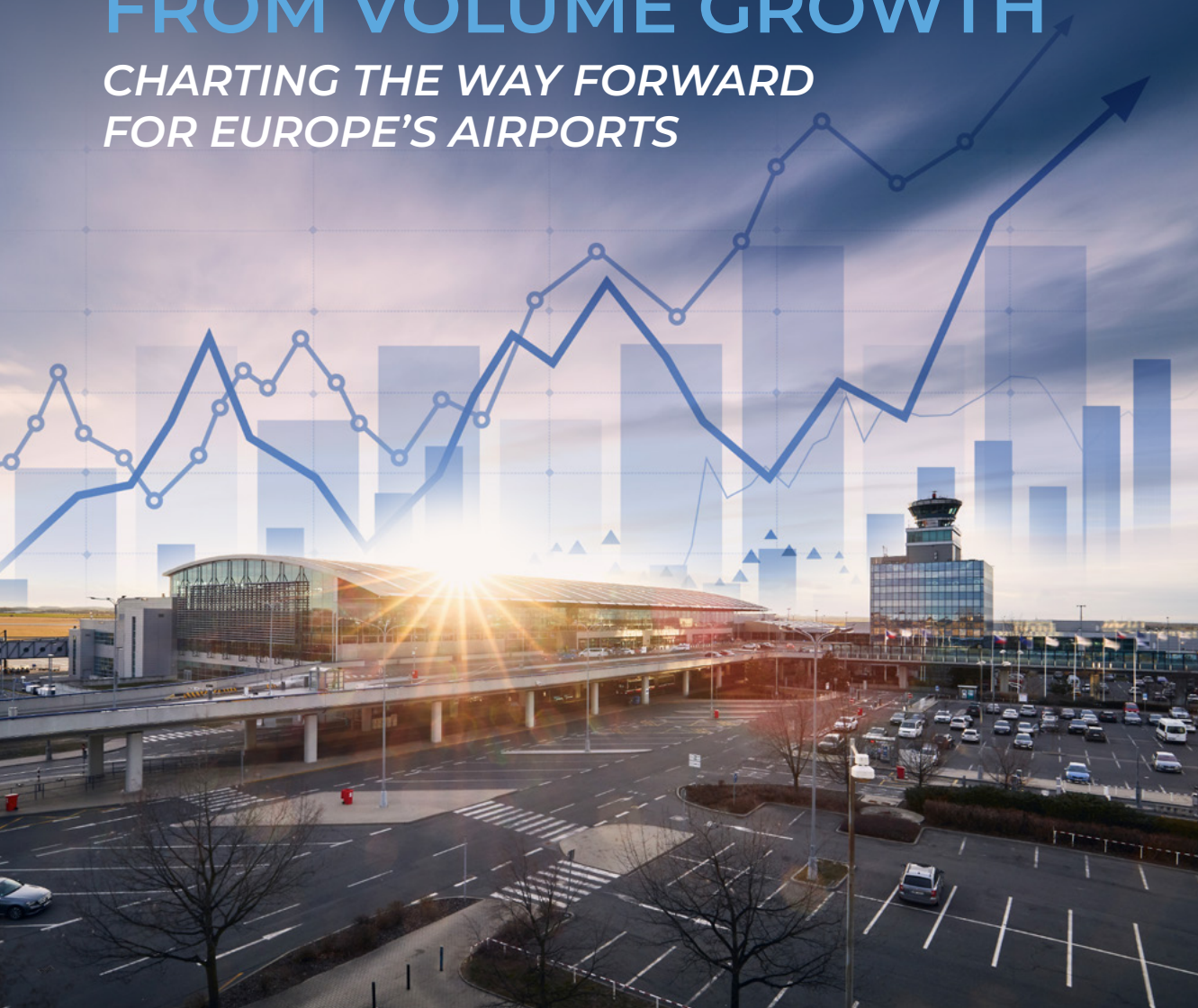


DECOUPLING FINANCIAL VIABILITY FROM VOLUME GROWTH

*CHARTING THE WAY FORWARD
FOR EUROPE'S AIRPORTS*





INTRODUCTION

The **Boston Consulting Group (BCG)** has conducted an exhaustive assessment of the **current state and future prospects of the European airport sector** – based in particular on historical economic and financial data, structural developments in the aviation market, the evolving ESG landscape and related policies, as well as investment needs and the macro-economic environment.

Their assessment reveals that the post-COVID era marks **the start of a structurally different long-term cycle** for Europe's airports – characterised by new dynamics, structural shifts and critical challenges in terms of their financial viability and ability to keep modernising and developing their infrastructure.

- While **traffic growth is set to slow down** in particular due to the impact of decarbonisation policies, **airports will keep facing significant and increasingly diversified investment needs**. These will range from addressing the capacity crunch and modernising & upgrading aging facilities to boosting cyber security capabilities, ensuring climate resilience and marching forward with decarbonisation along with developing new business ventures.
- At the same time, airports are set to face **structural downward revenue pressures** both on their aeronautical and non-aeronautical revenue streams – a reflection of slower growth dynamics, capacity limitations and competitive pressures. These will combine with **structural upward cost pressures** – impacting both operational expenditure and capital expenditure.

All this means that **airports in Europe are faced with the unprecedented challenge of decoupling their financial viability and investment capabilities from dynamic volume growth** – upon which their economic model has so far been relying.

This in turn will require **finding and leveraging new value creation routes**, with **the need for unit revenues (revenues per passenger) to increase** standing at the forefront.

This report, along with the BCG assessment (accessible on [the ACI EUROPE website](#)) provide a deep dive into this challenge, looking at its relevance for **Europe's competitiveness, global positioning and cohesion** as well as possible **remedies and way forward**.

Both come at a time when the European Commission is planning to adopt a new EU Aviation Strategy and are thus meant to inform its development – as well as national policies and regulations impacting airports.

EUROPEAN COMPETITIVENESS: THE AIRPORT INVESTMENT IMPERATIVE

A decade of strong air traffic growth and connectivity expansion ending in a decimating COVID-19 pandemic in 2020, has put the European airport industry in a bind.

- Faced with a higher debt burden which essentially allowed to safeguard their operational capabilities throughout the pandemic, airports had to scale back capital expenditure for several years. And while the industry finally achieved traffic recovery in 2024, many airports across Europe are still trailing below 2019 levels.

Yet, in addition to investments traditionally associated with **capacity expansion**, airports are now facing renewed **investments needs across multiple dimensions**:

- » **Modernising & upgrading aging facilities.**
- » **Accelerating digitalisation and innovation** across all of their operations.
- » **Strengthening (cyber) security.**
- » **Marching forward on ESG**, in particular with **decarbonisation** and **climate adaptation**.
- » **Developing new business ventures** for diversification.

Accordingly, Europe's airports will need to invest an unprecedented **€360 billion by 2040**.

Such multi-dimensional investments in airport infrastructure are all about addressing the performance, resilience and sustainability imperatives. As such they will be **a major boost for the EU and other European economies** – reflecting the wider **strategic role of airport infrastructure for Europe's competitiveness, strategic autonomy, cohesion and sustainability**.

- Looking at airport capacity in particular, **the Draghi report is unambiguous about its relevance for the EU's competitive position and global positioning**.



"THE FUTURE OF EUROPEAN COMPETITIVENESS" BY MARIO DRAGHI

"By 2050, global passenger demand is projected to increase... To serve this demand, transport infrastructure will need to expand."

Yet, Europe is facing an **airport capacity and investment crunch**. The analysis from BCG shows that planned airport expansion plans will not be sufficient to accommodate projected demand. This is also confirmed by Eurocontrol data.

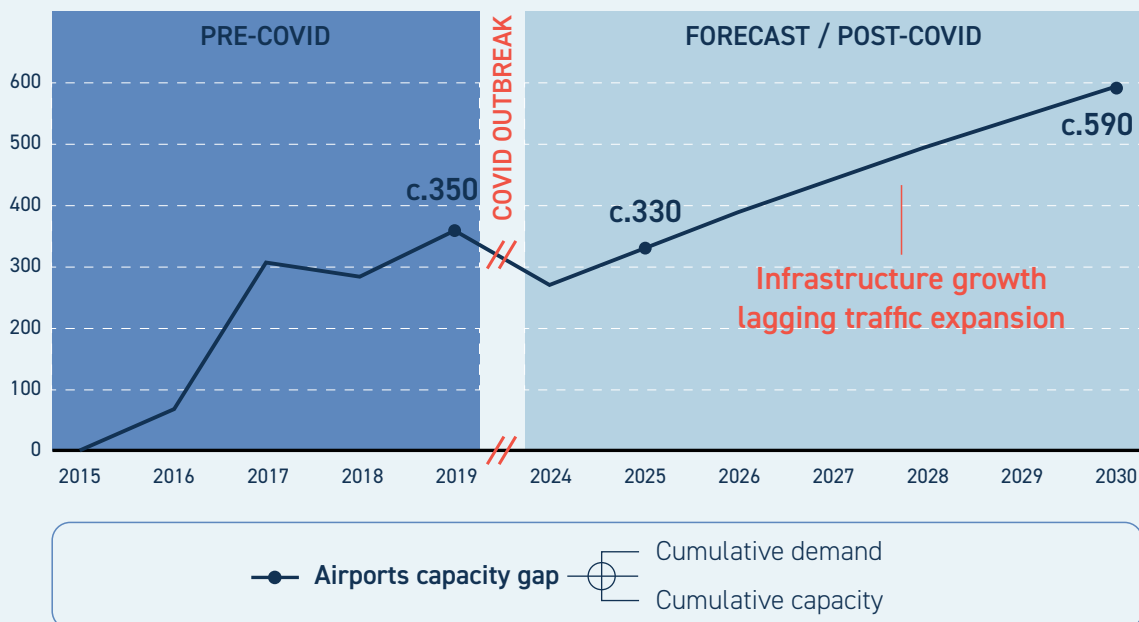


EUROPEAN AIRPORTS CUMULATIVE CAPACITY GAP

Based on planned infra expansion by 2030 vs projected demand

Mpax, 2015-2030

Cumulative vs 2015 baseline



This lack of airport capacity will impact European citizens and businesses – as it will **constrain air connectivity developments** and result in **higher air fares**. As such, it threatens **the integrity of the EU Single Aviation Market** and implies **lower economic growth** – considering that every +10% increase in air connectivity yields a +0.5% increase in GDP per capita.



EUROCONTROL DATA

- By 2050, 1.1 million flights will not be accommodated in Europe due to a lack of airport capacity
- Tripling the High Speed Train network would only absorb 0.4% of future demand for air transport

PARADIGM SHIFT: NEW & CHALLENGING LONG-TERM CYCLE

Delivering on these multi-dimensional investment needs is an essential prerequisite to **future-proof Europe's airport infrastructure and safeguard the economic and social benefits that come with it.**

But the BCG report reveals that airports are now facing significant challenges in doing so, due to the combination of a **structurally changed economic environment and aviation market** – resulting in both unprecedented downward revenue pressures and upward cost pressures for airports.

This places Europe's airports in a **fundamentally different and challenging long-term cycle as regards their financial viability** – and thus their ability to support the EU and national agendas and deliver on their crucial societal role.

DOWNWARD REVENUE PRESSURES: DECARBONISATION & NEW AVIATION MARKET

The revenues of Europe's airports are structurally and increasingly under strain. This results from:

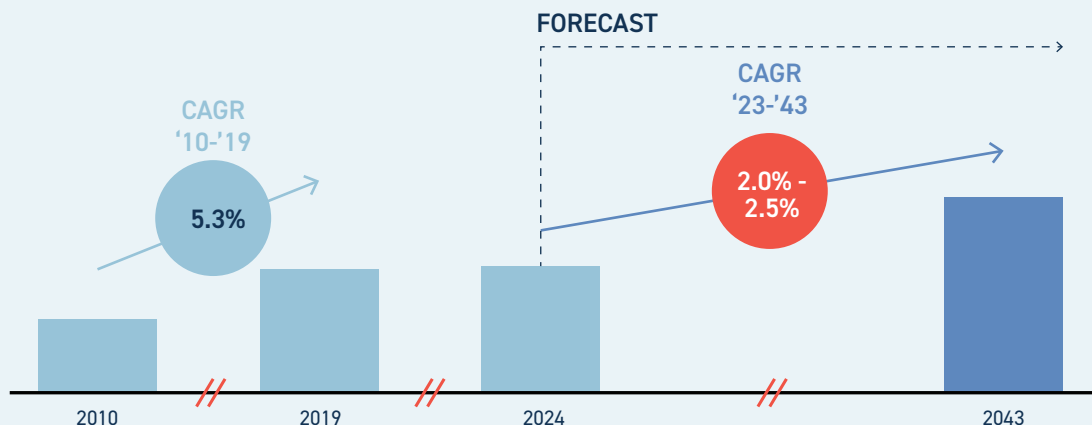
1. A shifting traffic outlook with slower volume growth shaped by decarbonisation policies.

The cost burden resulting in particular from Sustainable Aviation Fuels (SAF) mandates, the end of free allowances under the EU Emissions Trading Scheme (ETS) and CORSIA will impact traffic growth – with **BCG forecasting that passenger traffic will “normalise at a lower rate”.**

Accordingly, while the average annual passenger traffic growth stood at **+5.3%** in the 10 years preceding the COVID-19 pandemic, it is set to lower at **+2% to +2.5%** by 2043. **This is a clear break from our historical traffic growth trends.**

TRAFFIC PROJECTIONS FOR EUROPE (2010-2043, B PAX) Incl. impacts from ESG policies (i.e., SAF, ETS, ETD, CORSIA)

BCG



The repercussions for airports are significant, since the airport economic and financial model – and as a result the ability to finance investments – is largely dependent and driven by the assurance of continued dynamic growth over the long-term. Indeed, airports' user charges are based on traffic units, they are set in advance for at least yearly periods, with airports unable to engage in dynamic pricing.

2. A new aviation market structure leading to airport revenue dilution.

BCG also identifies the changed structure of the European aviation market as a key factor in the downward revenue pressures faced by airports:

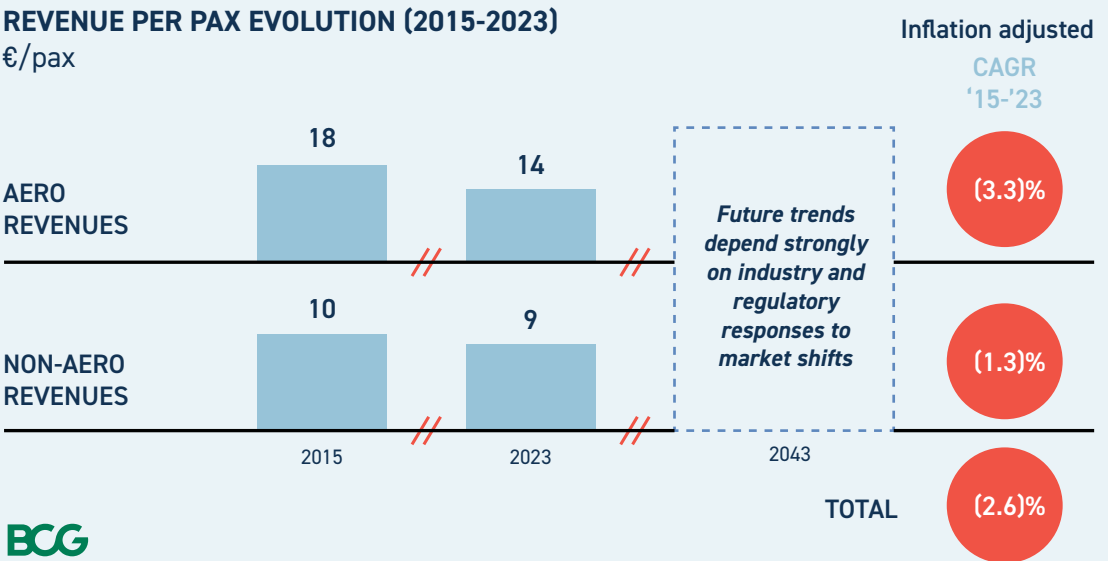
- **Low-Cost Carriers (LCCs) are on track to capture 60% of the market by 2043**, up from today's 47%. For these airlines, **it is in their business model to squeeze airports** – who are competing on an Pan-European basis to attract and retain their business. At the same time, **Full Service Carriers have also become more agile and versatile in deciding which airports will get their business** – with the current **consolidation** process only set to reinforce their bargaining power over airports.

LUFTHANSA GROUP CEO CARSTEN SPOHR, INVESTOR RELATIONS CALL

"We will further accelerate our focus on those airports that either keep their charges flat or even reduce their charges."

- **The non-aeronautical side of the airport business and especially retail is also set to come under pressure in terms of revenue generation.** BCG points in particular to the maturity of retail offerings and the impact of the growing share of generally more price-sensitive LCC passengers as key factors – along with lower overall volumes.

Overall, data shows that over the past years already, both revenue from user charges and aeronautical revenues per passenger were unable to catch up with inflationary pressures – decreasing by **-3.3%** and **-1.3%** respectively.



UPWARD COST PRESSURES: EACH ADDITIONAL PASSENGER IS NO LONGER A FREE PASSENGER

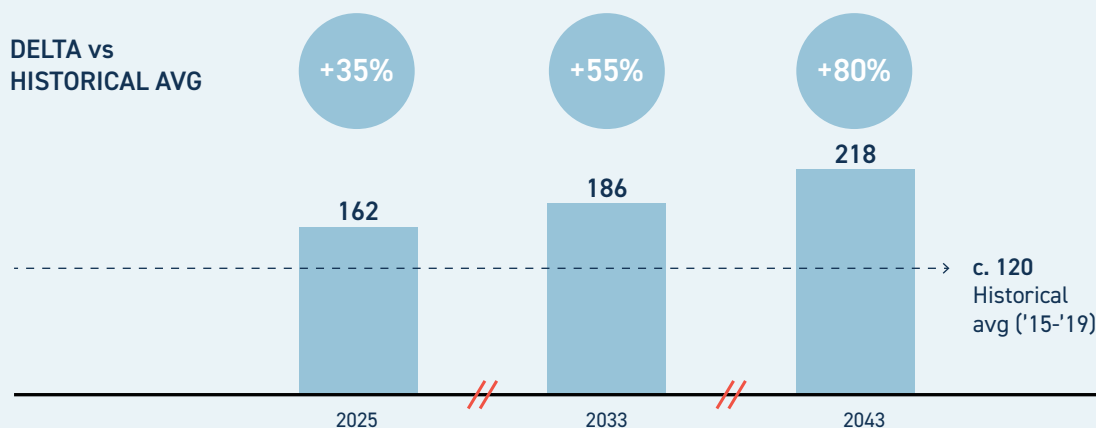
Turning to costs, the BCG report reveals that **airport infrastructure has become much more expensive per unit of new built capacity**. This means that there is no such thing as a “free” additional passenger and that the economies of scale traditionally associated with airport capacity expansion are no more.

This fundamentally alters not just investment costs per se but also **the risk profile of capacity investments**. Moreover, as already mentioned, an increasing part of airport investment is no longer related to capacity expansion and thus not associated with volume and revenue growth.

ANNUAL CAPEX PER INCREMENTAL PAX TRAFFIC (2025-2043)

€/pax

BCG



These changed cost dynamics result primarily from increases in **energy costs, material costs and labour costs** – which are also compounded by long and uncertain planning procedures as well as climate adaptation requirements, which further increase capital needs.

VALUE GENERATION, INVESTMENTS & COMPETITIVENESS AT RISK

The projected downward trend for airport revenues and upward trend for airport costs is unsustainable over the long-term.

- In fact, if the pathway outlined by BCG continues linearly without corrective action and remedies, **€45 to €75 billion in value generation (EBITDA) is at risk for Europe's airports.**
- This only means one thing: **Europe's airports will be unable to generate the capital needed to finance their multi-dimensional investment needs** – in infrastructure capacity, modernisation, digitalisation, (cyber)security, sustainability and business diversification.

But the impact does not stop there – it also extends to **the ability of Europe's airports to remain attractive for private investors** at a time when traffic risk has become a reality and when competition for capital allocation is increasing. There is no doubt investors face significant pressure to deploy capital into other sectors and geographies that are extremely dynamic and outperforming.

- **The shortfall in financing and investment in capacity faced by airports is a significant risk for Europe** – and in particular for the EU. The **Draghi report** specifically emphasises the importance of transport infrastructure for EU competitiveness – pointing to its growth enabling capacity – which for airports has been well documented. This means that **the risks involved go well beyond the remits of airports and the aviation eco-system.**

REMEDIES & WAY FORWARD

The good news is that those risks can be avoided. BCG points to *"airports acting to offset the challenge"* and using all the levers at their disposal to protect and adapt their business model. Europe's airports are indeed moving towards **a new value creation model** focused on **3 strategic pillars**:

1. SUSTAINABILITY

2. INNOVATION

3. DIVERSIFICATION

- Over 90% of large airports are pushing hard on digital tools to squeeze more efficiency from existing infrastructure, cut costs, and boost non-aeronautical revenues.

- Nearly 90% of mid-sized airports are working to rebalance their traffic mix, dialling down their dependence on Low-Cost Carriers and chasing long-haul opportunities.

- Around 75% of smaller airports are leaning on new commercial offerings to increase yields.

BCG

But there is no doubt that **the key lever** will be to find ways for airports to **decouple their financial viability and investment capabilities from volume growth**.

This is precisely why **BCG** clearly warns that given the magnitude of this financial viability challenge, ***“the impact of the diverse airport led initiative remains limited”***, and that ***“longer-term value generation will need to rely on unit revenue support”***.

The imperative to increase unit revenues both on user charges and non-aeronautical revenues requires both **a new policy paradigm** as well as **a new industry collaboration paradigm**:

1. National regulators must stop looking at airports and aviation through the rear-view mirror.

That means factoring in:

- i) Current and future aviation market developments – in particular widespread airport competition driven by LCC expansion and airline consolidation as well as fast changing and volatile international aviation markets;
- ii) The impact of sustainability and decarbonisation policies;
- iii) The role of infrastructure investment not just for passengers and airline competition but also competitiveness, global positioning and cohesion.

2. Airport unit revenues should fully cover the cost of providing aeronautical services, and ensure adequate remuneration of capital so that needed investments happen on time.

This means that some regulators must abandon their dogma regarding the need for downward pressure on airport charges and also recognise the necessary autonomy of airports as regards investment decisions. In addition, they must also challenge the assumption that the passenger and airline interests are the same.

3. In order to keep investment costs under control, the use of current airport capacity should be maximised through an urgent revision of both the EU Airport Slots Regulation and UK Airport Slots Rules. At the same time, planning procedures for airport capacity expansion and energy transition projects should be streamlined and shortened – so as to allow greater certainty and reduce investment risks and costs.

4. Airports' green energy needs must be assessed and factored in the EU and national energy policies so as to secure their energy transition both as regards supply and affordability.

5. Cross-industry cooperation must be enhanced through innovation, digitalisation and AI as regards both aeronautical and non-aeronautical activities at airports.

This requires truly enabling regulatory frameworks along with increased financial support at EU level.

Airports are at a crossroads. They can either weather the turbulence by pulling the industry together with the support of stable, predictable and efficient regulatory frameworks – or risk losing altitude as growth stalls and costs mount.

The next 20 years need to be about increased collaboration, sharper innovation and smarter, stable policies – proving that the aviation ecosystem and regulators can adapt and thrive in a very different sky.





ACI EUROPE (Airports Council International) represents over 600 airports in 55 countries. Our members facilitate over 95% of commercial air traffic in Europe. Air transport supports 14 million jobs, generating €851 billion in European economic activity (5% of GDP). In response to the Climate Emergency, in June 2019 our members committed to achieving Net Zero carbon emissions for operations under their control by 2050, without offsetting. Based in Brussels, we lead and serve the European airport industry and maintain strong links with other ACI regions throughout the world. <https://www.aci-europe.org/>

EVERY FLIGHT BEGINS AT THE AIRPORT.