Low-cost airlines: have they brought the EU closer together?

Initial remarks

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Setting an agenda for discussion

- Extent to which LCCs have contributed and can contribute to European Integration?

The inputs	The outputs
Increased capacity?	Labour and general mobility
Increased connectivity?	Business travel and commuting
Reduced fares?	International student mobility and commuting
	Leisure travel

Additional capacity owing to LCCs?

Table 1. International seat capacity (2002-2017) and LCC shares

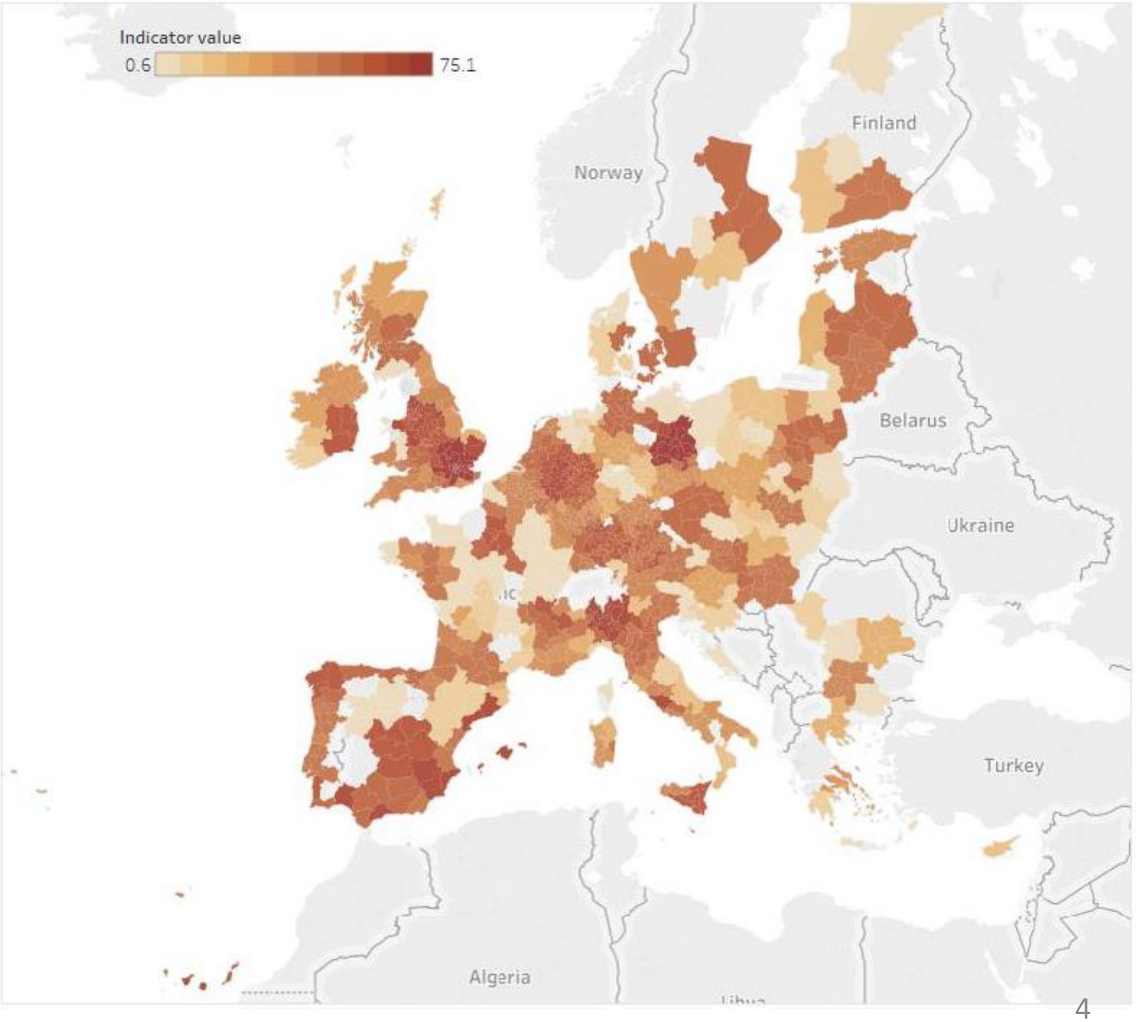
	Capacity growth 2002-2017		Growth coming from LCCs		LCC share		
Country	**Seats**	**%**	**Seats**	**% of capacity growth**	**2002 (%)**	**2017 (%)**	**% point increase**
UK	53,259,970	98	48,300,710	91	23	57	33
Spain	52,181,790	165	43,904,467	84	9	56	47
Germany	38,864,946	74	27,252,008	70	3	32	28
Italy	30,834,874	121	28,220,064	92	10	55	45
Turkey	20,170,012	336	5,001,263	25	0	19	19
France	16,606,367	54	19,145,867	115	7	45	38
Netherlands	15,231,702	91	9,344,112	61	16	37	22
Poland	14,490,821	460	10,344,525	71	0	59	59
Portugal	13,620,805	193	9,802,672	72	5	49	44
Switzerland	11,487,513	71	7,933,063	69	8	33	26

Additional connectivity owing to LCCs?

- Larger areas of population across Europe now have access to air services
  - East-West corridors to/from CEE region have particularly benefited

- Regional connectivity higher by linking remoter areas to larger cities
  - The focus on point-to-point flights illustrates the strong presence of LCCs in connecting remoter areas with each other as well as with the major hubs

Figure 7. Intra-EU Connectivity – Reachable Population (%) (2017, 1st quarter)



Lower fares?

- A European Flight Index study (2011) conducted by Kelkoo collected information on 5,000 airfares from 20 different airlines at 192 airports. The study found that LCCs offer an average saving versus FSAs of 33% rising to 39% if tickets are purchased 9 weeks in advance

- They promote international mobility more than domestic by being on average 41% cheaper than FSAs on international flights as opposed to 20% cheaper on domestic flights

The outputs: Labour and general mobility

- Mobility increasing in Europe, coinciding with expansion of LCCs
  - LCCs decrease migration costs
- Post-migration travel to visit family and friends is rising
  - e.g. one interview respondent, a divorced father of two teenage children (18 and 15), uses LCCs to travel from Barcelona to Bonn to visit them

The outputs: Labour and general mobility

- Interviewees confirm increasing variety of mobility e.g. more temporary, circular or repeated nature of movements and how this closely relates to availability of low fares

- Some high-skilled migrants are over-qualified for the occupations they take up in destination countries. Nevertheless this does not change the fact that LCCs contribute to mobility
  - There are also success stories in which individuals achieve better career opportunities through migration

The outputs: Business travel and commuting

- Business travel is expanding, notably among employees of SMEs, who tend to use LCCs
  - It creates more affordable client acquisition costs
- Contribution of increased air connectivity to the positive loop in economic prosperity through increased business relationships, investment links and flows of knowledge

The outputs: Business travel and commuting

- Ryanair data shows that 40% of bookings from Italy and the UK are now business related with top destinations being London, Milan, Brussels, Rome and Paris, and to a lesser extent Budapest, Bratislava and Riga.

- Dobruszkes (2009) states that the opening of high-ranking international hotels in capitals such as Bratislava, Budapest, Prague and Warsaw could be seen as an indication of increased business links between the west and the east
  - Market share captured by Ryanair in cities such as Warsaw (Modlin airport) and Plovdiv (100% each), Krakow (42%), Bratislava (22%) and Budapest (14%)

The outputs: International student mobility and commuting

- International student mobility is increasing and seems responsive to the expansion of low-cost airlines in Europe, as students are usually constrained in their budgets and therefore responsive to lower airfares
    - Evidence from passenger interviews also points to the importance of LCCs as a factor in international study decisions under the Erasmus programme

The outputs: Leisure travel

- Expanding and taking different forms such as:
    - Vacations
    - Second-home ownership
    - Short-term city breaks with cultural tours

- Overall, it seems that low fares have helped create a new and growing market for people who would have never travelled before. As they are now travelling, this is connecting and integrating Europe.

Drawbacks real and possible from LCC expansion on European integration

- Ease of relocation by LCCs can create certain challenges for local economies, which without LCCs would unlikely be served by legacy carriers
    - Trend towards serving larger hub airports by LCCs might be ominous for some of the least dense secondary and regional airports

Drawbacks real and possible from LCC expansion on European integration

- LCC route and network decisions are driven by load-factor focussed revenue maximisation and maintaining low operational costs not on redressing spatial and economic imbalances across Europe
    - However spatial and economic imbalances are so entrenched that no airline/transport scenario can in itself address this important issue affecting long term cohesion and integration across Europe

Thoughts on the way forward: Policy

Focus on 2nd priority area key for continued integration (p12): Ensuring an acceptable level of aviation services to all EU regions, especially most remote	Hitherto LCCs have not been interested in competitive PSO tendering on Europe's thinnest routes	As market stimulators, ULCCs may be able to take over better performing PSOs. This could be incentivized by governments as a way to reduce subsidy
Preventing a hard Brexit in aviation and securing transitional measures	UK to have full access to EU Single Aviation Market	LCCs to keep lobbying and investing
Securing further EU-level comprehensive aviation agreements with third countries	Akin to EU-Morocco agreement, which airlines like FR were able take advantage of	More is needed to expedite EU open aviation area deals with neighbouring countries

Thoughts on the way forward: LCCs

- Hybridising LCCs might want to consider higher levels of commitment to primary bases and stations
  - Employing a higher number of in-house staff on permanent contracts

- Contributing further to the reduction of skills gaps in the aviation sector (e.g. pilots, cabin crew, technicians and maintenance engineers etc)
  - Sponsorship and endorsement of training, relevant degree programmes and apprenticeships might be an option

Thoughts on the way forward: LCCs and other transport organisations

- Deeper levels of intermodal co-operation, especially in domestic markets would allow LCCs not just to earn commission based revenues

- Where rail links are available it could act as an LCC feeder increasing possibilities further