

THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON AIRPORTS WITHIN THE EUROPEAN UNION

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This article provides basic information about global economic crisis and its influence on the aerial sector in the European Union. The first part explains the causes of the economic crisis. Next part is devoted to the influence of the economic crisis on passengers and cargo air transport. This influence will be analyzed by using different sets of indicators. In the last section we describe possible scenarios for medium-term evolution in the air transport sector..

Key words: airport, the economic crisis, the European Union, the airline

1 INTRODUCTION

The transport economy and economy of air transport could be considered one of the main tasks of economic activity. The necessary use of transport is a result of increasing activities in economic, industrial production and dissemination of trade relations. Decrease of the same parameters will result in a decline in demand for transport. The air transport seems to be much more sensitive than other types of transport. There is only a question, how the economic growth and international trade will develop in the future, in the face of the financial crisis that recently hit the world economy. The transport system of the European Union has become a very important economic factor for the European Union. It is also highly sensitive to economic developments in other sectors. The global financial crisis has become a global economic crisis, by the end of 2008.

There are clear implications of the crisis for the transport sector:

- reduction in transport demands, respectively, less passengers and goods;
- Dramatic reduction of supplies
- changed traffic flows
- lower profits and a dramatic changes in corporate finances
- change of strategies.

We can expect that this crisis has a strong impact on air transport in the EU. This thesis provides the basic information about critical aspects of explaining the impact of the economic crisis in the sector of aviation in EU.

First, I will analyze the impact of the current economic crisis on cargo and civil transport by using a set of key indicators such as traffic and capacity data, microeconomic and macroeconomic data and employment data. Second, I will describe some possible scenarios for the medium-term evolution of the aviation sector in relation to the possible development of the overall economic situation. Finally, I will solve some recommendations that can help to alleviate the impact of the economic crisis on the aviation industry.

2 FINANCIAL CRISIS AND ITS GENESIS

There is a period of crisis in every complex system, when the system works very badly and needs immediate corrective action. We can describe crisis as a period of negative economic performance. During this time, the value of institutions, especially financial institutions decline very quickly and everything seems worthless. Production is low and often fails with demand. [1]

The term of financial crisis is widely applicable to various situations in which financial assets suddenly came to a large part of their nominal value. Financial crisis leads directly to a loss of paper wealth, but does not necessarily lead to changes in the real economy. [1]

The financial crisis caused by the mortgage problems, gradually transformed into economic crisis. Most of governments have hoped that economic growth will slow only. Since 2009, however, the prognosis is still worse, and the result is that the world went into recession characterized by decreases in gross domestic product (GDP) in most key countries. There was a prognosis that the crisis will hit only the most developed countries, originally. Today it is clear that it strikes the entire world economy. It is not a classic cyclical crisis, which are repeated every three or five years. [2]

The main causes of these aspects can include: Regulation of financial, loss of middle-class consumption, trillions of dollars of debt, outstanding loans and poorly controlled networks of large corporations.

3 ANALYSIS OF IMPACT OF GLOBAL ECONOMIC CRISIS AT THE AIRPORT IN EUROPEAN UNION

As too often the aviation sector was considered as homogeneous. This approach is wrong. Doing business in aviation includes a very diverse range of subjects. Some of them remain a subject to the forms of state control, some are fully privatized and others work in the common mode. Regarding a private airport operated by private owners, the main corporate objective, of course, profit maximization. On the other hand, non-private

owners usually provide other objectives, such as maximizing employment, added value, or more generally, maximizing socio-economic surpluses.[3]

3.1 Challenges, the aviation industry is facing

When we look at incoming trends in aviation, what results from them is the need to change forms in designing the future of aviation. Overall, it is necessary to adopt an integrated global perspective of the industry and use a common approach to the system. For example, it is necessary that airports and airlines analyzed overlapping results by the airline industry as a whole, to examine cross-cutting irregularities in other nations and continents worldwide (irregular time and spatial demand of distribution) and the changing economic, social, technological and political parameters. Finally, it is necessary to take into account that in the future is possibility of reducing mobility, which is supported by the rapid development of information and communication technologies such as integrated transport chains.

New challenges which the airline industry is facing can be summarized as follows:

- Be able to provide at least the same level of service with far fewer resources.
- Negotiate new requirements such as. safety and security.
- Share data with third parties.
- Airports have to compete with each other about transfer passengers and about the development of attractive facilities for specific customer segments.
- The Alliance takes it one step further: first link the airport and the airline, now links the airport with airline and rail as well as personal and freight traffic. In the future it envisages the development of passenger and freight traffic through new practices and new technologies.
- Developing sustainable intermodal alliances that will be necessary for the benefit of new equipment for industry
- Dealing with new methods of asset management aimed at reduce industrial costs.

3.2 The impact of the crisis

It is clear that the current economic crisis has changed the structure of the European air transport sector. Therefore, we should try to get an overview of the future market, which will include the potential impact of the economic crisis. Insecurity can never be completely eliminated. At best, it can be directed to some extent, so its effects were limited as possible. We can outline the possibilities for future development with combination of the current situation, current trends and a mixture of endogenous and exogenous variables. Among the exogenous variables factors can include economic activity, fuel prices, cost of airplanes, either newly

purchased or second-hand rented. Endogenous variables are incomes, a cost structure, financial ratios, capacity utilization, mergers and acquisitions.

Future developments:

- Alliance, consolidation and narrowly specialized air carrier
- Privatization or end of state carriers
- The impact of foreign mergers and acquisitions
- Survival of the Southwest model
- More bankruptcies
- New market's entries and increased aggression
- Changes in the impact of government
- The extreme volatility of the aviation market
- Increase in foreign capital
- Less employment

Alliances, consolidations and closely specialized air carrier

It is necessary to distinguish clearly between the global network carriers on the one hand and narrowly specialized air carrier (Niche players) on the other. Global network carriers had been consolidated by so-called strategic alliances and only a limited number of escalated competing networks both in personal as well as freight traffic. Highly specialized carriers were able to take advantage of new market opportunities, which were presented to. It was, for example, an operation of the small regional airports or they were presented through specific services such as low cost activities and express freight.

The purpose of alliances is clear through technological cooperation and instruments to share data, codes, information, etc. Potential customers have an available network, which includes the largest number of major cities and profitability is secured and increased.

Privatization or the end of state's carriers

Ex- domination of the market of states' carriers, which is wholly or largely governed by national authorities disappeared. Older civil carriers are in the process of full or partial privatization process. New items are almost always financed by private capital. Cases of British Airways, Air France, Alitalia and others very clearly show that the public shares in companies still decrease, or in some cases disappear completely. It is not clear yet if the current economic crisis will have an impact on the privatization and plans of the few remaining companies with the significant public partnership.

Equally interesting is the fact that some airlines are now participating in the capital of other carriers. This trend was amplified by the economic crisis, so-called recapitalization of some airlines.

Influence of international mergers and acquisitions

Main purpose of merging alliances is for example: to increase efficiency of marketing and services, to increase financial results, to improve industrial-economical aspects by more extensive influence and to reduce barriers from joining to market. Fusion and privatization have a big influence on composition of alliances and their annual income.

These companies learned a lot from their previous experiences from naval transportation. The reason is that alliances are not very stable except continuous movement and relevant inputs and outputs from partners. Acquisition of Alitalia a.o., Air France / KLM did not lead to regrouping of alliances because both companies were already members of SkyTeam group.

It is obvious that a wave of consolidation was necessary. In USA were five from six international transport companies included into negotiations for merging. For example: the merge of Continental and United Airlines. They were creating significant advantages for costumers because they overlap with networks. Both companies belong to different groups. In addition there are other industrial-economical barriers considering these types of mergers.

Survival of the Southwest model

Low-cost airlines have always been inspired by the so-called Southwest model. The model indeed has proven to be successful, and hence has been copied in the rest of the world. The model has been based on strict adherence to a number of principles: short-haul, point-to-point, dense routes only, maximisation of flying hours, use of secondary airports, high frequency of service, no delays. It strove to combine low costs, low fares and high demand and capacity utilisation.

The European LCA market is also heavily influenced by the economic recession. But at the same time Ryanair announced for the period 1 April – 30 June 2009 a profit increase of 21%, compared to the same period last year. Low-cost companies are increasing their market share vis-à-vis the traditional carriers and charter companies. The important question arises whether the growth rate of the past can be maintained in the future or not.

More bankruptcies

Bankruptcies and takeovers used to be rare in the air transport sector during the era of the so-called flag-carriers. More recently, however, such events have become more common and have had a significant impact on the market function and competition. By way of illustration, table 8 provides an overview of recent bankruptcies, mergers and takeovers in the European airlines sector (data of 2009, till 10 September).

What types of airlines go bankrupt? Strikingly, the companies in question are often medium-sized international airlines. Doganis (2001) asserts that these airlines are “too small to be global players, too big to be a niche player”. Their mission is unclear, they usually find it hard to take optimal strategic decisions and, in most cases, they are undercapitalised.

New market entries and increasing aggressiveness The air transport sector provides a textbook example of the potential response to new market entries in an industrial economy. A new entrant in the marketplace launching a service on a particular route risks that the carriers already operating on that route will respond with sharp price cuts, combined with increased capacity. As soon as the new carrier retreats, capacity is decreased again and prices are increased.

While initially the low-cost airlines tended to exhibit aggressive behaviour vis-à-vis the flag carriers, we now see the opposite happening. The large flag carriers are challenging the low-cost carriers on their short-haul destinations and feeding these passengers to their more profitable full-service long-haul routes.¹³ Flag carriers such as British Airlines, Lufthansa and Air France/KLM have all changed the product of ‘short-distance flights’ quite drastically: more straightforward economy classes, the introduction of on-line reservation, the elimination of travel agents’ commissions, no or exclusively paid-for catering.

Changed influence of government

For decades the air transport business was directed and controlled by the public authorities. This government influence is now far less apparent. The traditional flag carriers are disappearing, not in the least because the public authorities are partially or wholly selling their share in the capital of these companies. Deregulation is gaining momentum, and the influence of the national authorities is now restricted mainly to two areas. First and foremost, the public sector will most likely continue to provide the basic airport infrastructure. Second, they are still generally expected to act against any abuse of monopoly status in relation to pricing, landing slot allocation or access to terminals. The current economic crisis will not affect matters.

The extreme volatility of the aviation market

The market in aviation field grew to year 2008. Although it has traditionally been regarded as a by-product of passenger transport, nowadays many companies are focused solely on this section. Air transport has become a truly heterogeneous products, from basic operations to express operations. Relatively growing importance of lifelong - freight is due to a combination of different factors. For some things it was not enough the cargo space that was available in transport aircraft and therefore could not sufficient to meet the needs of

growing demand for this type of transport. Secondly, at some whole truck routes is a strong imbalance between incoming and outgoing cargo, so there are created the different network structures which would have the best condition for airlines. Besides, the consolidation trend continues, so these larger volumes of cargo are the result of more competitive costs operations. It is expected that air traffic will continue to grow faster than passenger traffic. However, in 2009, some airports reported extreme drop in throughput, some by as much as 50%. This is the result of a combination of several factors: carriers flying to other airports (eg Ethiopia from Brussels to Liège), lower frequency, routes and connections of bankruptcies. However, it may take a long time, that aviation will increasingly contribute to freight income, and maximize the market share, and therefore carriers will still want to operate in this market, either as a by-product of air passengers or freight in full configuration.

Increased foreign capital

Globalization is not only the international movement of people and goods. It also applies to business travel, information and capital flows. This is also the case of globalized trade as air transport is. Diluted concept of national carriers, which is characterized by a declining participation of public funds and the entry of more private capital, has resulted in significant developments in the field of industrial and capital structure.

For some airlines (also airports), we have witnessed first three phases of the decay phase, with a focus on core business. In the second phase were sold off non-core activities such as catering, handling and maintenance. In the third phase, finally the current development was combined with input borrowed capital.

Less employment

Demand for air travel is a derived demand. The same applies to the demand for employment. Employment is directly proportional to the economic activities of air transport, i.e. supply and demand for air travel. Given that the current economic crisis, the supply and demand for air travel decreased, there are less employment

4 DISCUSSION

In 2008 it was transported by air to or from the European Union (27) 798 000 000 passengers. Although this represents an annual increase of only 0.6% compared with year 2007, the effect of the economic crisis on the aviation sector EU-27 showed during the year. While the first two quarters of 2008 compared to the year 2007 showed a growth of 4.4% of air passengers in the fourth quarter data showed a decline of 5.6%. This brings the end to a continuous period of six years of steady growth in the aviation sector. Regarding air cargo and mail, the

situation is similar. In 2008 it was loaded or unloaded in EU-27 12.9 million tonnes, an annual increase was 3.3%. During this period, the downward trend, which ended with a 14% reduction by the end of December. Likewise at airports such as London Heathrow and Frankfurt / Main, which remains the largest airport in the EU-27 in the terms of passengers, loading and unloading cargo.

International transport of goods within the EU is still the largest of the three components of air transport with a share of 44%. Map 1 shows us the top 10 flows between countries, whose joint account constitutes 43% of the total international traffic within the EU. Four of the ten largest flows go through Spain, thanks to its substantial free market. However, Spain recorded the largest decline in passenger air transport within Member States. During the fourth quarter it was shown an almost 11% fewer passengers than during the same quarter of the previous year. Outside the European Union the market was influenced by the economic crisis slower than in the EU market. While the EU's market share decreased in the fourth quarter of year 2008 by 7%, out of the EU market declined in the same period by only 1%.

At the EU level in 2008 was transported 12.9 million tonnes of cargo and mail. This represents an increase of 3.3% compared to 2007. Looking at the basic quarterly data was positive growth registered in the first three quarters of year 2008. The impact of the economic slowdown began to be observed during the last three months of the year, when the carriage gradually decreased by 1% in October, 7% in November and 14% in December.

Transport of goods outside the EU in air cargo transport sector is by far the most important segment and represents 80% of the total traffic. This means that international trade is within the EU and international trade often involves competition between alternative modes of transport. Graph 6 shows the international carriage outside the EU, where the Far East is the main partner region outside the EU with 30% market share.

5 RESULTS

The aim of this article has been to evaluate the impact of the global economic crisis on the airports within the European Union. At the beginning we explained the economic crisis and its formation causes.

In the next section we approached the impact of the economic crisis on airports in the European Union through different perspectives. We compared the year before the economic crisis with the year after its launch. In this section, we found out that the crisis have had a negative impact on the majority of airports in Europe.

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