

# CURRENT STATUS OF AIR TRANSPORT IN THE REPUBLIC OF HUNGARY

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This paper provides information about the current status and future development of air transport in Hungary with the main focus on the description of parameters and the performance of international airports and airlines. The contribution also contains an assessment of the performance of airports and airlines focusing on their future development and description of the competitive battle of low-cost airlines at the Budapest Liszt Ferenc International Airport.

**K e y w o r d s:** Airport, Malév, Ryanair, WizzAir, bankruptcy, competition

## 1 INTRODUCTION

Transport in Hungary has very favorable conditions. An important factor is its convenient central location in the Danube basin. The biggest importance has Budapest, the capital city of Hungary, which supports not only air but also road and rail network throughout Hungary. The 99 percent of all air passengers are handled at the Ferenc Liszt international airport in Budapest, which is the largest and busiest airport in Hungary.

In addition to the Budapest Airport there are 4 more international airports in Hungary: International airport of Debrecen, Pécs-Pogány, Sármellék and Gyor-Per. There is currently no national air carrier in the state. The last national airline called Malév declared bankruptcy on the 3rd of February in 2012 after 66 year operation because of it's financial problems. Currently, the biggest force on the Hungarian air market is made by the largest European low-cost carrier called Ryanair and the Polish-Hungarian airline called Wizz Air. Since the collapse of the national airline their competitive struggle has been sharpened. The questions are which company will succeed in this battle, how it will affect the air transport in the region and what will be the outcomes for passengers.

The present article provides information about the aviation in Hungary with focus on the evaluation of performance indexes and main parameters of international airports and airlines in Hungary. The following article can be a good read for the people who are interested in the status of aviation

and the circumstances of the collapse of the national airline in Hungary.

## 2 AIR TRANSPORT IN HUNGARY

The air transport in Hungary has more than 90 year history. The first scheduled air line was used to transport mail and was opened in 4th of July in 1918 in Budapest. At the end of the World War II were all airliners and airports destroyed, including the main airport called Ferihegy in Budapest. The restoration of the air transport was based on the Hungarian-Soviet international agreement signed in 1946. In this year was founded the Hungarian-Soviet airline called MALOSZOVLET, which began domestic transport in Budapest and gradually connected the ten largest cities of Hungary.

In 1954 the aviation in Hungary was reorganized and the national airline Malév was established. In 1973, Malév has flown on international routes to 27 destinations. In the summer seasons linked Budapest with 36 cities in the world. In 1973, the Company transported approximately 368,000 passengers. About four years later the number has risen to 555 000 passengers. The Budapest airport holds a dominant position today too. In the recent years the airport handles 99% of all passengers in Hungary.

In 2010 there were 6 countries which reported a decrease in the number of passengers carried to 2009. In 2011 it was only Slovakia and Slovenia. The year 2011 is generally regarded as a successful year. Europe bypassed the destructive power of volcanoes and the devastating effects of the weather, which in previous years caused the cancellation of several flights to European airports. The largest annual increase in

2011 was reported by the Estonian airports. Hungary ended on the 17th place with 8,9% increase. In 2010, the annual increase was only 1.2%, and in 2009, due to the economic crisis airports reported 4.3% decline. These data show that the air transport in Hungary is progressing and after the economic crisis it has began to grow.

The Hungarian capital is the world's air cargo transship point for cargo airlines such as the DHL, FedEx and TNT. The cargo is transhipped onto smaller aircraft with final destinations to Romania, Serbia and Bulgaria. Freight traffic at the airport Gyor-Per usually involves transporting car parts for Audi Company in Germany.

In Hungary there are dozens of airlines, dealing with special mail transportation, sport and touristic aviation or special aviation. Among the best known providers of similar services belong the Air Transport Service, Aviair, Budapestair, Centroplane, Rózsavölgyi Air, Skytaxi, Skylux, Alphajet and many others.

### **3 INTERNATIONAL AIRPORTS IN HUNGARY**

Hungary has more than 45 airports. The following 5 airports are registered as international:

- Budapest Ferenc Liszt International Airport
- International Airport of Debrecen,
- Gyor-Per International Airport,
- Pécs-Pogány International Airport,
- International Airport in Sármellék

#### **3.1 Budapest Ferenc Liszt International Airport**

Budapest Ferenc Liszt International Airport is internationally known only as Ferihegy. This is the largest and busiest airport in Hungary. The old name of the airport was changed in the 25th of March in 2011. The airport's IATA code is: BUD, the ICAO: LHBP.

In June 2011 the state of Hungary sold its stake in the Budapest airport. The state owned 25% plus one vote and sold it to the German construction company called Hochtief AG. The owners of the airport has since then changed more times. Currently has a 49.666% - share the Hochtief AG, the other owners are mostly private investors, as the company of the Caisse de depot et placement du Québec with 18.167%, GIC Special

Investments with 18.167%, Aero Investment with 10% and the KfW IPEX-Bank with 4%.

The airport has three main terminals and one smaller terminal for passengers of small private aircrafts of general aviation.

The number of the passengers in the Budapest Airport since 2002 is growing constantly. Only the years 2008 and 2009 showed a slight decrease due to the global economic crisis. 2010 and 2011 brought an increase in the number of the passengers. The main reason for the growth was the arrival of new airlines that have started running their lines. There were new destinations on offer in the Budapest Airport as well as many airlines expanded its existing lines. After the bankrupt of the national airline called Malév the airport is expecting a fall in the number of handled passengers by 1.5 million in 2012. The good news is the return of the biggest European low-cost airline called Ryanair and it's consecutive competitive fight with the Hungarian airline called Wizz Air.

In 2010, the Budapest airport handled 82.6 thousand tons of cargo, almost a third more than the year before. In 2011 was handled 106 595 tonnes of cargo, representing a further increase. With such growth can be assumed that the Budapest airport in the future will be a major competitor of the airport in Vienna. In 2010 Swechat equipped 295-thousand tons of cargo, but after one of the large tchajwan and Chinese cargo carrier left the airport the volume is slightly decreasing. Between the two airports is the difference in cost structure. While Budapest Airport is based on regular cargo flights and has thirteen truck companies and a significant number of occasional flights, into Vienna come nearly third of the cargo by trucks and about another third in the cargo hold of passenger carrying airplanes.

The mission of the Budapest Airport is that the Budapest Ferenc Liszt international airport became the most successful airport in Central and Eastern Europe in 2015. The main objective for the future is to increase the number of passengers, improve service quality and increase the efficiency of each airline. The airport can be a key factor of economic growth in Budapest and throughout Hungary. Visions are promising. Demand for air travel in this region will grow significantly.

Budapest Airport has built a fixed base for the introduction of additional routes and has good opportunities and facilities to increase its capacity. The role of the operator is to compact this strong position on the market using the strengths of the airport. Difficult occasion in this year was the collapse of the national airline, which will reduce the number of passengers by 1.5 million in this year. By the assumptions, the airport performance level should return to the normal in 2013 due to the action of low-cost airlines Ryanair and Wizz Air. The competitive struggle will reduce the fares and will increase the number of carried passengers in the future.

### **3.2 The valuation of other international airports**

**Debrecen International Airport** is located 5 km south of the city Debrecen and is the second busiest airport in Hungary. In the years before the economic crisis, the company had about 43,000 passengers a year, this number dropped to 25 000 in 2009 and 2010. The airport still does not have contract with an airline operating scheduled transport, but the low-cost carrier called Wizz Air promises to open regular flights to London in June in 2012. The airline will greatly promote tourism in eastern Hungary, and I believe it will be the reason for regional growth and economy in this region. Opening the new air link will add from 15 to 20 new job opportunities at the airport and should significantly increase the number of passengers. From 2009 to 2014 is running an investment project of Xango Investment Group, which aims to build a business environment around the airport of 140 hectares, which will include logistics centers, space for cargo and aircraft maintenance, retail and office space also. The new spaces for cargo will enable to take 250,000 tonnes of cargo per year in 2014.

**Gyor-Per International Airport** is one of the few airports which are reporting profits nowadays. In 2010 the airport had a profit of 1.3 million EUR and next year it increased by a further 142 000 EUR. For his exceptional performance is responsible the Audi car company, which collaborates with the airport and is constantly increasing the number of regular flights between Germany's Ingolstadt and Pér. The new airport investment program will focus on improving the

technical equipment of the airport and widening of an existing 1450 m long runway to a 2150 m long, which will allow the landing of larger aircraft in the future. Gyor-Per Airport has also an increasing number of passengers, who are mostly employees of Audi Hungaria Kft Motors. Freight transport includes mainly parts for a car company Audi in Germany. 866 freight aircraft movements were recorded in 2010 at the airport. Interestingly, only 141 of them brought cargo and 725 carried away.

**International Airport Pécs-Pogány** and its future lies in the hands of entrepreneurs and investors. Domestic entrepreneurs has met to discuss about the improvement of the management system of the airport and to help it to get out of this unfavorable situation. After several discussions they reached to a conclusion that the further development of the airport does not strictly need the extension of the current runway and also there is no need to cooperate with low-cost carriers. The airport should focus on regional transport and should facilitate transportation to major airports such as Vienna or Budapest. His decision is justified by the fact that the 1500 m long runway is capable to allow landing for the aircraft with 60 to 100 passengers, which most airlines have. The role of the regional airport will be to connect smaller cities of Europe for cultural and economic reasons. Some analyst's say, that for the well-functioning of the airport there is no need to invest in the infrastructure development and equipment but is necessary to improve the organization, management and marketing of the company. In the future it will be necessary to find a destination, where the aircraft would be used in both directions. The new airline should be operated to Germany or into the Nordic area to transport abroad students. There are also charter flights in plan to Croatia.

**Sármellék International Airport** is the most important and busiest airport in the area of the Lake Balaton. To this airport flew relatively large number of charter lines from Germany and Moscow in the past. Currently the airport is situated in a quite bad situation, and shows a high loss. The chances of his survival are not high. According to the recent reports the management is fighting for his rescue. The greatest support is the city of Hévíz, which has paid the 54 thousand

EUR debt of the airport and wants to cooperate in the operation of the airport. The number of the passengers is growing very slowly. In the best year there were approximately 150,000 passengers per year, the number in 2010 dropped to 20000. In 2011 this number slightly increased, and thus we can conclude that the airport is slowly waking up, looking for new investment partners and airlines for cooperation. Undeniable truth is that the annual loss of the airport is 1, 8 million EUR, which the operator fails to pay. Analysts said that the airport has to have 300,000 passengers per year to show profit in the future. The region is an important place for tourism and it is also in the interest of the state to help out the airport from its minus numbers.

#### **4 AIRLINES OPERATING IN HUNGARY**

In Hungary there are about 50 airlines operating from different airports. From the Budapest airport operates about 35 of them. At the Budapest airport operates Europe's largest low-cost carrier, the Ryanair, the Polish-Hungarian Wizz Air, Czech Travel Service, Lufthansa, British Airways, easyJet and many more. These airlines are most affecting the performance and the status not only of the Budapest airport, but also the aviation in Hungary generally.

The ratio of total airline transport from Budapest airport just before the collapse of a national company Malév was as follows. The highest, 47.3% strength ratio of the total transportation had Malév, followed by Wizz Air with 10 percent, with 7.3% of Lufthansa and British Airways 5.1%. After the collapse of the Malév was its percentage mostly divided between the Wizz Air, Ryanair, British Airways and Travel Service.

##### **4.1 Malév and its bankruptcy**

The Hungarian national airline with a base on the Ferenc Liszt International Airport in Budapest had more than 66 years of experience. It was founded in 1946 and operated regular and charter flights to over 50 destinations. From the 1st of April 2007 the company was a part of the Oneworld alliance. Thanks to excellent customer services have won the 2010 prize for the best air carrier of Eastern Europe. Its fleet consisted of 22

aircraft types Boeing and Bombardier. The last CEO was Limburger Lóránt. The company was privatized in 2007 and then reprivatized in the 26<sup>th</sup> of February in 2010. Till the collapse of the company, 95% of shares were owned by the Hungarian state and 5% owned the company called AirBridge Zrt. Malév declared bankruptcy on the 3rd of February 2012.

The number of the passengers carried by Malév achieved 3 million in 2010, and the total revenue was around 330 million, which was 7% less than in the previous year. An interesting fact is that the company was able to increase the number of passengers carried during the economic crisis. They carried 100 000 passengers more than in the previous year. The number of passengers increased to approximately 3.3 million in 2011.

The management of the company said that contractors have lost confidence against him and began to require payment in advance. The government hasn't been able to give more money. "The outflow of the cash was so fast that the airline situation has become unsustainable," said the leader of Malév in his statement. The Board therefore decided to immediately stop the operation to minimize the losses. The company ran into trouble after the European Commission advertised, that it must return the state aid which had received in 2007 to 2010. The agency of Reuters has earlier said that the amount of cash which they must return is equivalent for all sales in 2010. The company has failed to subsidize the government and its future functioning would be only an escape from the sure crash.

The collapse mostly marked Malév's passengers flying from Budapest, because the company had a 40% share on the airports turnover. The Boeing 737 planes, operated by the national airline will never fly again. The fleet consisted of 18 Boeing 737's and 4 turboprop aircraft went to the ownership of one U.S. leasing company immediately after the collapse of Malév. Their engineers are going to disjoin the aircrafts because no one is interested in to buy them. A complete change of external painting and the change of the entire interior of the aircraft is not a good investment for any company.

According to the Hungarian Prime Minister Viktor Orbán the Malév problems occurred when the European Union had decided

that the state could no longer supply the company financially. European Commission concluded that the airline that participates in the annual turnover of the airport in Budapest about 40% received the help from the state illegally. They talked about hundred million euros, which the government has been giving the company from 2007 to 2010. Following the recent decision of the European Commission's obligation to repay the state aid, the government's assistance to the national airline is quite limited. Orbán has also said that if it will be possible to get rid of the burden of past, in the future may arise a new Hungarian national airline. "If there will be an investor who would risk his own property to run a national airline profitably, or at least not at a loss than there is such a chance for establishing a new national airline" - said Orbán. The exact reason for the collapse of Malév was declared as a state secret.

#### **4.2 The competition of low-cost airlines**

After the collapse of the national airline a lot of airlines increased their capacities at the Budapest airport. Airlines such as Ryanair and Wizz Air promised to transport two million passengers from the Budapest Airport in this year. The Malév's passengers were mostly divided among these two companies. Budapest Airport, despite the rapid response of the low-cost airlines, counts with a 17% decline in the number of handled passengers in 2012 compared to 2011.

The biggest competitive fight at the Budapest airport to occupy the place after Malév's left is between the airlines Wizz Air and Ryanair. This competitive struggle was entered by a next player called Czech Travel Service, which wants to run several scheduled flights from Budapest.

Low-cost airline Wizz Air has expanded its capacity immediately from Budapest Airport by 66% after Malév's bankruptcy. With other similar offerings have come EasyJet, Lufthansa, KLM, Lufthansa, Brussels Airlines and British Airways which deployed aircraft with greater passenger capacity on their existing connections and also initiated the establishment of new connections. For this report also responded well Ryanair and created a new base at the airport in Budapest and opened 31 new lines into almost every destination which

Ryanair flies. To Budapest has also returned Air Berlin.

Due to the fast response by Ryanair and Wizz Air most lines of Malév has been replaced. Budapest airport is now a base for 4 brand new Boeing 737-800, which together with the other aircrafts of Ryanair are going to transport annually 2.4 million passengers in this year. Ryanair has also saved 2,000 working places. Wizz Air also responded by increasing lines and adding two new Airbuses A320. This company is also going to transport about 2.4 million passengers annually. The competition between these two low-cost companies is sharpening, which ultimately is a plus for all the passengers, as this may lead to lower the ticket prices.

The promises versed by Ryanair and Wizz Air to transport 2.4 million passengers in 2012 are very hopeful, but according to some analyst's, in fact it can not be transported only a fragment. Theoretically it would be possible to keep their promises, if the airlines had a 100% load factor of their aircrafts during the year. Another disturbing report caught at the 2nd March this year is, that the CEO of Ryanair, Michael O'Leary announced the cancellation of 13 flights after a dispute with the airport authorities in Budapest for the safety and documentary checks on aircraft crews at each arrival. The documentary check and security check at each arrival is completely an unnecessary process which does not impose any standard of the European Union. Ryanair does not intend to resume flights until the Hungarian authorities changed their rules. We hope that this unpleasant situation won't spoil the relations between Ryanair and the airport will not go away as quickly as he arrived.

#### **4.3 The circumstances of the establishment of a new malév**

Probably even before the collapse of the Malév there were considerations about the establishment of a national airline, which could show profits in the future. The more time passes after the collapse of Malév, there will be less chance to establish such a company in this very competitive environment. Competition between Ryanair and Wizz Air will intensify. Both companies have promised to transfer approximately 2 million passengers in 2012. This

competitive struggle brings fares reduction, improves the quality of services and raises the amount of passengers travelling by air. For the new national airline there is theoretically and practically no place at the market due to the occupation of all most attractive lines of Malév. There is a big certainty that the remained destinations are into other countries than the EU, on which the new national airline will be unable to show profits, and the income would not even be enough to run the company properly.

Establishing a new carrier to provide scheduled air transport with a certain capacity, which would have after two or three year equitably managed, would according to preliminary calculations require the investment from 40 to 60 million EUR. Such an amount of money can not be provided by the state and therefore there is a need to find new investors. The state can be only a minority shareholder, as the government leeway to support the national society has been limited by the European Commission. The reason is very well known. The European Commission has decided that the Malév in the years 2007 to 2010 acquired hundreds of million EUR from the state illegally and is likely to be giving it back. For this reason, there can not be a relationship between the new national airline and the Malév.

The fleet of the new national airline could consist of two types of aircraft about 30-40 pieces focusing on the regional and medium-long distances. It would be necessary to open an air line on long distances with at least four aircraft of the appropriate type. Before the collapse of Malév this lines made the biggest losses due to the bad choice of the aircraft. The fleet could reasonably be built for about 3 years. The name Malév is owned by the state so the media came up with a new name such as Malért or probably BlueNoseAir.

In order to efficiently operate the new company would obviously need to change some lossy destinations and focus on those which are admitting the best profit, change the types and the sizes of the aircrafts on each line. This idea about the functioning of the new national airline would be real only in the case, if the airline could start to operate on the second day after the collapse of the Malév. Presumably it would be necessary to focus on those destinations on which the low-cost airlines do not operate their flights. It would be

a bad idea to go into a competitive battle with them. In case that it fails to establish a new company this year, the success in the coming years will be impossible.

## 5 CONCLUSION

Thanks to the good location and developed infrastructure Hungary is the most accessible state of Central and Eastern Europe. The Budapest Airport has a catchment area of 13 million people; this means that it is easily and in a very short time accessible to many people from surrounding regions.

The main carrier at Budapest airport was the Hungarian national carrier called Malév, who had served 66 years on the market but in 2012 advertised bankrupt. It's management stated that the company ran into trouble after a recent of the European Commission to return the state aid received between years 2007-2010. The cash outflow was so fast that the situation has become unsustainable. The Board of Directors has therefore decided to immediately stop the operation to minimize the loss and in the 3rd of February declared bankruptcy.

To the bankrupt of national airline has responded very flexibly by Ryanair, who returned to Budapest and opened many new lines and promised to transport approximately 2 million passengers in this year. The Hungarian airline called Wizz Air has also caught the chance. Wizz Air has already quite an extensive route network from this airport and also promises to transport about 2 million passengers this year. The future of the airport lies therefore in the hands of low-cost airlines. The competitive struggle between these low-cost carriers positively affects the development of the fares on each line.

Except Budapest airport has an encouraging vision to the future the international airport in Győr-Per. Thanks to the rapidly evolving automobile industry in the area is able to improve its transportation and show profit. Other international airports in Debrecen, Pécs and Sármellék-Pogány are trying to find investors and chances for improvement, but most of them are showing up several millions of losses every year.

Already in previous years, there were considerations of establishing a national airline,

which in future could show profits. It has never succeeded. The establishment of a new national airline would take about 40 to 60 million EUR which is much less support than the Malév received from the state in previous years. The new company should focus onto passenger transportation in the beginning. It should begin to operate a small number of aircraft to lesser destinations, which would gradually expand in the future.

In case that a new national airline is unable to start this year, the success in the coming years will be impossible and for the decades built brand of Malév will disappear forever.

[16] <http://www.gyor-per.hu/passenger/>

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