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## **Air transport: the place of Europe's regional airlines in a changing market**

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ERA Regional Airline Conference

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Ladies and gentlemen

It is a pleasure to be with you in the beautiful and historic city of Porto. Since all of us here are concerned with aviation, I would just like to congratulate the city airport for recently welcoming its six millionth passenger!

Despite some recent glimmers of hope for Europe's economy, doing business as an airline today can still be a challenging experience.

For 2012, Eurocontrol expects European flight traffic to decline by 1.3% from 2011 and forecasts only an "anaemic recovery" for next year.

I should perhaps apologise for starting on a gloomy note. I do believe that there is overall growth for Europe's airline industry.

But it differs a lot by individual business model, and some airlines are struggling to survive in a highly competitive market. And while there are some early recovery signs for regional airlines, as shown by ERA's own figures last month, their market share has seen a marked decline in the last decade.

Regional airlines are more threatened than network carriers by competition from other means of transport - a new train link, a new highway, can often have a direct impact on passenger choice.

And along with all other carriers, the regionals face the relentless operational pressure of sky-high fuel prices, which put a severe strain on profitability.

But the real problem is that their traditional markets are being squeezed at two ends, by low cost rivals and 'legacy' carriers. They face heavy competition across the board: on cost, on service and on routes.

They do, of course, provide many essential travel connections – including a significant business segment - between secondary airports and to remoter areas. But with major carriers taking ever more control of their regional traffic and LCCs moving into their non-hub services, regional airlines are increasingly left to focus on flying feeder services into hubs, often for larger airlines.

The low cost carriers, as we all know, represent the major challenge.

At a time when traditional major airlines have struggled to remain viable, LCCs have become the main industry success story.

LCC traffic growth over the last decade has been explosive, although that has now slowed. It shot up from just under 5% of the intra-EU air market in 2000 to 35% in 2010.

Compare that with the share held collectively by the regional, leisure and charter airlines, which has fallen fairly steadily over the same period to 14% today.

Today, the old dividing lines between carrier types have largely disappeared or been blurred. LCCs, for example, have been innovative and flexible with their business models and demonstrated their ability to launch competitive new routes at very short notice. They have now extended their networks from short- to medium-haul services – directly into the domain of regional airlines.

In this vibrant and changing market, regional airlines will have to re-evaluate their role and operations – and in some cases, reposition into a new niche, because Europe's airline sector will continue to be highly competitive.

We are living in difficult economic times, and not only in aviation. Not all airlines will survive: a degree of "fall out" is inevitable.

Government hand-outs are not the answer either. It is not sustainable in the longer term for airlines to be propped up by state subsidies. As you know, the European

Commission has a duty to monitor the legality of such funding: just take the recent decision we had to take on illegal state aid given to Malév.

More consolidation will, I believe, be a likely path out of the difficult situation for regional airlines. And this is already a wider industry trend.

After all, many legacy carriers have foundered in recent years; several are now verging on bankruptcy. Others have been forced into alliance agreements or mergers just to survive. Perhaps the traditional legacy carrier routes could now present an opportunity for regional airlines, given that their increasing use of jet-type aircraft means they are getting larger and faster, and flying longer ranges.

If a regional airline is to succeed in this crowded market, it must stay as competitive as possible – and there is a natural limit on how far seat costs can be lowered if 'break even' is to be maintained. The question now is: how much more can they cut before making a loss?

Each airline will have to decide for itself which kind of market and business model is the most appropriate, examining its cost structure to respond best to passenger demand.

Perhaps a regional airline could ask itself questions like these: should it continue to serve European regional hubs as its core business? Or could it reposition itself to become a feeder for hubs outside Europe, like Dubai?

Regional aviation remains a sensible option for peripheral areas like islands or remote regions that do not have high traffic volumes or alternative links.

But there is probably little scope for these airlines to be simultaneously national and regional, certainly in the medium term.

While all airlines will have to cut costs to remain competitive, regionals can still distinguish themselves from low cost rivals in terms of their quality of service. Assigned seating, friendly cabin service, flights direct to main city airports instead of to a remote terminal: these are differences for which passengers are still prepared to pay. Low cost, yes – but not necessarily 'no frills'.

It is also very much in the interest of regional carriers, along with all other airlines, that we manage to complete the Single European Sky – a tremendous example of where Europe can make a huge difference to the lives of its citizens. It is a project about putting Europe at the forefront of aviation, the most dynamic and advanced mode of transport, and securing its position as a world leader.

Accelerated implementation of the Single European Sky is crucial for the competitiveness, growth and sustainability of Europe's entire air transport system. Capacity, in the air and on the ground, is the key problem – along with the extra costs caused by low efficiency and fragmentation of Europe's airspace.

For regional airlines, the completed Single European Sky will give them access to more centrally-positioned airports and flight corridors so they are not only limited to periphery regions.

We all need to push harder so that this is achieved.

Ladies and gentlemen

On a separate issue, I know there has been some industry concern about the Commission's desire to see more use of rail as a cleaner travel option. On this, let me be clear: we do not see rail as an 'alternative' to replace aviation.

That said, it makes sense to develop better rail-air infrastructure links to ensure seamless movement of passengers from the train to the plane.

Many regional airports have a limited catchment area, often with little choice of 'feeder' transport to get passengers to the airport – and that can mean a long car journey. If these airports can be linked by rail to the wider transport network, this can only be to the benefit of airlines and of course, to passengers.

This also ties in with the European Commission's broader vision for a smooth, integrated and more efficient transport network, making better use of the different modes of travel – and better connecting Europe's regions - for the benefit of business and consumers alike.

On our recent slots proposal, again I am aware that our views differ.

The current system is inefficient, it is just not flexible enough to cope with an increasingly crowded sky. And the problem is not going away; five major EU airports are now operating at full capacity.

If we do nothing, then by 2030 that number will have jumped to 19, causing more congestion, more delays - and another dent in airlines' profitability.

But this does not threaten regional connectivity: we estimate that our slots proposal would allow the system to handle 24 million more passengers a year by 2025. That will be worth €5 billion to the EU economy and create up to 62,000 jobs by that time. We owe our citizens efficient and affordable transport services – airports, especially regional ones, are an important part of that.

As we promote growth in aviation, however, it is important – and a real challenge – to find sustainable ways of maintaining that growth.

So let me just say one thing, briefly, on the famous question of ETS: this issue **must** be tackled, and solved, in ICAO. Europe wants to see a multilateral solution. This is a challenge faced by the entire aviation community, international cooperation is vital.

Ladies and gentlemen, to conclude:

Aviation has had a decade of ups and downs, but overall it has been a tremendous success story for Europe. This would not have been possible without the sector's ability and willingness to adapt to a changing environment, to innovate and to take risks.

There is no doubt that regional airlines have a role in European air travel today. This is, after all, a growth industry where air traffic is expected to nearly double by 2020.

An efficient, safe and reliable air transport system that connects Europe's regions with each other and with the rest of the world has a broader importance for the European economy. It is also just as important for Europe's regions to remain connected to Europe's capitals – so that we are both inclusive **and** competitive.

Thank you for your attention.