AT A GLANCE

European Parliament

Low-cost air carriers and tourism

The liberalisation of air transport, which resulted in the creation of new routes and new business models for airlines, in particular the development of low-cost carriers, has led to lower fares and wider access to air transport. In many countries, air transport is a catalyst for the development of tourism. As low-cost carriers in the EU have experienced substantial growth, serving mostly short-haul destinations, they are increasingly looking into investing in the long-haul market.

Connection between air transport and tourism

According to the United Nations World Tourism Organization (UNWTO), the growth of air transport is strongly related to the expansion of tourism, as the large majority of international passengers travel for tourism reasons, and in many countries air transport is a catalyst for tourism development. For some experts, the relationship is more complex. While air transport triggered the development of international leisure travel, airlines have taken tourism into account to develop their strategies in terms of pricing, positioning and new routes, a process which has intensified with the emergence of low-cost carriers.

According to UNWTO figures, in 2018, travelling for leisure and by air dominated international tourism. The share of air travel, indeed, increased from 46 % in 2000 to 58 % in 2018, while land transport went down, from 49 % to 39 % over the same period (road, rail and water accounting for 37 %, 2 % and 4 % respectively). Air and road transport are by far the primary choices for international tourists, while rail and water also play a key role in distributing visitors to and around their destination.

Low-cost carriers' growing importance

The rapid growth of tourism and air transport is explained by two major factors. The prevalence of higher incomes and a growing middle class in emerging economies, inclined to increase their travel expenditure; and air transport liberalisation, which resulted in the creation of new routes, new business models for airlines, such as charter and low-cost carriers (LCCs), and has led to lower fares and wider access to air transport.

In the EU, the liberalisation of the intra-EU aviation market in particular boosted traffic growth. While the different types of airlines (network carriers, charters and LCCs) had similar growth rates in the 1992-2002 period, the low-cost segment subsequently began to increase its market share substantially. Almost non-existent before 1995, by 2012 the low-cost sector had left the network carriers' sector behind, and by 2015 represented 48 % of seat capacity.

Liberalisation of the airline industry has an impact on the size and location of airports. In the countries or regions that witness a substantial expansion in the low-cost sector, such airlines tend to offer single-class services that are point-to-point, rather than hub-and-spoke system integration. They also tend to operate from the low-cost terminals of traditional airports or from smaller regional airports. Low-cost carriers in turn contribute to improving accessibility, the number of destinations available, and enable some destinations served by regional airports and their local economy to grow. Although the choice of a tourist destination relies primarily on the location's assets in terms of natural, cultural and local resources, it also relies heavily on the costs and time needed to reach the destination. Passengers increasingly perceive air travel as routine. However, they are also price- and value-conscious, willing to use non-traditional carriers, routings and airports to get the best fares – including low-cost carriers to smaller or regional airports, often not as well connected as airport hubs near major cities. Some experts go further, pointing out that LCCs have modified travellers' behaviour. Visitors now integrate more into local society and use the web to buy their tourist package directly. LCCs also spur interest in secondary destinations, and newly developed areas, as opposed to traditional Mediterranean and beach destinations. Other commentators underline, however, that traditional carriers will maintain their position because a segment of travellers still find traditional transport more useful and because of the limited expansion to date of low-cost carriers on long-haul routes.

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Beyond Europe and the United States – the birthplace of LCCs – where the shares of LCCs are strong, they are also expanding worldwide. LCCs have taken advantage of the progressive deregulation of domestic markets and of the fact that market-orientated air services agreements are increasingly becoming the new international norm. However, in some world regions, such as Africa, market access barriers remain high.

Evolution of business models and outlook

The low-cost airlines' business model tends to focus on point-to-point routes, mostly short-haul, and is less complex than the hub-and-spoke networks of legacy airlines, which operate one or more hubs and combine feeder traffic with long-haul routes. The LCC model also involves frequent flights along profitable routes, focuses on fleet productivity, with most aircraft in the air most of the time, and uses only limited types of aircraft. In the EU, low-cost airlines also concentrate on intra-EU services or on countries covered by EU-level comprehensive agreements that facilitate pan-European operations.

Over the last ten years, however, convergence between low-cost and traditional airlines has increased. Confronted with increased competition from LCCs, traditional airlines have started to dissociate charges for seat selection and luggage for instance, and to streamline operating costs. Conversely, to maintain growth, LCCs have begun to place greater emphasis on customer services, some offering assigned seats and frequent flyer schemes, features associated with established airlines. Low-cost carriers have also increased their presence at hub airports and widened the distribution network for their products.

As LCCs are particularly strong in the USA and the EU, and tend to have saturated the short-haul market, they will increasingly rely on the long-haul market for future growth. Growth opportunities through use of secondary airports will also reach their limits. A change of strategy will imply fleet diversification, operations through a wider network, and developing access to strategic hubs, which raises fixed costs and reduces flexibility. Nonetheless, LCCs have yet to demonstrate their ability to capture the long-haul market. While new middle-class travellers from emerging economies are likely to demand lower cost travel solutions, traditional and LCC operators may continue to compete, maximising their comparative advantages, such as on price versus service.

The Commission staff working document accompanying the 2015 aviation strategy for Europe outlined different possible scenarios for the future of European airlines, with the possibility that aspects of different scenarios might be combined. As far as LCCs are concerned, the scenarios were: continued LCC and legacy carrier co-existence on short- and medium-haul flights as at present, with no significant breakthrough from LCCs on long-haul flights; legacy or traditional airlines positioning themselves on the long-haul market only, with LCCs becoming predominant on short- and medium-haul routes; or Europe progressively losing transfer traffic to Middle Eastern hubs, with Western-oriented hubs reduced to secondary hubs. In a last scenario, LCCs would dominate European airports with traditional carriers shrinking and disappearing. In its resolution of 16 February 2017, the European Parliament stressed the vital importance of the aviation sector for the development of tourism.

Developments in the low-cost long-haul market to the US – the Norwegian Air International case

In December 2016, the US Department of Transportation (DOT) granted Norwegian Air International (NAI) a foreign air carrier permit to operate transatlantic flights to the USA. The authorisation was subject to criticism from European and US network airlines and labour organisations. This was notably on the grounds that the authorisation is contrary to Article 17 bis of the EU-US air transport agreement, which mentions that 'opportunities created by the agreement are not intended to undermine labour standards or the labour-related rights and principles contained in the parties' respective laws'. Although recognising, the above concerns, the DOT decision nonetheless concluded that the EU-US agreement was not a basis for rejecting the application. In July 2019, members of the House of Representatives introduced a bill that would restrict the ability of the DOT to allow a foreign aircraft to serve the United States. It appears that it would not, however, apply to Norwegian subsidiaries that have already received foreign air carrier permits. Besides Norwegian, other European LCC airlines operate transatlantic flights. However, this bill could affect other foreign carriers seeking to fly to the United States.

This is an updated edition of an 'at a glance' note from June 2017.