TRAN Hearing
Future of low-cost air travel

- Contribution to the reflection -

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Chairman of the Board of Directors
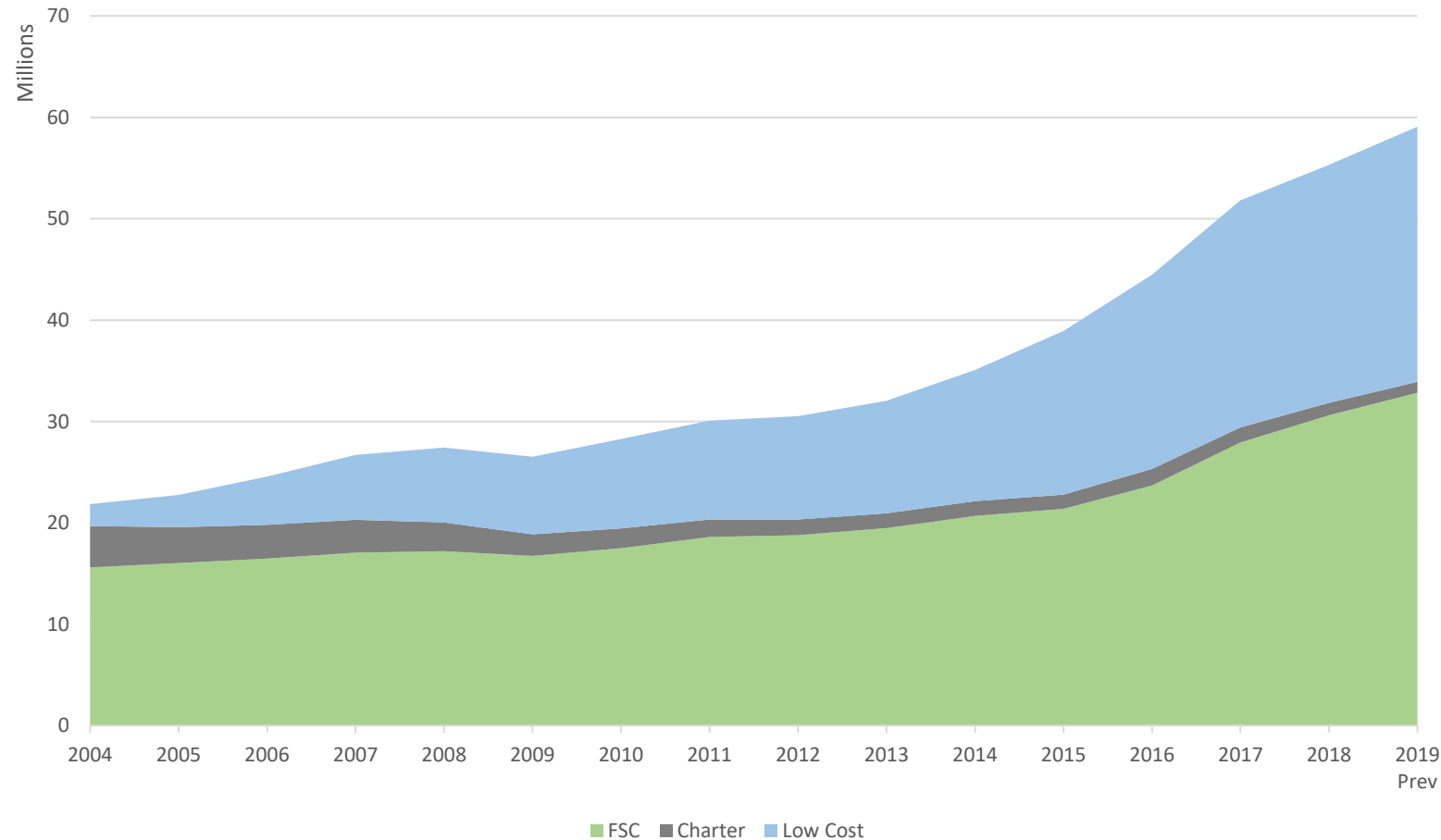ANA – Aeroportos de Portugal, VINCI Airports

Deputy Chairman
Turismo de Lisboa

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- The distinction (between LCC and FSC) is now becoming very blur. Legacy Airlines took some time to react but nowadays they are offering a very competitive product to compete against LCC.

- Low cost represented a connectivity boom that allowed for connections that did not exist between cities. They still play a very important role to open up new markets and destinations. Connections that had no chance of existing with traditional air traffic models are now possible.

- They are essential to a single European market linking smaller markets to each other and making use of underused airports around all Europe.

- LCCs traffic is much more than just tourism – Families and friends, Students and SMEs, have been benefiting from LCC offer and competitiveness.

LCCs in Portugal

PORTUGAL (ANA AIRPORTS)

Millions

70
60
50
40
30
20
10
0

2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 Prev

■ FSC   ■ Charter   ■ Low Cost

Evolution of LCC traffic versus Others (2000-2019) ANA, LIS, OPO, FAO

The LCC model was particularly important for a peripheral country like Portugal and the positive impact on traffic growth is undeniable.

LCCs met an unmet need for mobility - A fast and affordable solution; With no alternative, people would stop traveling in view of the high costs of air travel.

For Portugal the result was: More airlines, more destinations and airports served, lower fares, better consumer choice.

A driver for tourism

It is estimated that more than 90% of foreign tourists arrived to Portugal by plane.

In 2017 tourism in Portugal worth 26.7 billion euros in 2017, 13,5% of the national GDP.
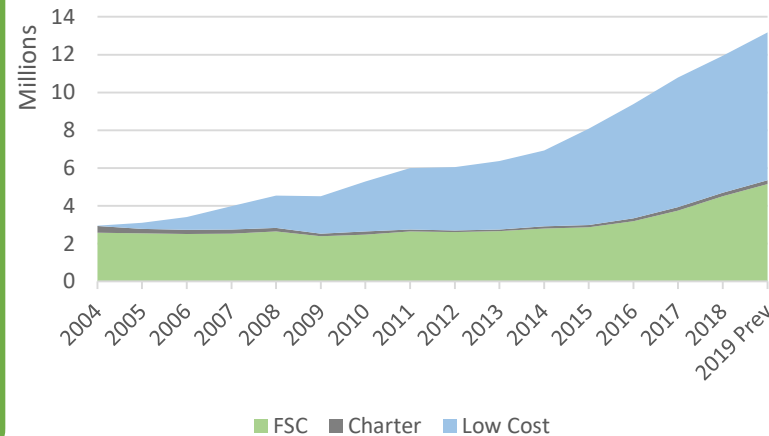
In 2017, the wealth generation attributed to tourism in Lisbon was 13.7 billion euros, 19.8% of the GDP of the Lisbon Region.

In 2017, tourism employed in the Lisbon Region 182,000 people, equivalent to 14.3% of total employment in the region.
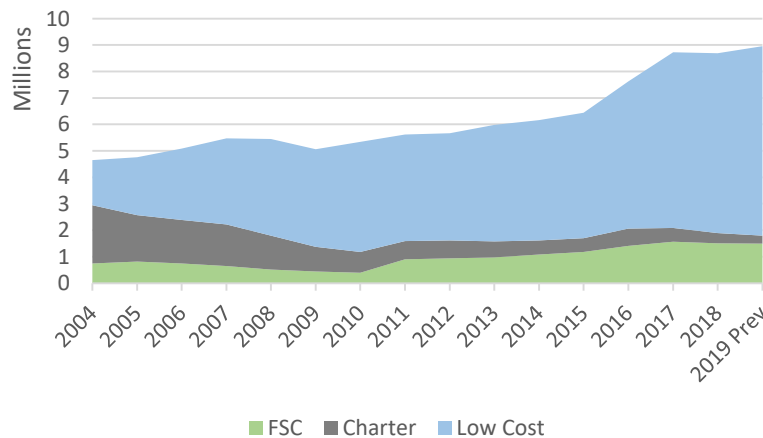

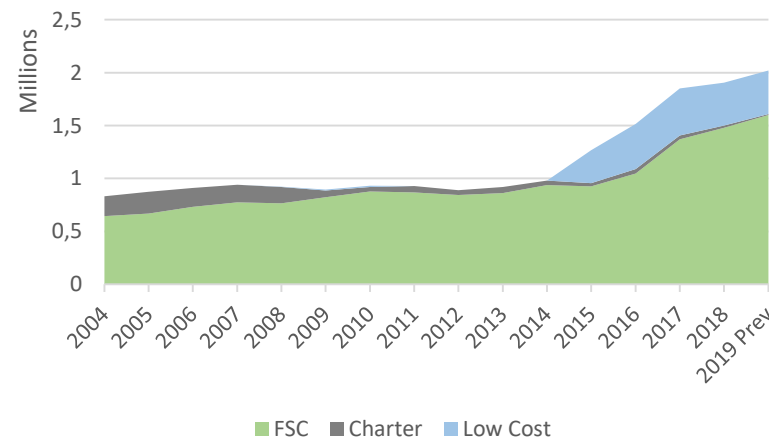Evolution of LCC traffic versus Others (2000-2019) ANA, LIS, OPO, FAO
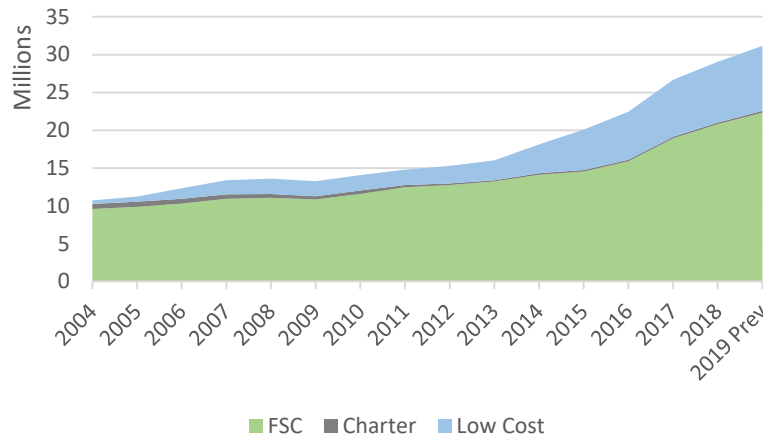
- Carbon neutral by 2050 its a VINCI Airports goal. All our investments are sustainable orientated and according to very demanding rules and regulations.

- Air transport value chain is adapting to climate change by investing in new processes, technologies… LCC have very young fleets.

- The new demands on decarbonization should be an incentive for European legislation to seek funding solutions from those who are at the source of these impacts, avoiding changes and jeopardizing the economic model of this type of transport.

- There must be a clear separation in the perception of passengers from the cost of travel on the one hand and the contribution to offset the environmental impact of travel on the other.

- Bringing these two components together without distinction in ticket price seems to us riskier than clearly separating regulatory processes from the amount of environmental compensation, and the latter is presented more clearly and more acceptable to the passenger.

"How do you think the low-cost business model, connecting point-to-point destinations and serving often regional airports, can cope with the ever-growing pressures on greening the economy, accounting for externalities, promoting alternative modes of transport, improving working conditions and passenger experience and changing lifestyles to favour "local tourism"? What can low cost airlines and the airports that are receiving them do to stay competitive and continue to grow in a sustainable way? "

- Technology is key to improve efficiency, quality of service and reduce cost for all stakeholders involved in the industry.

- Airport capacity should be much better utilized and IT is vital to add more capacity in the system in a very cost efficient way.

- Digitalization is changing passenger experience and placing the passenger in the control of its journey.

- Safety and security is in the DNA of the air transport industry and will always be the number 1 priority of all.

*"What opportunities and challenges do you see in **the development of new technologies** (i.e satellite-based navigation, remote ATM, unmanned aerial vehicles, accelerating digitalisation of services and processes, development of ever-growing IT literacy of customers, alternative fuels etc.) concerning your operations, business model, safety and security?"*

- Low cost carriers have always been adapting their business model to market changes and needs.

- The old hardcore LCC model is long gone (standard fleet, no GDS, no seat allocation).

- LCC are now codesharing with long haul carriers.

- Self connecting. LGW has developed an airport product to help that business.

- It has always been easier for LCC to adapt to market changes.

"Do you see any possible synergies between the low-cost air travel sector and other modes of transport? Do you think the low cost carriers' model is flexible enough to incorporate inter-modality, code-sharing or other similar concepts used by the legacy carriers on a wide scale? "

- Low cost provides the travel conditions for tourism products such as city break and short travel / break, which responds to the greater availability people have for travel.

- Market is evolving. Long established charter product with back to back holidays are not appealing to younger generations. New generations want a flexible product more adapted to their lifestyle.

- At the same time, Ryanair and easyJet are setting up tour operators. Jet2 is enjoying great success with a hybrid model.

- Distribution channels are changing and everyone needs to be able to cope with change and adapt their business model to the new environment.

- Passengers want more control over their trip. Value for Money is critical.

"Following the bankruptcy of Thomas Cook, can we already talk about crisis in the tourism sector, especially as far as "package holidays" are concerned? Are the problems experienced by large tour operators an advantage or a challenge to the low cost carriers' and regional airports' business? How does the emergence of online P2P booking platforms and flight comparison sites factor in in these considerations? What should be your role in these platforms? "

LCC are facing specific challenges, that need to be addressed to unlock more connectivity and growth

- Airport charges are heavily regulated in certain countries. While transparency and non-discrimination are necessary, **cost based charges** limits the capacity of airports to stimulate traffic with adapted charges. LCC would benefit of charges based on demand (such as off peak pricing for instance).

- In congested airports, **slots remain under the control of incumbent carriers**, mostly FSC. More dynamic slot allocation rules would benefit LCC.

- **Airspace congestion**.

- Consumer protection rules have strengthened in the past years. Focus is very much on delay and last minute cancellations with sometimes **disproportionate compensations**. LCC would benefit from more proportionate compensation rules.

Thank you