

# Summary, Options for organizing the airport operations

## Organization of airport operations in Europe

Typically, airports in Europe have been either owned and operated by the state or the regions. Private ownership and operation started to come along a few decades ago. At large and commercially profitable airports, the private parties are either private airport infrastructure operator companies or private investors. At smaller and operationally deficit airports, the private party is typically a regional company which air traffic for its own operations.

Most of the airport operations in Finland are organized by state-maintained network model. Besides that, four airports are mainly municipally owned. The network model is a common way of organizing airport operations in Europe, but the models vary depending on the country. Typically, the networks are state-owned and include all or almost all airports of the country. Transactions of airports from the state network to municipal ownership – which has taken place in Finland – has not happened on a large scale elsewhere than in Sweden. However, 15 years after large-scale municipalization in Sweden, there have been discussions about returning some airports to the state network. Airport networks in southern European countries have been privatized to balance the economy. Airports and airport companies have been leased to private operators with long-term leases (40–50 years), and in addition, share issues have been made from network companies.

The importance of airports to the economy has been recognized in several countries and is emphasized in the reporting of airport operators. The importance of air transport for the tourism industry and for companies engaged in international trade has been most recognized. In several countries, the political control of airport operations is strong, and it is typically centralized in the Ministry of Transport.

## Financial aspects of organizing airport operations

The limit of operational profitability of airport operations has been considered in various sources to be 0.16–2.5 million air passengers, and around 3–5 million air passengers as the limit of profitability covering investments. Airports larger than this are typically very profitable, and their operating margins have varied between 15–28%.

In this report, the profitability limit of airports in Finland is estimated to be 350,000 passengers on average. Five of the airports in Finavia's network are in surplus and the rest are in deficit. The biggest deficit is currently at the airports with PSO-traffic (Joensuu, Jyväskylä, Kajaani, Kemi-Tornio, Kokkola-Pietarsaari, Pori and Savonlinna), an average of 2.9 million euros per year. Before the corona pandemic, the income from Finavia's surplus airports was enough to cover the costs of the airports with a deficit. However, Finavia's

financial result has been in a deficit in the years 2020–2023. Based on the assessment made in this report, Finavia's financial result would probably be in surplus in 2024. On the other hand, the deficit of municipal airports seems to continue, and investment needs will increase their costs.

It is hoped that technological development will bring cost savings and efficiency to the organization of airport operations. Clear savings from various solutions, such as remote control, can be achieved if the equipment is at the end of its lifecycle. In other cases, the costs of capital investments exceed the possible benefits in the short and medium term. The spread of electronic aircrafts in the coming decades is expected to increase the costs of airports due to the required investments. In addition, due to the small size of the aircraft, the income from traffic may be lower than the operating costs incurred by the airport and thus weaken the profitability of airports.

Instead of seeking cost savings, increasing the revenue streams of airports has been identified as a more effective measure in this report. The best ways to increase the revenue stream have been identified as 1) increase in the number of passengers, especially through incoming tourism, 2) introducing the tourism commission model at tourism airports, and 3) arrangements and practices related to the organization of activities and operating models.

The most important economic importance of air transport lies in the wider economic effects it produces on the performance and growth of other industries. For example, according to international studies, the direct impact of one euro on the gross domestic product of air transport generates 3 euros for other industries, and one direct job in air transport creates 4.1 jobs for other industries. The biggest regional economic effects arise from the travel of companies engaged in international trade and from international tourists arriving in the region, as both create jobs outside the air transport industry. On the other hand, for example, leisure travelers traveling abroad from Finland and trips by public servants do not have wider economic effects in the same way.

### **The current state of air transport and development prospects**

The characteristic features of the Finnish air transport market in domestic traffic are little competition between airlines on domestic routes and a strong emphasis on business travel on several routes. The main feature of the international air traffic market is the strong concentration of traffic at Helsinki-Vantaa airport, although in recent years, seasonal direct route connections have opened to northern Finland to meet the needs of international tourism. During the last 30 years, the growth of Finnish air traffic has been based on the growth of international traffic.

Internationally, the demand for air traffic is expected to return to the level of 2019 by 2025, but in Finland the recovery will probably be slower due to the Russian overflight ban. Based on both statistical estimates and the views of airport operators, the passenger numbers in Finnish air traffic would return to

the level of 2019 approximately in 2030. This estimate has considered that by 2030 the global emissions trading of air transport and inflation are predicted to cut the demand for air transport by approximately 4%.

### **Organization of Finnish airport operations using the models of different countries**

If airport operations were organized in Finland according to *the Swedish model*, only the largest airports would remain in the network of the state company Finavia, and the remaining airports would be municipalized. In Sweden, a key part of the process was the definition of the state support level for municipal airports, and it was set at 50–75% of the airports' operational deficit. In the model, it would also be necessary to define the criteria applicable to Finland for nationally and regionally strategic airports, as was done in Sweden.

If airport operations in Finland were organized according to *the Norwegian model*, the mission of the state network company Finavia would be changed to be non-profit and the strategy of the company would be expanded to strengthen the development of international traffic, especially from the airports of the second and third largest cities. In the model, all civil aviation airports could be part of the Finavia network.

If airport operations in Finland were organized according to *the Polish model*, all airports would be incorporated and Finavia would become a part-owner of all the airports. The other owners would be regional entities, mainly municipalities. Finavia's ownership share would be determined in relation to the number of passengers at the airports, in which case the costs of airports with a deficit would be covered to a significant extent by the municipalities.

If airport operations in Finland were organized according to *the Greek model*, both Helsinki-Vantaa and a selected group of network airports would be tendered with long-term lease contracts to private airport operators who would pay operating compensation to the state. Finavia's role would change significantly, as the remaining network would not be able to get a surplus from its operations and the company would need state support.

The effects of the reviewed models were evaluated from the perspective of the Liikenne12-framework, the maintenance and operational reliability as well as the operating conditions of national defense. The effects of the models on these areas are different from each other, but none of the examined models is, as such, a better option than the other or the continuation of the current model. It's more how much value is given to different effects.