

# **Anotomy of an aviation strategy: lessons from Holland**

**Danish Aviation Day, 21 May 2015**

**Dr Guillaume Burghouwt**  
**Head of section aviation economics**  
**[g.burghouwt@seo.nl](mailto:g.burghouwt@seo.nl)**

[www.seo.nl](http://www.seo.nl) - [secretariaat@seo.nl](mailto:secretariaat@seo.nl) - +31 20 525 1630

seo economic research



**Connectivity is key to competitiveness**

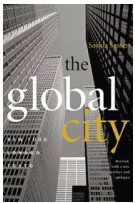
## Outline

- **Connectivity is key to competitiveness**
- **Hub carrier is key to connectivity**
- **The Dutch national aviation strategy and the role of connectivity**
  - **The mainport strategy**
  - **The Dutch aviation White Paper**
  - **The Alders Table**
- **The connectivity performance of Amsterdam Airport Schiphol**
- **Challenges for the future**
- **Lessons learned**

# Why is 'good connectivity' important?



- Connectivity improvements reduce travel costs for consumers and businesses (consumer welfare gains)



- Correlation between connectivity by air and ranking of metropolitan areas as global cities



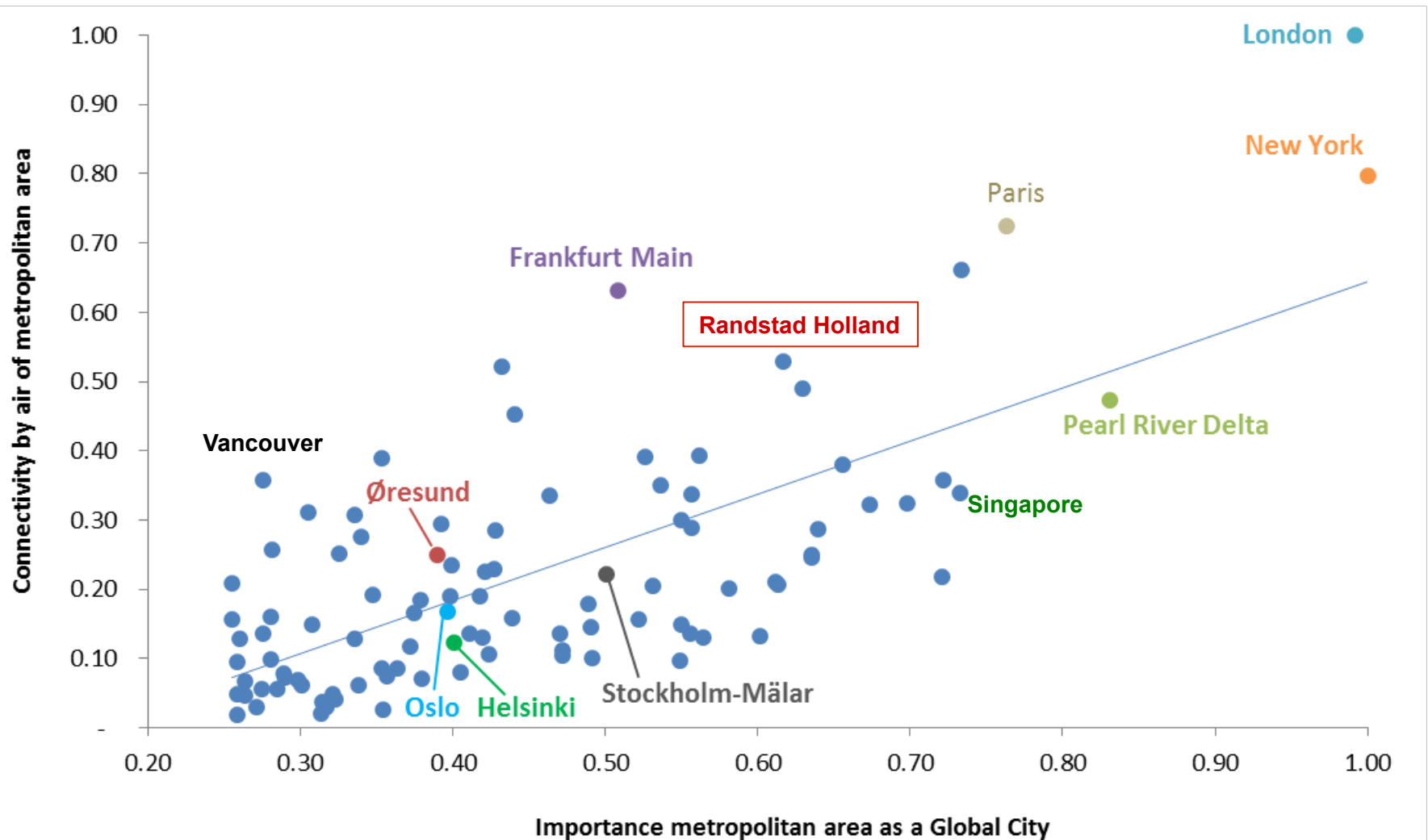
- 10% growth in connectivity= 0,5 % growth in GDP (InterVISTAS 2014)

- 10% growth in intercontinental destinations= 4% growth in headquarters (Bel & Fageda 2008)

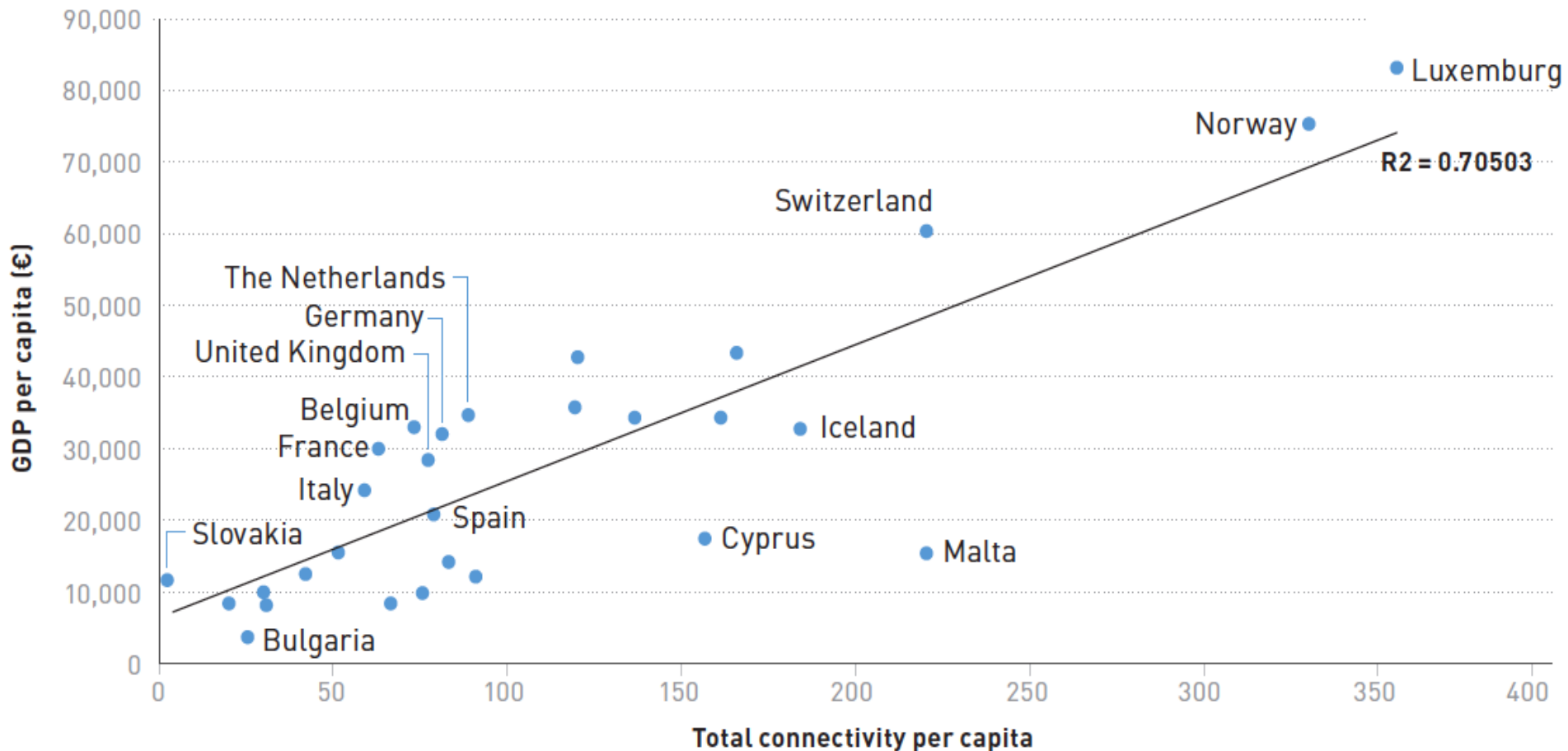


- Connectivity growth stimulates FDI, R&D, productivity, trade and tourism

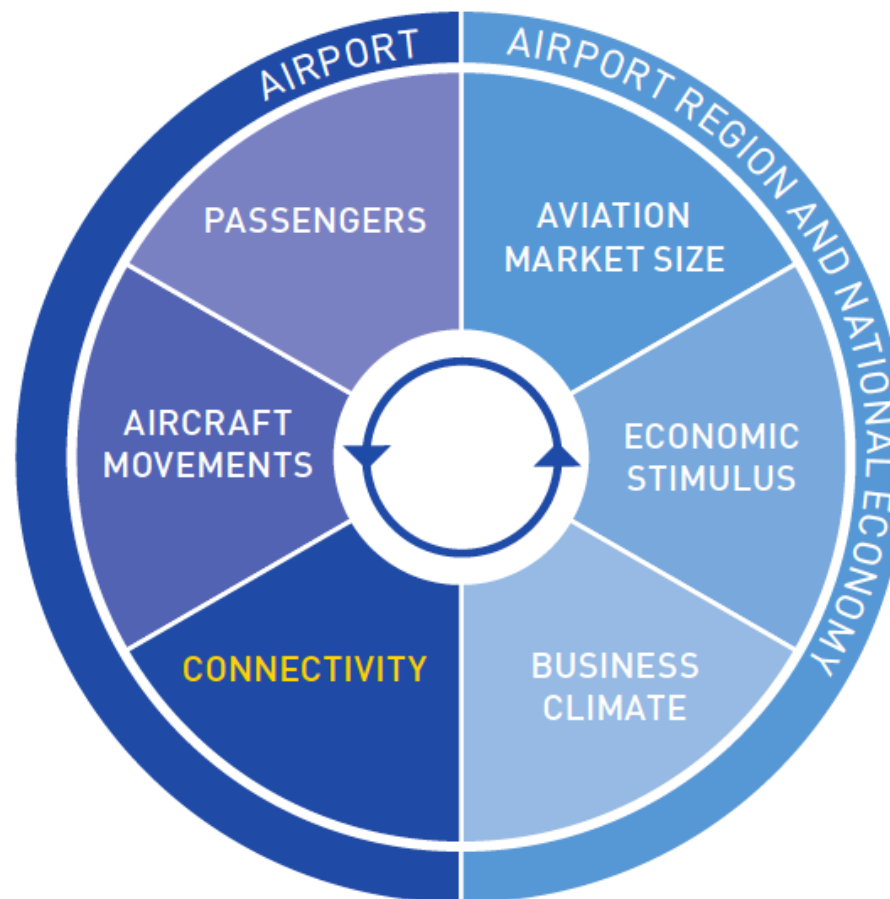
# Connectivity by air both facilitates and stimulates role of metropolitan areas in global economy



# Better 'air' connected consumers have higher GDP per capita



## The *virtuous* circle of connectivity growth

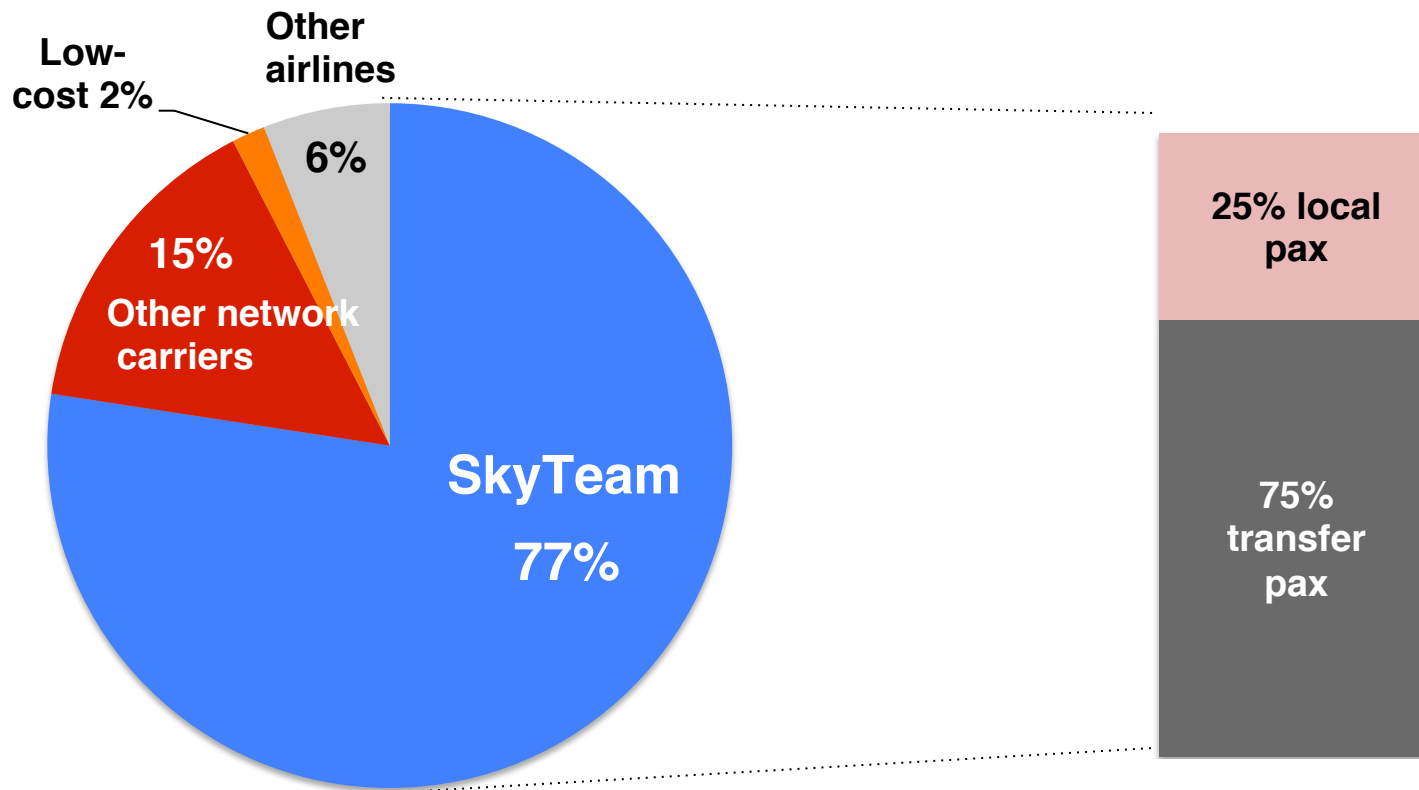


## Outline

- **Connectivity is key to competitiveness**
- **Hub carrier is key to connectivity**
- **The Dutch national aviation strategy and the role of connectivity**
  - **The mainport strategy**
  - **The Dutch aviation White Paper**
  - **The Alders Table**
- **The connectivity performance of Amsterdam Airport Schiphol**
- **Challenges for the future**
- **Lessons learned**



# KLM-hub at Amsterdam Schiphol is lever for connectivity

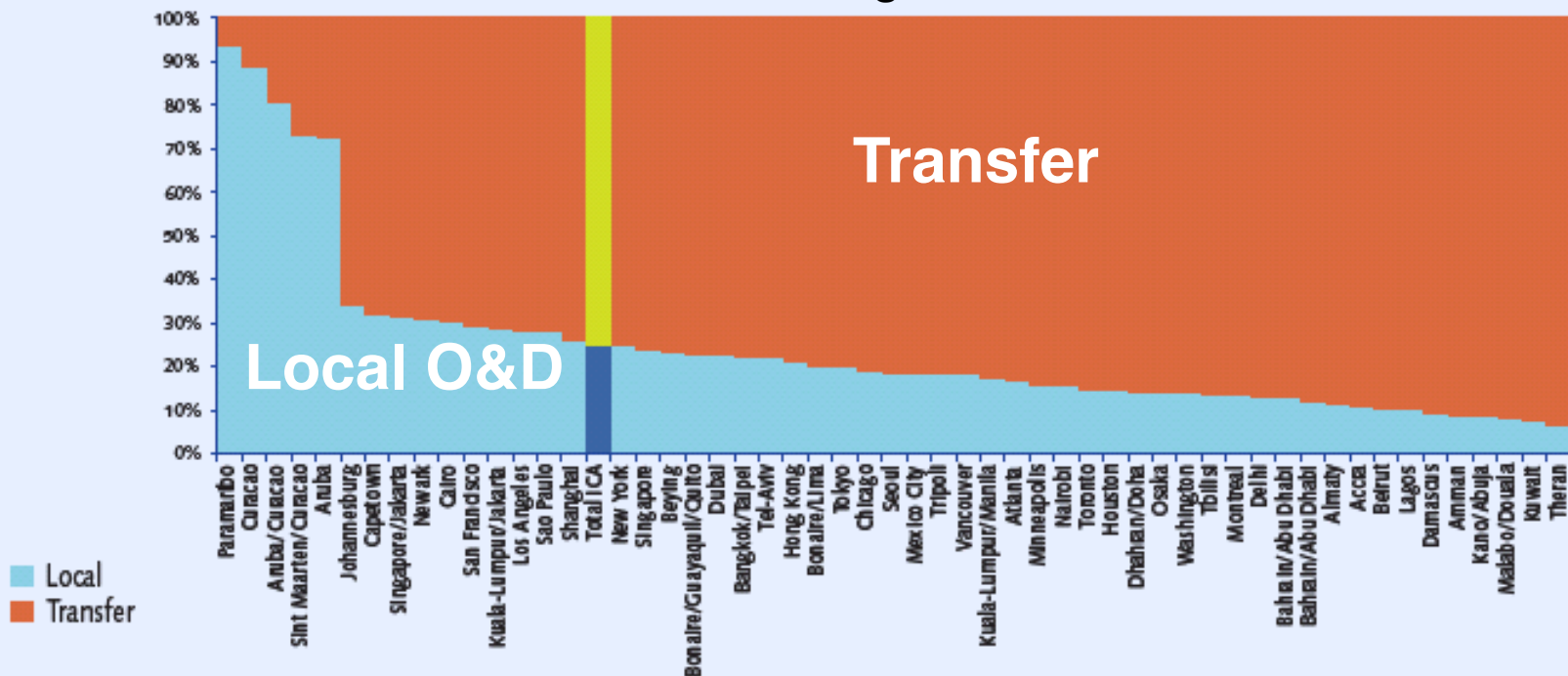


**Direct long-haul connections largely supported by the hub carrier**

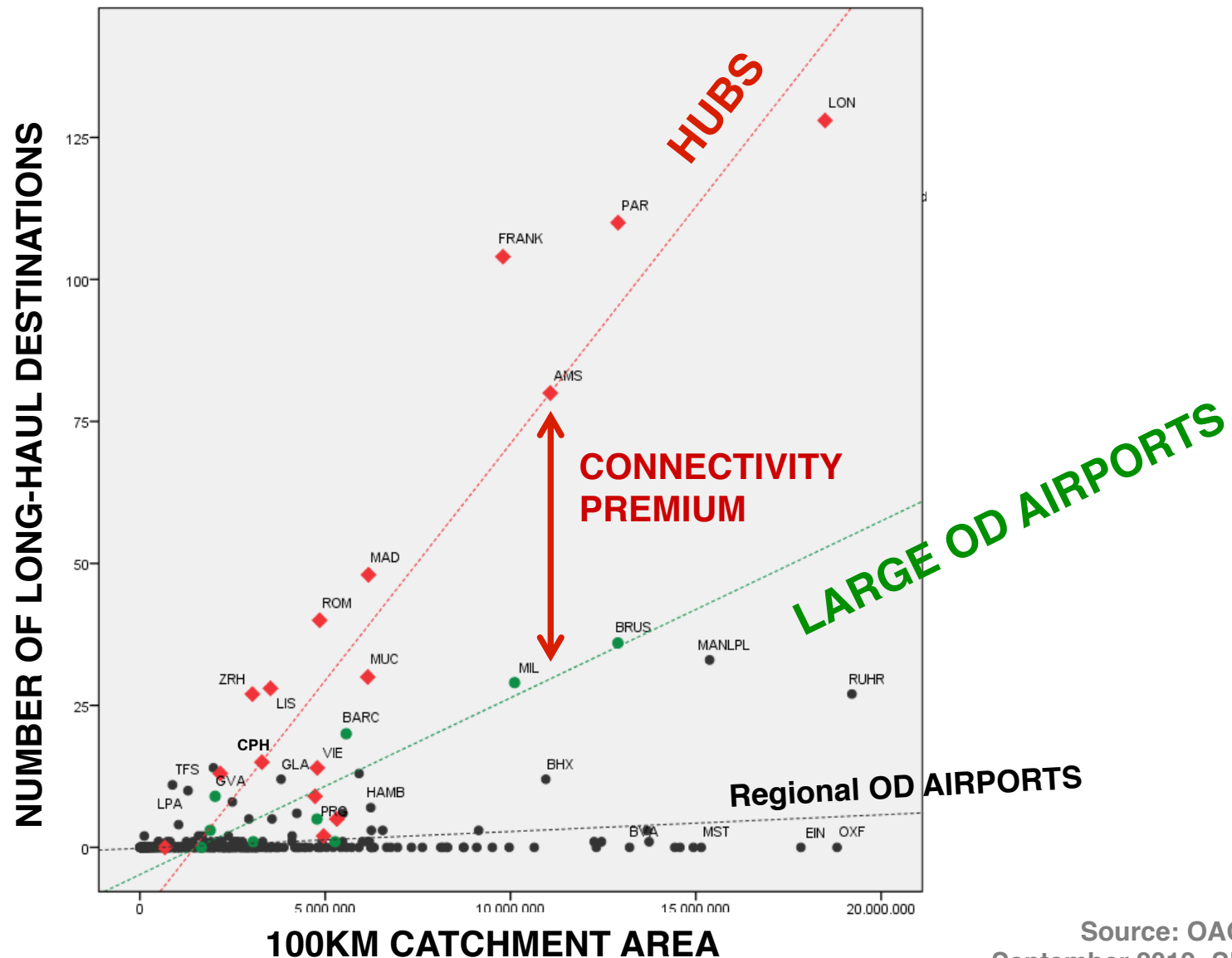
**About 75% of intercontinental passengers of the hub carrier are transfer passengers**

**Without transfer traffic carried by KLM and partners, many intercontinental flights would not be profitable**

Local and transfer traffic shares at long-haul destinations from AMS



Hence, KLM's hub allows Dutch economy to benefit from network that is 'larger than the Netherlands'



Source: OAG, 3rd week of September 2012; SEO catchment area database

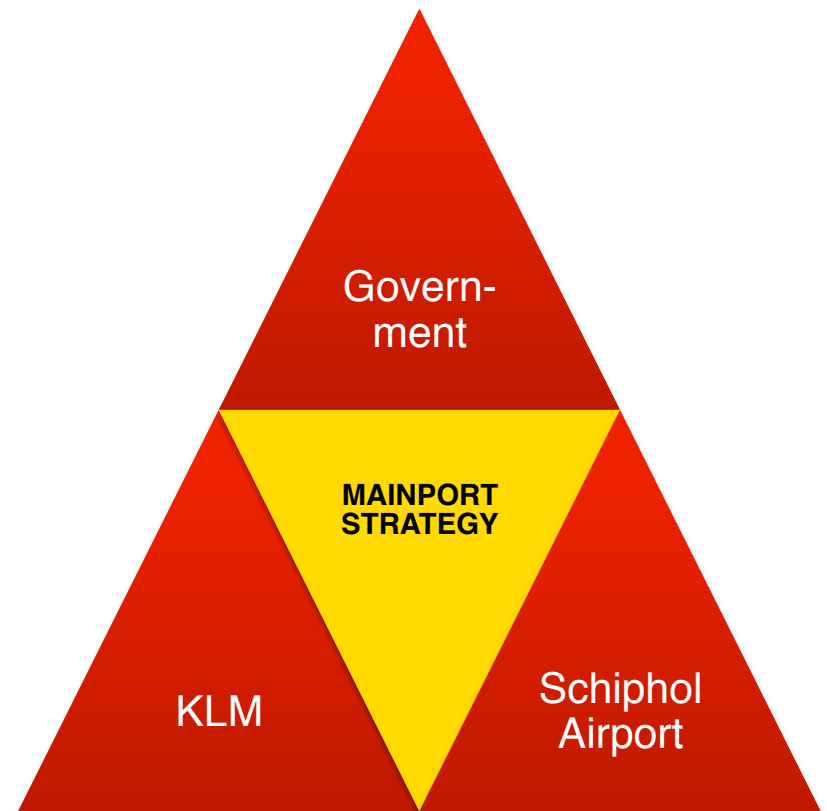
## Outline

- **Connectivity is key to competitiveness**
- **Hub carrier is key to connectivity**
- **The Dutch national aviation strategy and the role of connectivity**
  - **The mainport strategy**
  - **The Dutch aviation White Paper**
  - **The Alders Table**
- **The connectivity performance of Amsterdam Airport Schiphol**
- **Challenges for the future**
- **Lessons learned**

## Mainport Policy of the 1990s

- In the 1990s, Schiphol was considered, together with the Port of Rotterdam, as one the **pillars of the Dutch economy**, initially seen as essential in reviving the struggling Dutch economy
- Port of Rotterdam and Schiphol were called the **mainports**: main gateways for globally operating sea and air carriers
- **Alignment of strategies** of government, KLM and Schiphol Airport (**'Golden Triangle'**)
- Support by other stakeholders in a **'package deal'**

**'Golden triangle'**



## The aligned Mainport Strategy in the 1990s


### Government

- 
- Liberalisation bilateral air service agreements
    - NL-UK liberalization 1984
    - NL-US Open Skies 1991
  - Planning permission 5th runway
  - Direct railway link to south / HSR
  - Package deal on the 'Double objective': room for traffic growth without increase in noise

### KLM

- 
- Joint venture with Northwest Airlines & anti-trust immunity
  - Aggressive development of AMS as a transfer hub:
    - establishment of fully fledged wave system (1993, 1999)
    - European feeder partnerships (e.g. Air UK, Braathens, Eurowings)
  - Cost reduction plan 1991 to cope with rising fuel costs and competition

### Schiphol Airport

- 
- Masterplan 1989-2003
  - Terminal, pier, apron and baggage handling expansion
  - 5th runway ('Polderbaan')
  - Increase in peak hour capacity
  - Airport City concept

# Strong network still seen as essential for Dutch economy in current national aviation strategy

- **Dutch Aviation White Paper** (Luchtvaartnota 2009) sets out the mid-term strategy for Dutch aviation
- Its central objective is to **optimize connectivity by air** (*network quality*) in combination with a sustainable and competitive aviation sector
- Network quality: availability of a direct **worldwide, frequently served network of destinations** that contributes to the economic performance of the Netherlands
- Network quality should belong to **top 5 of Europe in 2020**
- Active government: objectives need to be realized by **joint effort of all stakeholders** in the aviation value chain, including the government



# The three pillars of the Aviation White Paper



## Competitive aviation sector

- International level playing field
- Competitive cost level
  - airport charges
  - security costs
  - Abolishment of APD
  - ATC costs



## Room for growth

- Movement cap at Amsterdam of 500.000 movements
- Use Schiphol for mainportrelated traffic
- 70.000 movements to Eindhoven and Lelystad
- Develop Lelystad Airport for commercial traffic
- Selectivity policy
- Traffic rights



## Sustainability and safety

- Limitation of negative externalities (e.g. noise)
- Single European Sky
- ETS



# Current Dutch aviation policy can only be understood in the context of the “Alders Table”

- Airport policy and decision-making tends to get **‘deadlocked’** over time, characterised by deep distrust between stakeholders (environment vs economy)
- Dutch approach: collaborative decision-making through the **‘Alders Table’**
  - **Formal discussion forum** closely linked to national government
  - **Respected chairman** in the person of former Minister Hans Alders
  - All important stakeholders, including local resident representatives participate
  - **‘Give and take’ process** between stakeholders (search for compromises)
  - **Agreements reached accepted as national policy** (e.g. in Aviation Policy White Paper)



Hans Alders

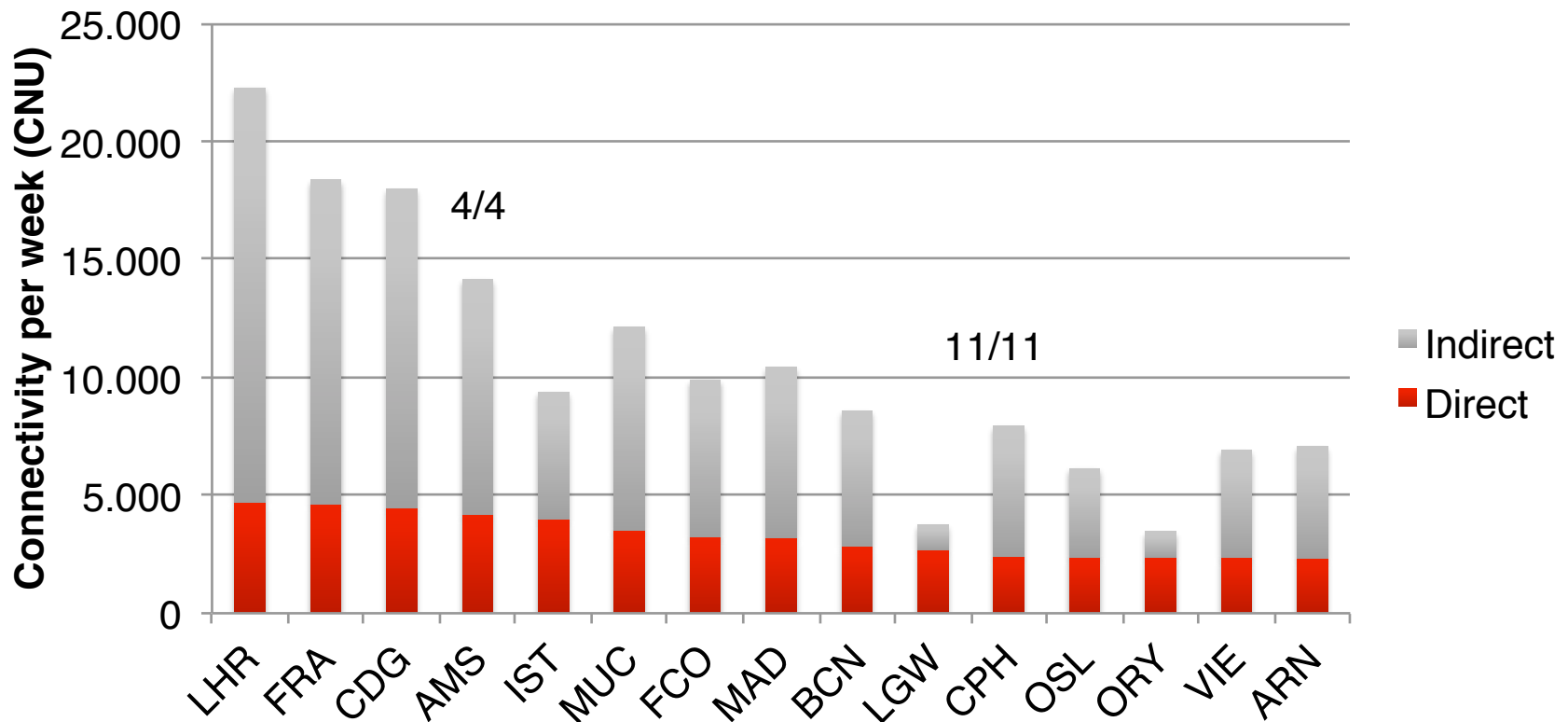
## **Key achievements of the Alders Table**

- **Constructive dialogue between stakeholders**
- **More trust than before**
- **Shared vision on mid term development of Schiphol until 2020**
- **Reduction of negative externalities: re-routing of departing and arriving flights, preferential runway use, limitation of night capacity, restrictions for noisy aircraft, informing the community**
- **Design and implementation of a selectivity policy:**
  - **Movement cap of 500.000 movements at AMS accepted as national policy**
  - **Additional movements at Lelystad and Eindhoven airport**
  - **Mainport related traffic should use Schiphol, non-mainport traffic should use Lelystad and Eindhoven**
  - **Green light for development of Lelystad for commercial traffic**

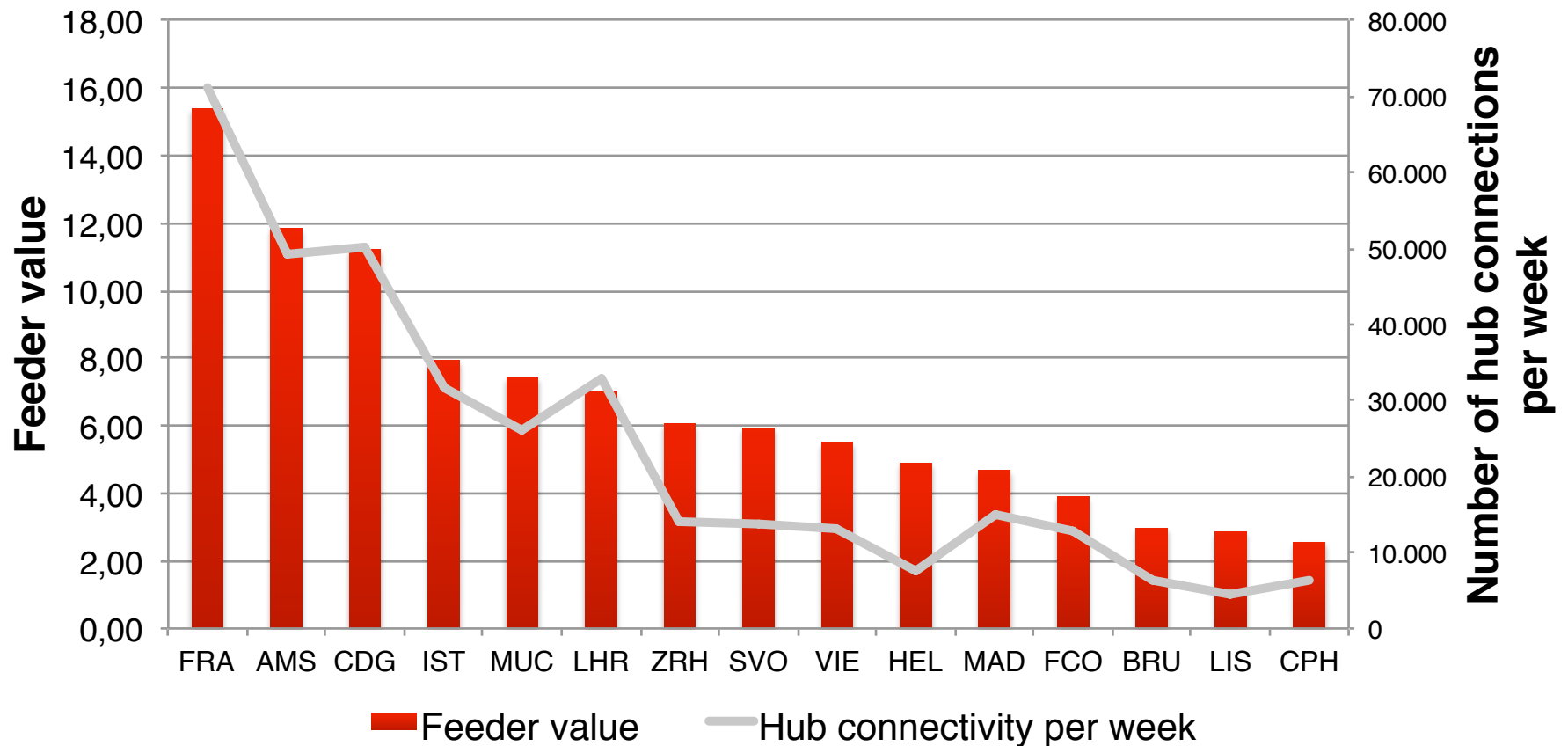
## Outline

- **Connectivity is key to competitiveness**
- **Hub carrier is key to connectivity**
- **The Dutch national aviation strategy and the role of connectivity**
  - **The mainport strategy**
  - **The Dutch aviation White Paper**
  - **The Alders Table**
- **The connectivity performance of Amsterdam Airport Schiphol**
- **Challenges for the future**
- **Lessons learned**

## Amsterdam Schiphol in 2014 4th best directly and indirectly connected airport in Europe



## Amsterdam 2nd hub airport in Europe in terms of number of transfer opportunities per inbound flight, 3rd in total



## Outline

- **Connectivity is key to competitiveness**
- **Hub carrier is key to connectivity**
- **The Dutch national aviation strategy and the role of connectivity**
  - **The mainport strategy**
  - **The Dutch aviation White Paper**
  - **The Alders Table**
- **The connectivity performance of Amsterdam Airport Schiphol**
- **Challenges for the future**
- **Lessons learned**

# Europese hubcarriers under severe pressure

Competition from the Gulf and Turkey



Low-cost carriers



Labour costs



Financial performance hub carrier



## Hub status Schiphol not a given

- Globally, 42 airports lost their **hubstatus** between 1997 en 2013 (Redondi et al. 2013), more have been rationalized (incl. CPH)



- Substantial loss in traffic and connectivity
- Regaining hub status ('rehubbing') is rare



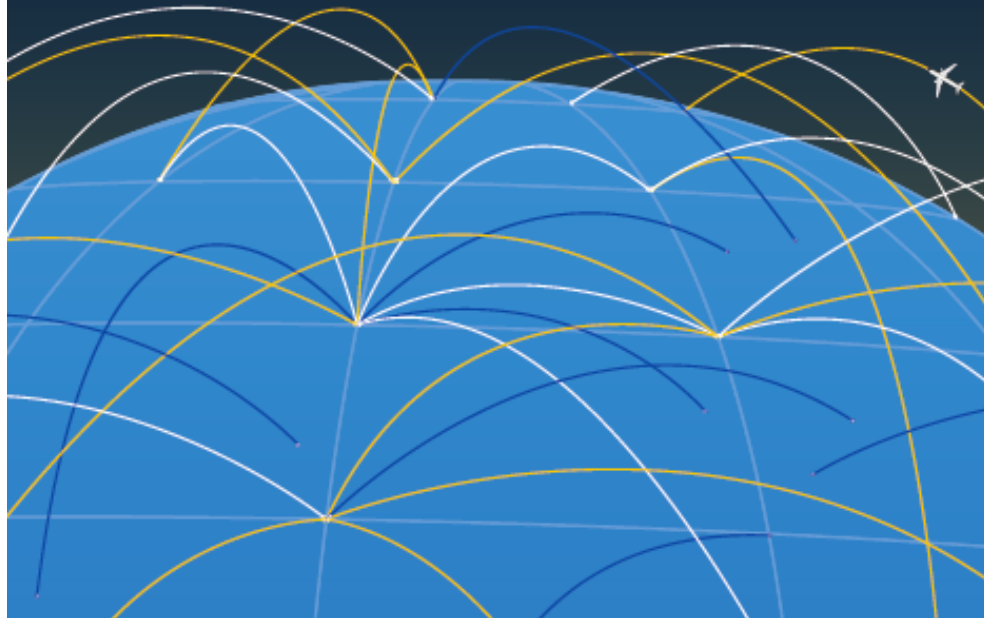
# Graveyard of dead and dying hubs

Airport	Airline	Year of dehubbing
Montreal Mirabel/Dorval	Air Canada	1980s
Kansas City Int. Airport	TWA	1982
Denver	Continental	1994
Nashville	American	1995
San Jose	American	1995
Raleigh-D.	American	1996
Gatwick	BA	2000
Brussels	Sabena	2001 (restart 2010)
Basle	Swissair/Swiss	2001
Nice	Air Littoral	2001
Raleigh-D.	Midway	2001
Baltimore	US Airways	2001
Zurich	Swissair	2001 (restart 2002)
Pittsburgh	US Airways	2003
Clermont-F.	Air France	2004
Miami	Iberia	2004
Barcelona	Iberia	2006
Milan MXP	Alitalia	2008
Athens	Olympic	2009
St. Louis	TWA/AA	2001-2010
Barcelona	Spanair	2012
Budapest	Málev	2012

## Lessons learned

1. Recognize **the value of connectivity** by air for the Danish economy and the role of the hub carrier in maintaining and growing connectivity
2. **Set clear objectives in terms of connectivity development** but do not aim for the stars
  - Even hub airport size ultimately relates to size of the local market
3. **Monitor and benchmark** your connectivity performance and cost competitiveness
4. Align strategies of most important stakeholders (**'golden triangle'**) in a national aviation strategy
5. Investigate possibilities for **collaborative decision-making** instead of top-down policy to avoid policy deadlocks
6. Investigate possibilities for a **selectivity policy** within the boundaries of competition law in case of **capacity shortages**

# AIRPORT INDUSTRY CONNECTIVITY REPORT



In partnership with  
**seo** aviation economics

2004 – 2014

[http://www.seo.nl/uploads/  
media/  
ACI EUROPE Airport Connecti  
vity Report 2004-2014.pdf](http://www.seo.nl/uploads/media/ACI_EUROPE_Airport_Connectivity_Report_2004-2014.pdf)

[www.airport-connectivity.com](http://www.airport-connectivity.com)