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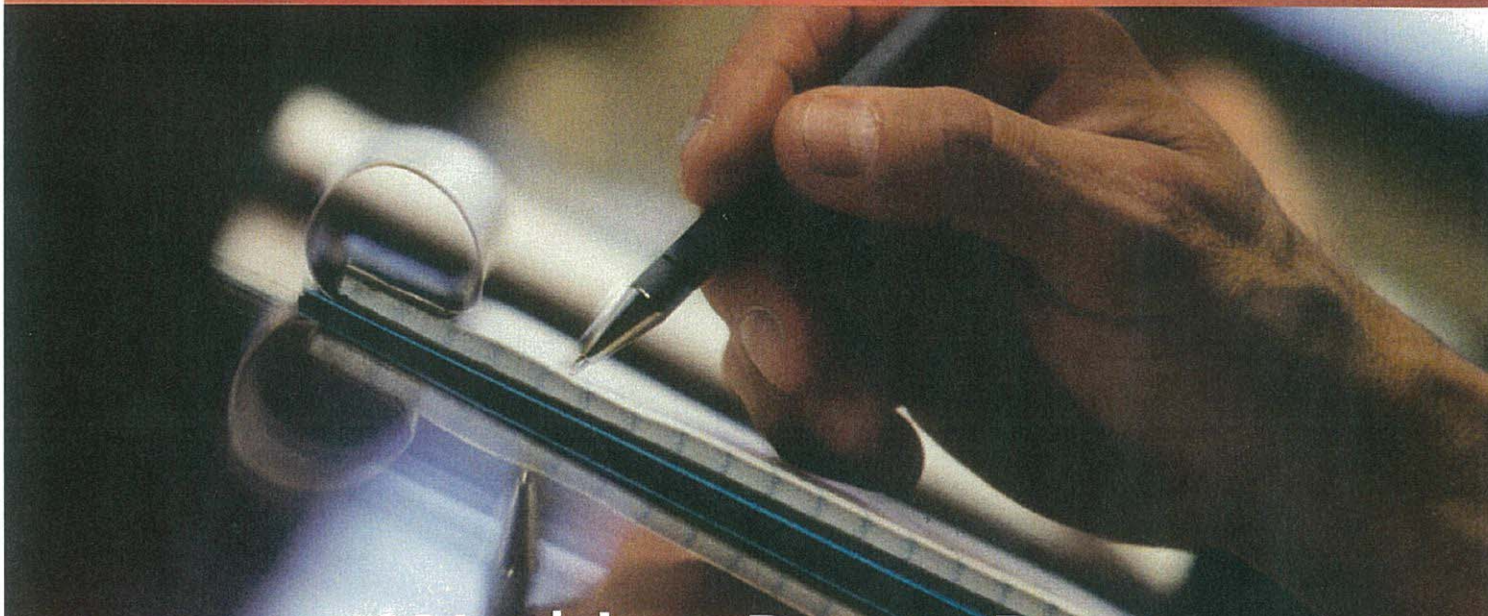
Economic Importance of Air Transport and Airport Activities in Belgium



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3 SUMMARY

The years 2005 to 2007 were years of all-round recovery for air transport and airport activities in Belgium. This followed a period of uncertainty which had a profound impact, transforming air transport throughout the world. Civil aviation has had a turbulent time since the beginning of the 2000s, with the terrorist attacks of 2001 and, in Belgium, the failure of Sabena representing turning points in the business. Air transport is currently in a consolidation phase, with only three major global alliances. At international level, competition between the primary hubs and the emergence of "sixth freedom" airports in the Middle East and in Asia is only just beginning, with secondary hubs such as Brussels Airport, and the national carrier Brussels Airlines, facing more intra-continental competition, in a context of ever more volatile energy costs, increasingly stringent environmental measures and the steady expansion of low-cost operators. With the decline seen at the beginning of this decade, it is no longer just a question of cyclical fluctuations, as the normal duration of the cycle since civil aviation began is estimated at about ten years[117]. Following a worldwide revival from 2003 on, the Belgian airports seem to have benefited from a global expansion of aviation activities, as Brussels and Charleroi Airports have seen stronger growth of passenger traffic in the last three years, and Liège has recorded a steady rise in cargo traffic.

Taking account of these contextual elements, this study aims to record the economic results of the activities based at the six Belgian airports, Antwerp, Brussels, Charleroi, Kortrijk, Liège and Ostend, which comprise, within their perimeter, not only a range of sectors relating to air transport - air transport cluster -, but also many branches which do not, at first sight, have any connection with this mode of transport - other airport-related activities -. It was possible to conduct an exhaustive assessment for 2006, using the variables value added (VA) and employment. As far as possible, a study of the social balance sheet, investment, and financial health is also presented. But outside the airports there are many activities connected with the air transport cluster. They are subjected to the same analysis. Developments in value added and employment recorded between 2000 and 2006 in the air transport cluster are presented in the same way as for Brussels Airport, and can serve as a barometer for all activity in Belgium.

The main lessons of the study are as follows.

- The air transport cluster is present both inside and outside the airports, in relatively similar proportions, since the first group directly employs 11,400 FTEs and the second 10,300 FTEs. Inside the airports, the airline sector ("air transport") clearly dominates, while outside the dominant branch is "building and repairing of aircraft". The air transport cluster is structured around the air transport sector (airlines), with VA totalling 540 million euro and direct employment of around 5000 FTEs. Of these totals, 492 million euro and 4560 FTEs relate to passenger transport. In regard to activity which, in theory, has no direct link with air transport but is present at the airport sites, namely the cluster comprising other airport-related activities, employment totals around 10,000 FTEs and is dominated by the "courier and post activities" branch. In total, taking direct and indirect effects together, VA came to over 6 billion euro in 2006 for airport and air transport activities as a whole, or 2 p.c. of Belgium's GDP. The 77,000 FTEs employed by these activities and their suppliers are equivalent to 2 p.c. of Belgian domestic employment. The induced and catalytic effects are interesting concepts, but they overlap with the estimate of indirect effects offered in this report. However, they are mentioned as a guide.

- Having fallen steeply in 2001 and 2002 respectively, the employment and value added of activities intrinsically connected with air transport, i.e. the air transport cluster nationwide, recovered temporarily in the former case and permanently in the latter. Thus, employment picked up to just 75 p.c. of the level seen at the beginning of 2000 - 2006, while value added at constant prices regained its 2000 level in 2006. In the last year (2005 - 2006), employment in the air transport cluster continued falling (-0.8 p.c.), while VA recovered well (+2 p.c.). For comparison, during the same period employment at the six airports showed a small rise (+0.5 p.c.), supported by other airport-related activities, while VA at constant prices in the air transport cluster increased significantly (+5.3 p.c.), but here, too, the driving force was other airport-related activities. In 2006, the air transport cluster outside airports concerned VA totalling 840 million euro and 10,300 FTEs, multiplied

[117] Doganis R. (2006), *The Airline Business*.

respectively by a factor of 2.75 and 3 if the indirect effects are added. These multipliers are particularly high, confirming the widespread finding that air transport, though modest in absolute terms, has a major influence on the economy as a whole.

- Of the six airports, it is naturally Brussels Airport which is dominant in both traffic volumes and VA and employment, as the national airport represents over four-fifths of the total activity of the six airports. In fact, it employs no fewer than 17,600 of the 21,400 FTEs and generates over 1.4 billion euro in VA, out of the 1.7 billion. Next comes Liège (8 p.c.), followed by Charleroi (4 p.c.), Antwerp (2.5 p.c.), Ostend (2 p.c.) and Kortrijk (< 1 p.c.). The VA and direct employment generated by the airports are dominated by the air transport cluster, with the notable exception of Liège Airport, where the "courier and post activities" sector predominates. The ratio between VA and employment recorded in the air transport cluster is higher than in relation to other airport-related activities. If indirect employment and VA are added to the direct figures, they increase them by a factor of 2.2. This multiplier is particularly high at Kortrijk in the case of VA, and at Liège in the case of employment. It was possible to analyse the movement in VA and employment for Brussels Airport. It emerged that the years 2001 and 2002 were particularly difficult, owing to the collapse of Sabena and a decidedly tricky international context, plus the ensuing decline in traffic. Naturally, this crisis was reflected in VA and employment, which both showed a very marked fall in 2001, making a modest recovery in 2003 in the case of VA and a clearer recovery from 2005, so that by 2007 VA was almost 10 p.c. above the 2000 level, whereas employment struggled back very slowly without ever regaining its 2000 level, reaching barely 75 p.c. of that figure by the end of the period.

- The indicators relating to the social balance sheet of the main firms based in the airports are fairly encouraging at the end of the period. In fact, the year 2006 brought an increase in the number of employees on the staff register, compared to the 2005 level. Employment in the airports is still dominated by men, more so than the national average and comparable to the air transport cluster outside airports. Airports have a high staff turnover, owing to the type of work under review. The modest concentration of employment by the end of the reviewed period in the airports in regard to what is seen in the air transport cluster in the rest of the country is accompanied by efforts to provide training in the companies established in airports. As is apparent at national level, the return on equity after tax has fallen, both in airports and in the air transport cluster in the rest of the country, with the former still doing better in terms of profitability. Conversely, the latter did much better in terms of liquidity in the broad sense, although the gap narrowed in 2006. The solvency of firms engaged in air transport outside airports remained stable, while it was down slightly in the airports. In both cases, solvency was well below the national average. Private investment, a highly volatile variable by definition, fell sharply over the period in the case of activities in the air transport cluster, the 2006 figure being barely 50 p.c. of the sums committed six years earlier. But a recovery seems to have set in since 2005 when the amounts reached a low point. 2006 was also a year of investment expansion in the airports, with an increase of 18.1 p.c. at constant prices compared to 2005.

These results seem at this stage to indicate that, by the end of the period, air transport and airport activity had regained its pre-2001 momentum. But we also know that this sector is very sensitive to the international economic situation. Since the autumn of 2008, the global economy has progressively entered recession. After a period of rising energy prices and inflation in everyday consumer goods, the Belgian economy, hard hit by the repercussions of the global financial crisis, entered a phase of uncertainty over the pace of its recovery. In this context domestic demand is likely to suffer in the coming months, as the consumer confidence continues to wane, and there could be a sharp slowdown in consumption. Even though a clear dip was first noted in October 2008 in terms of passenger traffic, it is too soon to predict the impact which the current economic situation will have on Belgian air transport, a sector which will be affected in 2011 - whatever else happens - by the introduction of new environmental measures at European level. The International Air Transport Association, IATA, which is in favour of accelerating the "Single European Sky" project, regularly publishes indices showing the price-sensitivity of demand, using various models of elasticity which are based on a large number of variables[118] and are relatively complicated to handle. The uncertainty over the movement in prices per barrel of crude oil is also affecting investors' decisions and the financial health of the airlines. The consolidation of the aviation sector is therefore likely to continue in the years ahead. During that time, the low-cost airlines will continue expanding on the market in domestic and intra-continental flights, an economic model which is being increasingly copied by the traditional airlines. While the Open Sky

[118] See IATA Economics Briefing 2008 / No. 9.

agreements concluded between the USA and the EU provide for the liberalisation of transatlantic services, the low-cost airlines will certainly be turning their attention to long-haul flights in the medium term.

Brussels Airport, a secondary hub and in 21st position among European airports in terms of passenger numbers, is not in direct competion with the primary hubs of Europe and Asia. But Belgium's leading airport has plenty of plans for securing a permanent place in the European passenger traffic top 20. However, the loss of part of DHL's activities is liable to cause at least a temporary setback for Brussels Airport in the European league table for cargo, where it is currently in sixth place. The other five airports face similar challenges, calling for practical, coordinated responses. Specialisation seems to be an approach which is yielding benefits. In any case, that is true in Wallonia: BSCA has specialised in passenger transport while Liège is continuing to expand in cargo and express courier services. In Flanders, the situation is more complex: Brussels Airport is still very much the country's main airport, while Kortrijk occupies the business travel segment, Ostend handles specialist cargo and Antwerp focuses on passengers travelling to and from the Antwerp conurbation. Doubtless a degree of rationalisation will be necessary in the future, because not all these airports are seeing the same growth prospects. Partial privatisation of the regional airports is an initial response here. The goal is still to achieve profitability for the existing facilities while safeguarding the future and ensuring sustainable growth for air transport, a sector whose major role in the Belgian economy this study has tried to demonstrate. The central position of air transport in the transport logistic chains, the attraction which airports exert on the location of service activities and logistics, and the essential link which they represent in terms of mobility, are in fact vital to a country such as Belgium which is international in outlook.