Lelystad traffic distribution rules consultation

T&E reply to the European Commission consultation on Lelystad airport traffic distribution rules

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Summary

The consultation documents on traffic distribution rules for Lelystad airport are motivated by the claim that capacity at Schiphol airport 33 miles away is scarce. This seems to be stretching the point. After all, Schiphol has 5 runways for commercial aircraft and is the largest airport by movements (landing and takeoffs) in Europe so runway capacity itself would not seem to be the limiting issue. The issue for both airports and the Netherlands in general is overriding concerns regarding excessive airport noise – and out-of-control CO2 and non-CO2 aviation climate change impacts.

Schiphol situation

Schiphol airport itself ranks third in Europe by passenger throughput (71,053,147 passengers handled in 2018 - ACI) behind Paris CDG (72,226,878) and London Heathrow LHR (80,126,856)[1]. What is driving traffic growth at Schiphol is the unceasing efforts to expand Holland's national carrier and more latterly the growth of low fares LCCs – low cost carriers. KLM is already the 12th largest commercial airline by international scheduled revenue passenger kilometres[2] serving a country whose population of 17m ranks #60 in the world and #12 in Europe.[3] The Netherlands landmass is ranked #32 in the Europe. Whereas Heathrow serves a London metropolitan population of 14 million, and CDG serves Paris' 12.5m. Amsterdam's metropolitan population (2017) is about 2,7m. Other commercial airports in the Netherlands are Eindhoven, Rotterdam, Maastricht and Groningen. Commercial airports in neighbouring countries within 100 km of the Dutch border include Dusseldorf, Weeze, Cologne-Bonn, Antwerp, Liege and Brussels.

Slots

T&E is not especially expert at the rules governing slot allocation at airports. But even a basic understanding of competition law in the EU would suggest that to the extent possible, governments are required to treat competing commercial entities fairly and equally. And it's certainly on this basis that the EU airport slot regulation is largely based. The whole slot allocation system is arguably heavily biased in favour of incumbent carriers because of grandfathering although some efforts have been made in the regulation to accommodate new entrants. And, as with traffic rights, access to airport slots is without any doubt the lifeblood of any airline - especially because in almost all cases they are free. As long as you use them! But it takes two to tango in the airline slot business – matching slots are needed at each end of the route. Grandfathering is the underlying principle. If your airline had the slot last operating season then you can keep it for the following season provided you have used it 80% of the time - the famous 80/20 rule. This rule massively advantages incumbents like KLM – who over time will have accumulated for free all the

[1] https://aci.aero/data-centre/annual-traffic-data/passengers/2017-passenger-summary-annual-traffic-data/

[2] https://www.flightglobal.com/asset/24619/?cmpid=PLC|FGFG|FG697-2018-GLOB-worldairlineranking2018cn

[3] World Population review

best and most commercially valuable slots at their hub airport with needed arrival timings matched by those at all destination airports.

Our purpose here is not necessarily to challenge the slot allocation status quo at airports. But it is to challenge what seems like an extraordinary proposal from the Dutch Government to dicker with Europe's established slot rules and set up a completely new slot allocation regime solely between Schiphol and Lelystad airport. Lelystad remains a brand new ghost airport. The original intention – so far frustrated by EU competition law and a good deal of bad planning and foresight with regard to airport flight paths - was simply to banish by fiat to Lelystad all those established low cost carriers and small operators at Schiphol. This was rejected by the European Commission. This new proposal appears to set up instead an elaborate new – and possibly unique - definition of what a "flight" is for the purposes of shifting traffic with less than a 10% threshold of transfer passengers to Lelystad thus freeing up slots at Schiphol for yet more short and long haul transfer traffic to be operated by KLM.

This redefinition of a flight solely intended to enable Dutch authorities to shift traffic to Lelystad seems to contradict the EU slot rules and definitions and by treating airlines differently in law solely by the test of how many transfer passengers they uplift would seem to contravene EU competition law. So is it lawful? There would seem to be a case for saying that the proposed rules also breach state aid regulations because they unduly benefit KLM's access to scarce slots at Schiphol and in doing so and depart from tyeh principle of neutrality by favouring one business model that of predominant reliance on transfer traffic versus predominant reliance on non stop service. Regulation should be neutral in regards to this issue.

Transfer traffic at Schiphol

A well-functioning Dutch aviation system would not seem to require a new airport at Lelystad where the noise and nuisance problems are likely to be even more intrusive for local residents than Schiphol. The issue is that Schiphol airport is KLM's hub and KLM has grown over the years to a point where its business model of reliance on transfer traffic to underpin ever greater expansion has led to the current "capacity" crisis. KLM is not a point to point carrier which today's low cost airlines (LCCs) show is the "least intrusive" way as regards noise, air pollution and CO2 to carry passengers from point A to point B. This reliance on transfer traffic goes back many decades and probably exceeds most other major commercial carriers with the exception of those based in the Gulf whose dramatic expansion is due in no small part to their being ideally located to provide the needed stopover for intercontinental flights.

On the other hand, KLM's vast European network relies very heavily on carrying traffic between European points via its Amsterdam hub. Critically, KLM competes for this transfer traffic with much larger carriers operating from much larger population bases – Lufthansa, Air France and British Airways in particular. These KLM passengers have the choice of flying on direct carriers (normally at a higher price) bypassing Schiphol or on carriers operating through other European hubs such as Copenhagen (SAS) Frankfurt and Munich (LH), Swiss (CH) Brussels (SN) and Paris (AF).

Airlines operating from these alternative transfer hubs in Europe offer similar destinations and hubbing alternatives and generally rely to a lesser extent on transfer traffic in building their network. In the case of Lufthansa it has also purchased carriers in neighbouring countries partly to provide feeder traffic. The key to network carriers financial success is the carriage of predominantly non-stop (yields are much higher) traffic with lower yield transfer traffic (and higher cost) passengers filling the remaining seats. Low cost carriers turned this traditional airline model on its head by flying almost exclusively point to point at minimum operating cost and until recently most did not even offer any transfer capability onto connecting flights.

This to the point that Ryanair is now Europe's largest and most profitable carrier. KLM has stuck doggedly to its hub and spoke business model relying on up to 70% of transfer/transit traffic – extraordinary almost even by Gulf standards.

"A vast majority of close to 18.7 million transfer passengers at Schiphol last year flew with KLM or one of its partner airlines. Up to 70% of the people who choose to fly KLM are transfer passengers?"

The webpage citing the 70% claim has disappeared from KLM's website.

Transfer traffic – the additional externalities

When KLM flies passengers from airport A to airport B via transfer at Schiphol – airport C, rather than non-stop, by definition costs per passenger and passenger km are higher; flying A to B requires one takeoff and a non-stop flight by definition is a shorter distance than flying via an intermediate airport. Flying via airport C, Schiphol, requires two takeoffs and two flights segments, the sum of whose distance is greater than the non-stop flight. All other things being equal (same aircraft type for example) KLM will burn more fuel per passenger and generate higher CO2 emissions transporting passengers via Schiphol than if the passenger flew non-stop. And the additional takeoff and landing creates more noise and air pollution. But relying to a far lesser extent on transfer passengers means KLM would be a much smaller airline because it could support fewer non-stop flights without such a high proportion of transfer traffic to fill seats and achieve at least breakeven.

Many "studies" sponsored by KLM, IATA, PwC, A4E etc[4] justify this hubbing business model because it enables airlines like KLM to grow and serve a far greater number of destinations than traffic to and from The Netherlands alone could support commercially. Those much larger number of destinations enable the non transfer passengers to hop on and off at Amsterdam, do business and spend money and thus contribute to the well being of all the Dutch population. But the model requires up to 70% of passengers transferring over Schiphol rather than flying direct from their true origin and destination. None of this is at all abnormal to airlines the world over – network carriers can't survive by point-to-point alone. And no-one is suggesting that KLM should ditch its business model and morph into an LCC overnight, but every network carrier faces growing commercial threats from point to point operators with more efficient and smaller aircraft – witness the fate of the A380. KLM is no exception. It has also to confront the challenge of larger more powerful network carriers in Europe like Lufthansa which has a second hub in Munich and subsidiary airlines based in Vienna, Zurich and Brussels and draws on a larger population base.

It's this very high percentage of KLM transfer traffic that is the real cause of the "capacity crunch" at Schiphol. And the proposition underlying the traffic distribution documents in this consultation is that Schiphol – KLM's hub – must be allowed to grow to enable KLM,s transfer business model to grow. Because all this is claimed to be vital to the Dutch economy. So the proposed traffic distribution rules for Schiphol should be very much seen as a transparent effort to free up slots at Schiphol which will effectively be allocated to KLM to develop even more connections between points in Europe and long haul destinations with Schiphol being the connecting point.

Climate impact

What will suffer is both the climate and even higher noise/air pollution levels at Schiphol as well as new aviation "nuisances' around Lelystad. If we consider a passenger flying from Paris to Hong kong, the KLM routing via Amsterdam rather than flying non-stop is 82 km (0.8%) longer. But an additional 27.5% CO2

[4] https://www.pwc.com/gx/en/capital-projects-infrastructure/pdf/pwc-air-connectivity.pdf
Economic and social benefits of air travel, IATA

per passenger is created (two takeoffs) and additional noise and local air pollution from the landing and takeoff at Schiphol.

It is these additional and significant externalities that must also be considered by the European Commission, the Rutte Government and indeed the Dutch people in considering the future of both airports. Each additional transfer passenger transiting Schiphol on an aircraft using a slot released by a shorthaul carrier moving to Lelystad will in this particlar example of flying from Paris to Hong Kong via Schiphol, add an avoidable 220kg of CO2 to the atmosphere per passenger plus noise, NOx and particulate matter.

CO2 calculations

PAR/HKG 9620km; PAR/AMS 431km; AMS/HKG 9271
PAR/AMS/KHG = 9702km =0.8% longer.
PAR/HKG on AF 800kg CO2/pax PAR/AMS/HKG on KLM 1020 kg CO2 = +27.5% higher CO2 This doesn't take account of the additional aircraft noise/NOx/air pollution at Schiphol. Non CO2 impacts will be proportionally higher as well.
See https://www.cstt.nl/carmacal

We look to the European Commission to determine whether these proposed new traffic rules for Lelystad are firstly legal and secondly justifiable on climate grounds.

Airline pricing – or the lack of

There are far more acceptable and appropriate ways of solving this two airport issue. Because the other clear reason why airports like Schiphol are congested is that flying has become unbelievably cheap. An average one-way flight of 1500km within Europe sells on LCCs today for EUR70-80. The fuel tax exemption on such a flight calculated at the EU minimum of 33 cents/litre robs governments of about EUR14 excise duty.[5] The VAT exemption another EUR15-17 depending on average fares. On top of that, there's state aid to airports which ends up heavily subsidising the operating costs of airlines like Ryanair which exploits state aid opportunities to the hilt. And in addition, there are development subsidies to manufacturers like Airbus. The airline industry claims that after safety its first priority is minimising its biggest single cost – fuel – and thus climate harming emissions. But is it?

These proposed new traffic distribution rules for Lelystad seem to thumb their nose at the problem of climate change and are dedicated to perpetuating the excessive fuel burn and externalities of KLMs intensive transfer traffic business model.

But there is a better way to address the "capacity crunch" at Schiphol; effective airline taxation to eliminate the sector's fossil fuel subsidies – the fuel and VAT exemptions. Proper pricing of aviation will reduce demand, noise, NOx, CO2 and non-CO2. But the approach to the current debate on aviation taxation in the Netherlands which the Rutte Government appears likely to adopt, is not the right one to "solve" the problem at Schiphol. It is in fact a mere extension of these flawed proposals for new airport distribution traffic rules; designed first and foremost to perpetuate the KLM transfer traffic business model.

[5] T&E calculations in-house calculations. Fuel taxes in this analysis are harmonised from Member State ETS allowance reporting of EUAAs, UNFCCC inventories, and Plane Finder data (airplane transponder data) expressed as fuel burn, and the number of domestic and intra-EU passengers in 2015, from the EU Transport Statistical Pocketbook 2017

KLM is a past master at getting its way on things that matter to them – witness the scandalous story surrounding the introduction in 2008 of the Netherlands' first ticket tax. It was introduced barely 6 months before the Lehmann Bros collapse and the ensuing global market chaos. Yet KLM claimed the falloff in its own traffic was due to hordes of Dutch fliers paying more to drive there and back to nearby cross border airports in Germany and Belgium to save $10 per ticket on departure. This plus some clearly flawed reports by "experts" seemed to convince the then Dutch Transport Minister who saw to it that the ticket tax was cancelled. The Minister happened to take up the post of President and CEO of KLM a few years later.

Dutch aviation tax issues

The Rutte Government to its credit is proposing to tax aviation. So it should. The Netherlands is ranked #5 in Europe's GDP per capita stakes and high up in CO2 emissions per capita rankings.[6] Yet the Netherlands levies no taxes whatsoever on aviation – a dubious honour shared with similarly well-heeled economies in Denmark and Ireland. At this point it seems very likely that a Dutch ticket tax will be proposed for passenger flights. The airline industry, led by KLM, is firmly opposed to a ticket tax – or any tax - but it seems to be understood that some measure will come soon as $200m in tax revenues are already assumed in the 2021 Dutch budget. KLM is now proceeding to shed crocodile tears over such a tax. Crocodile tears because ticket taxes typically exempt transfer and transit traffic to avoid double taxation should a departure ticket tax have already been levied at the passenger's original point of departure. So along with passengers boarding LCCs and other European and foreign carriers departing Schiphol, approximately 30% of KLM traffic – ie, only those passengers checking in at Schiphol itself for KLM flights will be subject to the tax. Or put the other way around, up to 70% of KLM traffic using Schiphol – those passengers in transfer/transit – won't be taxed. And to advantage KLM even further, only one rate it is said will be applied - EUR7 on all departing passengers – although there is talk that the tax may even be doubled to EUR 15 to make life even more uncomfortable for short haul traffic and encourage a shift to rail. That's a laudable objective except that any slots so freed up are more than likely to be snapped up by KLM to add more long-haul transfer-passenger-laden traffic. And in fact the draft new distribution rules seem to bend over backwards to enable this to happen at Schiphol. Long haul flights underpinned largely by high levels of transfer traffic are two to three times more carbon intensive than regional flights.

Per flight taxes

The current expectation is that cargo flights will be subject to a per flight tax. Such an approach should be applied to passenger flights because unlike with ticket taxes, a flight tax will incentivise high load factors, reflect the full load of the aircraft – passengers and freight – and discourage practices such as airlines mounting phantom flights merely to meet the 80/20 rules protecting grandfathered slots. In addition per flight taxes can be set to take account of CO2, noise and NOx emissions by aircraft type and length of journey.

Fuel taxation on intra-EU flights

An even better approach is to tax fuel on intra EU flights as well. European governments are now considering how this can in practice be implemented. The ETD (Energy Tax Directive of the EU) has since 2003 permitted the taxing of fuel uplifted for intra EU flights – provided it is done on a bilateral basis. But no member states have yet proceeded to do so. One might think that The Netherlands would be keen. It was the only member state to proceed to tax domestic aviation fuel when the ETD permitted this for the first time in 2003. Such a fuel tax on intra EU flights would discourage LCCs from cluttering Schiphol with ever cheaper flights to Malaga as the ticket price would have to rise by about 20% to cover the tax. Not passing the EUR 14 tax on to passengers would put LCCs immediately in the red. If aviation kerosene was

[6] Eurostat

taxed at the excise duty rate applied by many states to road diesel (often over 60 cents/litre), LCC ticket prices to Malaga would have to increase by about 40% with the added benefit that all the revenue would go to the Dutch budget enabling better social services etc, lowered personal tax rates or start to finance an obligation to begin blending zero carbon electrofuels into kerosene.[7] Of course KLM would also have to pay these fuel price increases on its short haul flights within Europe to connect to a longhaul flight at Schiphol. And on the short haul flight from Schiphol back home as well, as most airline traffic on network carriers like KLM are return journeys. So that's an additional EUR 28 per transfer passenger when, according to IATA, EU airlines make on average a profit of EUR 8-9 per passenger.[8] All of a sudden KLM's reliance on high levels of feeder/transfer traffic from/within Europe starts to look a whole lot less attractive financially. To make sure that all that transfer/transit traffic connecting to a longhaul sector over Schiphol is finally required to account for the externalities created over the entire journey, beyond EU departing flights should be subject to per flight taxes as is being proposed for cargo flights. This because until EU governments act to remove the mutual fuel tax exemptions in their aviation treaties with foreign governments, taxing fuel uplifted for flight to destinations beyond the EU is prohibited by law. These are laws that EU states signed up to with foreign governments well over 50 years ago in most cases and still haven't got around to changing. These same governments nevertheless seem ever so eager to sign up to the ICAO CORSIA which, if Europe adopts, will have no impact on aviation emissions nor contribute to the EU's GHG reduction commitments under the Paris agreement.

Conclusion

Lelystad airport is surplus to requirements. Once aviation is properly priced - and the Dutch and other governments are now considering this option – the impact on operations and demand for flights will be significant. The "capacity crunch" at Schiphol will be no longer.

Further information

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[7] Based on T&E in-house calculations. See note 5 above.

[8] Operating profit per regions, IATA