



# ALLEGHENY INSTITUTE

FOR PUBLIC POLICY

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December 14, 2016

Policy Brief: Volume 16, Number 53

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## A WOW Question: At What Cost?

**Summary:** The announcement of two new international airlines beginning service at Pittsburgh International Airport in 2017 has been applauded by local officials and the media. However, these two new airlines will be receiving taxpayer subsidies to operate here. If history is any guide these subsidies will likely end up being another misuse of taxpayer money.

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Recently Pittsburgh International Airport (PIT) announced the arrival of two new airlines to the fold, WOW Air from Iceland and Condor Airlines from Germany. Both are discount no-frills airlines that will fly to Europe beginning in 2017. While the media hails this move as a big positive for PIT, it must be asked at what cost and what effect on the airport's lackluster passenger count?

Both airlines are reported to begin receiving public subsidies to operate at PIT in 2017. News accounts place the amounts at \$800,000 over two years for WOW and \$500,000 for Condor. In addition neither airline will have to pay landing fees for those years, which according to the news story, is a cost reduction given to all new airlines beginning service at PIT. The money for the direct subsidy will come from the State's Department of Community and Economic Development.

It has been noted in the media that subsidies to entice airlines is a regular practice. PIT bested Cleveland-Hopkins International Airport for both airlines as Cleveland reportedly offered WOW \$400,000 over three years. No word on what Cleveland offered Condor.

Delta launched the PIT to Paris summer route with \$9 million in subsidies from the Allegheny Conference on Community Development and the state (*Post-Gazette*, Sept. 23, 2016). Baltimore-Washington International subsidizes British Airways routes to London. However, just because airports are eager to boost their portfolio of destinations served does not mean that taxpayer dollars should be used to do so. And even if the subsidies are enough to bring these carriers to the airport, ultimately it will be passenger demand that will keep them long term. The Condor route to Frankfurt is to be seasonal and its future will depend upon local demand for the flight.

We have commented in many *Policy Briefs* about the troubles PIT has had, not only financially, but with passenger counts as well. For the most recent month available, September, the airport boasted an increase in passenger traffic, (combined enplanements and deplanements), of 45,142 compared to the same month a year earlier—an increase of 6.8 percent. Since 2010 only three months had better year-over-year growth: November 2015 (7.0%), February 2011 (12.2%) and January 2011 (8.9%).

But when taken in context of similarly sized airports, September's year-over-year gain is quite modest. As outlined in *Policy Brief, Volume 16, Number 12*, for 2014, PIT was the 46<sup>th</sup> busiest airport in the country as designated by the Federal Aviation Administration (FAA). PIT ranked higher than the airports of Cleveland, Indianapolis, Milwaukee, and Columbus, 47<sup>th</sup> through 50<sup>th</sup>, respectively, but not as high as Sacramento, San Antonio or Fort Myers, Florida (42<sup>nd</sup>, 44<sup>th</sup>, and 45<sup>th</sup>).

Of these comparably sized airports (in terms of traffic), PIT's September year-over-year growth bested Sacramento (5.5%), Cleveland (4.9%), and Fort Myers (-3%). At the same time however, it fell below that of Columbus (12.6%), Indianapolis (9%), Milwaukee (8%), and San Antonio (7.4%). It appears that September was a fairly active month for air travel overall and PIT may have benefited from the national upswing in passengers travelling. There is no apparent, ready explanation for the September jump in travel.

On a year to date basis, the first nine months of 2016 saw a total increase in passenger traffic at PIT of nearly 130,000 over the same period in 2015—an increase of 2.1 percent. However, that growth rate was better than only San Antonio (1.4%) in our list of comparable airports. The year to date growth for the eight airports ranges from 1.4 percent to 9.3 percent (Indianapolis). The average growth rate for the comparable airports is 4.9 percent, more than double PIT's growth over the nine months. Note that the gain in passenger count in September 2015 to the count in September 2016 is much higher than the year to date increase, suggesting that unless the monthly pickups continue, September will in retrospect likely be considered an anomaly.

The crucial question: Will the addition of two new airlines with destinations to Reykjavik, Iceland and Frankfurt, Germany substantially improve the passenger count at PIT? Consider that Delta's seasonal flight to Paris remains just that; seasonal after several years. In June of this year, Delta announced it was paring the days the flight will be offered from seven to five days, including taking off at a later time to accommodate leisure travelers instead of business passengers. Another important question: Will flights to Frankfurt take some passengers away from Delta's Paris flight because Paris was merely an entrance point to Europe for them or not their primary European destination?

What's more, when American Airlines recently eliminated a flight to Los Angeles, an airline spokesperson called the route "underperforming" and unprofitable. This is a pointed reminder that unless travelers pack the planes on their way to Iceland and Germany, the commitment of the airlines is unlikely to extend beyond the subsidy period. Success might also depend heavily on the layover times in Reykjavik for travelers going

on to other WOW destinations and the number and location of other destinations on the continent.

In the long run passenger demand will dictate the flights and destinations of the airlines. Dangling subsidies in front of airlines as an incentive to bring them here is at best a risky exercise. Who benefits from these subsidies? Pennsylvania taxpayers? Not if all the subsidies do is allow vacationers to travel at lower than market based cost. It remains to be seen whether any related new jobs in the region or state ever produce the taxes needed to cover the subsidy.

Once the subsidies are gone, too often so are the airlines. To repeat a cautionary comment from previous *Policy Briefs*; until the Pittsburgh area economy begins to make major strides in job and income growth and climb out of its recent doldrums, the number of passengers travelling through Pittsburgh International is unlikely to grow much.

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