



The Airport's Misguided \$3 Million Subsidy to British Airways

Summary: On July 25, Pittsburgh International Airport (PIT) officials announced that British Airways would begin nonstop flights from Pittsburgh to London's Heathrow airport. \$3 million in subsidy is being provided to the airline to offer service at PIT. This *Policy Brief* describes the deep flaws in the subsidy of British Airways.

British Airways is set to begin flights in April 2019 with one flight per day on Tuesdays, Wednesdays, Fridays and Saturdays. Flights will arrive at 8:15 p.m. and depart at 9:50 p.m. PIT will become the 27th U.S. destination for the carrier and is by far the smallest airport in terms of enplaned passengers (ranked 47th in the U.S. in 2017).

To get the airline to resume operations at PIT after a long hiatus the Airport Authority will pay British Airways \$1.5 million each year for two years. This after handing WOW Air \$800,000 to fly to Iceland and on to Europe and \$500,000 to Condor for seasonal flights to Germany. Note, too, that American Airlines offers one-stop service to London through Philadelphia and Charlotte with several flights to choose from each day. Those airports are American Airlines hubs and can gather travelers from many cities to fill planes flying to Heathrow. Then, too, American is already posting fares at PIT to match the British Airways fares for next April.

The obvious question—will the British Airways service create new passengers at the airport or take them away from existing flights, some of which are receiving airport subsidies? According to the British Airways spokesperson, there is pent-up demand for travel to Europe. If that's the case, why are subsidies necessary and why haven't U.S. airlines jumped at the chance to offer nonstop flights to serve the pent-up demand? Something does not add up here.

Indeed, the only possible justifiable reason to subsidize any carrier is to create demand by foreigners to fly to PIT. Subsidizing passengers to fly out of the country on a foreign carrier to spend money as tourists abroad is folly.

And that leads to the worst part of the airport's presentation announcing the subsidy arrangement with British Airways. Airport executives said the authority estimates there

will be a \$57 million economic impact resulting from the British Airways presence. To be clear, the economic impact estimates were provided in a study prepared by the EDR Group of Boston.

Apparently, most of the estimated impacts in the EDR study are based on assumptions about non-U.S. passengers using the flights. The study does not provide figures for spending on baggage handling, gate services, or purchases of fuel, food and beverages. EDR assumes 40,562 arriving and departing passengers annually on 234 roundtrips (81 percent occupancy). Presumably those figures are from British Airways. Of those, 29 percent (11,763) are assumed to be from the United Kingdom or other Europeans whose destination is PIT and are not connecting to another city. How the 29 percent figure was determined is not explained.

Spending by the UK/European visitors in the Pittsburgh region seems to account for the bulk of the economic impact of the carrier's flights. All told, the study predicts the 234 yearly roundtrips will lead to 564 added jobs in the 10-county Southwestern Pennsylvania region with average worker income of \$37,776 and a total labor income boost of \$21,306,000. This will be accompanied by a value-added increase of \$33,879,000 according to the study. The \$57 million economic impact figure quoted by airport executives is for gross sales and not net value produced.

Before evaluating the study estimates in more detail, it is important to note three large potential differences in economic impact depending on passenger count assumptions. Obviously, the total of 40,562 passengers matters because it will determine the amount of services needed at the airport. The assumption of 29 percent (11,763) non-U.S. passengers is critical because that drives the bulk of the local economic impact. And third, the British Airways passenger count assumptions do not factor in the percentage of travelers that would have flown other airlines to and from England or Europe.

Note that most of the projected new jobs in the study will be at restaurants and hotels as a result of the increase in foreign visitors to the region. Bear in mind, however, that 11,763 visitors to the region over 365 days is an average of only 33 per day. Even if they stay seven days on average that represents only 82,000 hotel or other accommodation room nights. The city alone has around 2.6 million room nights available per year and the rest of the region likely has at least half that many. Thus, UK/European visitor stays would make up only two percent or so of the region's available room nights.

And in that regard, it is highly improbable that a two percent uptick in room nights would create a commensurate number of new hospitality jobs. Indeed, stats from "The Economic Impact of Travel and Tourism in Pennsylvania 2016", prepared by Tourism Economics a division of the Oxford Economics Company, show that for Allegheny County in 2016, on average, \$143,297 was spent by tourists/travelers for each job in the tourism related industries. If that figure is still anywhere close to the present ratio, the 11,763 visitors would have to spend over \$80 million, or \$7,000, each to produce 564 new jobs.

What's more, most newly created jobs resulting from these foreign travelers would likely be low-paid hotel room attendants and restaurant wait staff for which pay levels are about \$23,000, a far cry from the \$37,776 pay level used in the EDR report. The figure EDR used for average worker pay would include salaries of managers, sales reps, engineers, security, repairmen, etc. It seems extremely unlikely that additional staff in these higher paid categories would be needed to handle an average of 224 people per night—assuming seven-day stays per visitor—at all the hotels in the 10-county region or even if they are concentrated in Allegheny County hotels.

And it gets worse. There is no estimate of how many of the 28,800 local passengers will be additional travelers to the UK/Europe or will be passengers that would have traveled on other airlines such as the already subsidized and very inexpensive WOW Air or from folks who would have flown one stop on American through Philadelphia or Charlotte—or United through Newark or Dulles. But it is almost certain that a large percentage will be passengers that would have taken other carriers. Likewise, it is not known how many Europeans will use British Airways instead of American or some other airline to come to Pittsburgh. If as few as half of Pennsylvania travelers to Heathrow are net new passengers and half of UK visitors are net new travelers that would mean the net effect of British Airways flights would be 15,000 more locals headed to London with 5,900 additional UK or other Europeans coming to the Pittsburgh area. Other assumptions about the ratio of new additional to total passengers could be made but this one will serve to illustrate the point.

If 5,900 is a better measure of the net additional UK/Europeans visiting Southwestern Pennsylvania, then the impact on the economy will be far lower than even a realistic estimate of the impact of 11,763 visitors, which the EDR estimate clearly was not. Consider, too—assuming foreign visitors to Southwestern Pennsylvania spend about the same as local travelers spend abroad—that the outflow of dollars from the region to foreign-owned enterprises caused by 28,800 local travelers flying to London and perhaps visiting other European destinations will be far greater than the inflow of money associated with 11,763 foreign visitors to the region. Using the EDR estimate of 29 percent of the passengers to be UK/Europe residents—which seems high—then U.S. residents make up 71 percent, a ratio of almost 2.5 to one. Thus, spending by Pennsylvania travelers would be 2.5 times greater than foreign British Airways travelers to the Pittsburgh region. That is not a win for the region. Indeed, it is just the opposite. Moreover, if the percentage of UK/European travelers turns out to be only 20 percent of total, the ratio of U.S. spending abroad to foreign spending in the region rises to four to one. And so forth if the percentage of foreign passengers is even lower.

Then too, the money spent by local residents to fly on British Airways will end up in that airline's bank account. And for that matter so will all the fares purchased by UK/European passengers. Using British Airways' estimate of 28,800 Southwestern Pennsylvanians (and maybe some from out of the area) who will pay a low-side estimate of \$1,000 or more for the trip means British Airways will collect \$28,800,000 in fare revenue from area residents. And those dollars are leaving the region even before the travelers land in England. Note that British Airways' basic economy fares at \$716 will be

available but these fares are accompanied by fees for luggage. And, the passengers cannot select their seats and must board last. Prices are significantly higher for other seat classes. The \$1,000 figure is used for demonstration purposes as an estimate of average fares but the actual average is likely to be significantly higher and the regional outflow of dollars higher as well.

Even if half the passengers would have flown other airlines absent the arrival of British Airways, the British carrier would still collect \$28,800,000 in fare revenue. And if average fares for the other carriers are close to British Airways, they would lose almost \$15 million in revenue. Obviously, any reductions in U.S. airline revenue will lower the economic benefits of the arrival of British Airways.

The fact that PIT is not a major hub and that the area is not world famous as a tourist destination—certainly not on a scale such as Orlando, Miami, Las Vegas, Tampa, Phoenix or even New Orleans—makes it harder to induce UK/Europeans to fly to PIT as tourists.

All these factors make the airport's \$3 million misguided taxpayer investment unlikely to ever pay for itself unless British companies with significant investment and potential employment that otherwise would not have located facilities in the region decide to place operations in Southwestern Pennsylvania. And in the meantime, with the most probable effects of the subsidy being to damage competitors while increasing the net outflow of resources from the region, it is hard to see any upside to handing over tax dollars to the airline.

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