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Did public subsidies kill Delta at PIT?

By Colin McNickle

So, what's the truth about the effects of the Allegheny County Airport Authority using public dollars to subsidize airlines flying into and out of Pittsburgh International Airport (PIT)?

That such actions have deleterious consequences that those engaging in them refuse to recognize, concludes a new analysis by scholars at the Allegheny Institute for Public Policy.

"It is axiomatic that when subsidies are given to induce new airlines to offer flights out of PIT to specific destinations there will be consequences for existing carriers, with especially severe consequences if the subsidized flights are in direct competition with existing flights," say Frank Gamrat, executive director of the Pittsburgh think tank, and Jake Haulk, its president-emeritus and senior advisor.

"More generally, offering subsidies to induce any carrier to start a new route is an admission that, unsubsidized, the route is not profitable because basic demand is not there," the Ph.D. economists note (*in Policy Brief Vol. 18, No. 41*).

"Unfortunately, this is a lesson the authority seems unwilling to learn or acknowledge," Gamrat and Haulk add.

The Airport Authority – armed with state gambling and shale gas proceeds and assorted government grants and/or loans -- has been on a tear in recent years, prosecuting the philosophy that if you subsidize airlines they not only will come to Pittsburgh but also prime the pump of economic progress.

But in the case of Delta Air Lines, subsidizing direct competitors offering new European flights certainly appears to have led to it pulling out of the Pittsburgh market.

In 2017, the Airport Authority began subsiding European routes served by WOW Air and Condor. Then, this past July, the authority announced a $3 million public subsidy to British Airways to begin non-stop flights between Pittsburgh and London beginning in April 2019.

But less than a month later, on Aug. 22, Delta, which had been providing the only non-stop flight from PIT to Europe – to Paris between 2009 and 2017 -- announced it was ending that service “due to increased transatlantic capacity in the Pittsburgh market.”

“Loosely translated, there are too many seats and not enough passengers to fill them,” Gamrat and Haulk say.

And do remember that when the British Airways flights were announced in July, an airline spokesman cited a supposed pent-up demand for travel from Pittsburgh to Europe.

Indeed, data from the U.S. Department of Transportation’s Bureau of Transportation Statistics show Pittsburgh International fared quite well with total origination and destination *passengers* nearly doubling from 2015 to 2017, with nearly half of those passengers flying on the subsidized WOW and Condor flights. Delta recorded only minor gains.

But in the same period, PIT’s total origination and destination *flights* rose a far more modest 19 percent. And then there’s the critical metric of “load factor,” the ratio of passenger miles flown to the number of seat miles available.

PIT’s international flight load factor for PIT-originating flights was 70.72 percent in 2015 and the fifth-lowest in a sampling of 15 comparably sized airports, well below the all-airport rate of 80.64.

“It appears the assertion by British Airways that there is pent-up demand for international travel from Pittsburgh is not substantiated by PIT’s load factor for originating international flights,” Gamrat and Haulk say. “Even with subsidies to two new airlines, the planes are not as full as the national average.”

Given that there have been hefty increases at other midsized airports and overall growth in travel, some of Pittsburgh’s gains can be attributed to an increasingly robust national economy. That said, much of the increase in PIT’s flights and passengers were to/from Canada. The European passenger increase was closely tied to subsidized travel.

Absent those WOW and Condor subsidies, passenger counts to Europe would *not* have jumped; the British Airways claim of pent-up demand is not accurate in any rational economic sense.

In the process, the subsidy-happy Airport Authority undermined the Delta route to France – remembering that Delta received its own subsidy from the Allegheny Conference on Community Development and the state between 2009 and 2011. But once the subsidy ended, the flights were curtailed to seasonal, then canceled this year.

“The irony is not lost,” Gamrat and Haulk note, posing a series of important questions:

Will these other subsidized airlines follow suit?

Will they stay as long as the money flows and fold when the “pent-up demand” fails to materialize?

And if there is actual real demand for travel to Europe, is the Airport Authority unwittingly discouraging domestic carriers from offering the service?

"Subsidizing private companies is folly," Gamrat and Haulk remind. "Taxpayers should not be assuming the associated risk. Recall that PIT receives gaming money from the state that otherwise could be much better used for property tax relief.

"If demand is truly there, the airlines will create supply and assume the risks attendant to the commercial-carrier business."

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