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Are public subsidies propping up international travel at PIT?

Summary: From 2015 through 2017, international travel from Pittsburgh International Airport has increased from both a passenger and number of flights perspective. However, this may be more a result of subsidizing airlines flying to Europe than a natural demand for travel. This is borne out by the fact that Delta, once the sole provider of nonstop flights to Europe, has eliminated its only seasonal flight to the continent in the face of new, and subsidized, competition.

On July 25, Pittsburgh International Airport (PIT) announced a $3 million subsidy to British Airways to begin non-stop flights from Pittsburgh to London's Heathrow Airport in April 2019. One month later, on August 22, Delta Air Lines announced it was ending its flights from Pittsburgh to Paris. From 2009 until 2017, Delta provided the only non-stop flight from PIT to Europe. But in 2017 the Allegheny County Airport Authority began subsidizing other airlines to offer flights to Europe—WOW and Condor Airlines in 2017 and British Airways in 2018. The latter two are non-stop and, apparently in Delta's view, are creating too much low cost competition for their Paris flight to remain profitable, either through having to suffer declining passenger count or because of the necessity to lower fares to maintain volume.

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. 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. Unfortunately, this is a lesson the authority seems unwilling to learn or even acknowledge.

Indeed, in a news release the official explanation from Delta is that the route was canceled "due to increased transatlantic capacity in the Pittsburgh market." Loosely translated, there are too many seats and not enough passengers to fill them. Compare that with the remarks from a British Airways spokesperson just one month prior to Delta's announcement that there is pent-up demand for travel from Pittsburgh to Europe (*Policy Brief, Vol. 18, No. 31*). To get some clarity, this *Policy Brief* examines international passenger and flight statistics from 2015 to 2017 (the latest data available) courtesy of the U.S. Department of Transportation's Bureau of Transportation Statistics.

The sample analyzed includes 15 airports of similar size to PIT—those ranking from 38th through 52nd by all (domestic and international) enplaned passengers. PIT ranks as the 48th largest airport ranked by total enplanements. Note that "international passengers" counts all passengers traveling to another country and not just Europe—including Canada, Mexico, Caribbean countries, etc.

Regarding international passenger growth, PIT fared quite well with total origination and destination *passengers* increasing from just over 103,000 in 2015 to just over 200,000 in 2017. WOW airlines' flights to Iceland with connections on to Europe began in 2017 were highly touted and, more importantly, subsidized, had a good start accounting for over 41,100 of the 97,000 increase compared to 2015.

Then too, three Canadian airlines (Air Georgian, a subsidiary of Air Canada, Jazz Aviation and Porter Airlines) also contributed substantially to the two-year rise in passengers with a net increase of over 36,000 passengers from 2015 to 2017 (Air Georgian began service in 2016 and Jazz, after a full year in 2015, greatly reduced operations beginning in 2016.) Allegiant, American and Delta had minor gains in their international passenger count over the two-year period.

PIT's 94 percent jump in international passengers ranked third in the 15-airport sample behind San Jose (117 percent) and Milwaukee (110 percent) and just ahead of Raleigh (70 percent) and Cleveland (50 percent). From 2015 through 2017, the majority of airports in the sample had growth in international passengers with the exception of Santa Ana, down 24 percent, San Antonio, down 21 percent and San Juan, Puerto Rico, down 9 percent. Bear in mind that San Juan was hit with a major hurricane in 2017. For all commercial airports across the United States, the international passenger growth rate was 11 percent.

For the number of origin and destination *flights*, PIT's growth was much more modest than passenger counts at just 19 percent, going from 3,036 flights in 2015 to 3,617 in 2017. WOW airlines lead the way adding 252 flights in 2017. Porter Airlines added 175. American added 65 international flights to its schedule and Condor added 42.

PIT's growth of 19 percent for the two-year period ranks sixth-strongest in the sample, behind San Jose (124 percent); Raleigh (40 percent); Milwaukee (36 percent); Cincinnati and Kansas City (22 percent each). For all airports in the country, the growth in international flights was 7 percent from 2015-2017. Six airports in the sample had decreases in the number of flights, including Columbus (-4 percent); Cleveland (-7 percent); San Juan (-16 percent); Santa Ana (-22 percent) and San Antonio (-23 percent).

So it *appears* PIT is doing quite well with growth in international passengers and flights. But keep in mind there has been growth at most similarly sized airports and for airports as a whole across the nation. Also bear in mind that roughly half of the flight count increase at PIT was accounted for by *subsidized* carriers WOW and Condor.

Another factor to consider is the "load factor," which is defined as the ratio of passenger miles flown to the number of seat miles available.

The *load factor* for international flights originating at PIT was 70.72 percent in 2015 and was the fifth-lowest (10 were higher) in the sample of 15-similarly sized airports and well below the all-airport rate of 80.64. By 2017, the origination load factor for international flights out of PIT increased 6 percent to 75.30 climbing to sixth best (nine were lower) in the sample—but still below the load factor for all airports. Interestingly, six of the 15 comparably sized airports experienced declines in the load factor of originating international flights from 2015 to 2017. But it is worth noting that only two of the airports in this sample—Kahului, Hawaii (88.17) and Sacramento (84.36)—are above 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. Even with subsidies to two new airlines, the planes are not as full as the national average. Clearly, there has been growth in international passengers and flights at PIT over the last couple of years. But given the hefty increases at other midsized airports and overall growth in travel, some of the gains can be attributed to an increasingly robust national economy.

Moreover, based on the carrier passenger and flight data presented herein, much of the increase in flights and passengers were to/from *Canada*. The European passenger increase was closely tied to subsidized travel. The clear implication is that absent the WOW and Condor subsidies, passenger counts to Europe would *not* have jumped and that the British Airways claim of pent-up demand is not accurate—not in any rational economic sense.

Yet the Airport Authority keeps handing out subsidies to airlines flying to Europe and other airlines offering flights to previously unserved domestic destinations (OneJet for example). In the process, they undermined the Delta route to France—remembering that Delta received its own subsidy from the Allegheny Conference on Community Development and the state for the first couple of years (2009-2011). Once the subsidy ended, the flight continued on a seasonal basis, before shutting down this year. The irony is not lost.

Will these other subsidized airlines follow suit? Will they stay as long as the money flows and then 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. 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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