



### WOW, what a turn of events at PIT

**Summary:** Bad news continues to come for Pittsburgh International Airport in 2018—from airlines not meeting expectations or others canceling flights or ceasing operations. The common thread for these events is the presence of subsidies which were offered that distort the marketplace.

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Pittsburgh International Airport (PIT) is having a very tough run. At the end of November the Allegheny County Airport Authority announced that Qatar Airways' cargo flights from PIT failed to generate their projected levels of cargo carried and thus obligated PIT to pay a "support fee" to the airline. Then it was announced that WOW Airlines, another airline collecting PIT subsidies, is not offering flights to Iceland and from there to Europe after mid-January 2019. This comes on top of the news just a few months ago that PIT is suing OneJet to recoup a loan. Shortly after that suit was filed, OneJet suspended all flights. Then Delta announced it was cancelling its seasonal flights to Paris. It's fair to say that PIT has been hit with a run of very bad news during the second half of 2018.

We weighed in on the OneJet saga (*Policy Brief Vol. 18, No. 32*) and the decision of Delta to stop its seasonal flight to Paris (*Policy Briefs Vol. 18, Nos. 31 and 41*) which occurred shortly after the Airport Authority announced it was giving a \$3 million subsidy to British Airways to provide service to London beginning in the spring of 2019.

The Qatar Airways case is a bit different in that instead of receiving a subsidy to transport passengers to destinations previously unserved by other airlines—the Airport Authority's justification for subsidizing OneJet, WOW, British Airways, Condor, etc.—Qatar was subsidized to carry cargo. Before Qatar began operating at PIT in October 2017, the announcement of the added cargo service was accompanied by the usual enthusiasm and the promise of turning PIT into a logistics center. News coverage of Qatar's cargo service even mentioned that it might aid in attracting Amazon to the region. Evidently, it was not a factor since Amazon is not coming to Pittsburgh.

Consider this: in terms of cargo tonnage, PIT is ranked as the 53<sup>rd</sup> largest airport in the country by the Federal Aviation Administration, based on landed weight in 2017 (470.1

million pounds—roughly 235,000 tons). Ten years earlier, in 2007, the airport ranked as the 48<sup>th</sup> busiest with 492.2 million pounds (246,100 tons) of landed cargo. While things may be looking up—2017’s landed cargo weight was 4 percent better than in 2016—it still has not caught up to where it was before the last recession.

The Airport Authority took a gamble on Qatar Airways being able to boost PIT as a cargo center and lost. From the news report in September 2017 it was claimed that Qatar planned to transport 200 tons of cargo to and from Pittsburgh each *week* from Doha to Luxembourg to Atlanta and then Pittsburgh. Bear in mind that at the 2017 tonnage level, PIT averaged over 4,500 tons of landed cargo per week. So at the planned 200 tons per week Qatar would account for about 4 percent of PIT cargo handled.

Under the arrangement the authority was obligated to pay Qatar a “support fee” of \$744,000 every six months if the carrier failed to average 480 tons of cargo per *month*—*about half the planned 200 tons per week*. It never came close to 480 tons. The authority paid the airline two installments for a total of \$1.48 million for the year. According to recent news, the best month for the airline netted only 180 tons (October 2018) and before that 163 tons (October 2017). In June 2018 only 99 tons were carried with a further drop to only 61 tons in September. The route was even changed to go through Chicago instead of Atlanta and two sales agents were hired to boost cargo totals and it still was not enough.

While Qatar is still operating at PIT, presumably without the subsidy, there have been news reports stating “that could potentially change if another deal is reached between Qatar and the authority.”

The authority still has dreams of being a logistics center—but at what cost? The other, non-subsidized cargo haulers such as FedEx and UPS are at PIT and offering service because the market is strong enough they can do so profitably and without subsidies. How will they react if Qatar is given additional subsidies to compete with them? Will they ask for subsidies as well? The Airport Authority may have painted itself into a corner in their attempt to manipulate the market.

WOW Airlines’ decision to stop offering flights past mid-January was not a surprise but speaks to the lack of real demand for flights to Europe.

WOW has already stopped flying out of Cleveland and Cincinnati, with service lasting only from May to October from the latter, and will cease operating out of St. Louis in January, again after a brief stay of just eight months.

According to a Cleveland news report, WOW’s statement noted that the routes did not perform as well as hoped and that load factors were not achieving target levels. Similar reasoning was used when pulling out of St. Louis while high cost and low profits were reasons for leaving Cincinnati.

WOW committed to Cleveland in August 2017, shortly after committing to PIT (June 2017). Both airports subsidized the airline. Cleveland offered \$1 million over two years while PIT offered \$800,000 over two years. St. Louis also offered \$800,000 over two years but due its short time in that city, WOW failed to qualify for the agreed-upon subsidy. News concerning the cessation of Cincinnati flights did not mention whether subsidies had been given to the carrier.

In Cleveland, WOW competed head-to-head with Icelandair with bad results. According to another Cleveland news article, Icelandair was in talks to purchase WOW but those talks failed and the merger was called off in late November, just before WOW announced it was cancelling service at PIT. The article notes that with the failed merger, WOW's "future is up in the air."

So after an aggressive expansion campaign in 2017, and collecting taxpayer subsidies, WOW's future is very much in doubt at the end of 2018. It seems unlikely the airline will resume flights at PIT anytime soon—if ever.

Propping up business enterprises with public funds is not only a high-risk practice but it represents interference in the marketplace and begets ever more subsidies undermining the role of markets. This is especially egregious in the effort by PIT to artificially create travel to certain destinations by underwriting the cost of the fares.

It is folly on its face. Because to be truly successful in terms of sustaining adequate passenger loads for the flights, the subsidies would have to go on forever given that the real underlying demand is not there. Perhaps the Airport Authority will learn a valuable lesson from 2018's embarrassing failures and all the money that it has wasted.

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