



# The effect of low-cost air transportation on the local economy: Evidence from Southern Italy

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## A B S T R A C T

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This paper investigates how the entry of low-cost carriers in Southern Italy has supported local and regional economic development in different ways: spreading the traffic demand during the year, increasing the rate of international tourism, generating new jobs and improving the income of the area. The evidence of traffic de-seasonality is quantified by an index, resulting in a decrease to all those airports specialized in low-cost services. Additionally, an assessment shows that the net impact driven by a low-cost route on the local economy is about €14.6 million per year.

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## 1. Introduction

Low-cost carriers (LCC) introduced a new business model into the aviation sector, based on higher levels of operational efficiency mixed with low fares. This in turn has generated a shift from air travel being a just-for-few mode to being a commodity, resulting in increasing traffic (Siciliano and Vismara, 2007). The development of low-cost carriers in Europe has led to many unexpected benefits, not just for the regional airports that experienced a substantial increase in their traffic growth, but for the local economies around them. In particular, the gradual spreading of the LCCs has supported the “discovery” of many outlying areas by tourists.<sup>1</sup> In addition, low-cost airlines can help to diversify, de-seasonalise and boost tourism products, which in turn can improve the quality of these products and the attractiveness of a region for tourism and other industries (European Union Committee of the Regions, 2004).

Southern Italy has a high potential for tourism but it has few international passengers landing at its airports compared to much of the rest of the country leading to lower numbers of international visitors compared to other Mediterranean regions similar in size and attractiveness such as Greece, Southern Spain, Croatia or Mediterranean France (Manente and Andreatta, 2006). Poor infrastructure in the region is a contributing factor that limits mobility within the region and accessibility to it. Improvements in air

connectivity are considered a potential tool to increase the visibility of the *Mezzogiorno*<sup>2</sup> abroad.

Air transportation can be a substantial employer and generator of economic prosperity in a region. The European Union (European Union Committee of the Regions, 2004) assigned to regional airports and air transportation is a very important role as a source of economic welfare, relying on their capability of improving accessibility and cohesion between the member states.<sup>3</sup> The Assembly of European Regions (European Union Transport Report, 2004) argues that “the cooperation between low-cost carriers and regions is successful by contributing enormously to European integration and regional development. (...) Regions are experiencing increased economic growth in sectors such as tourism and witness the development of small and medium-sized enterprises in a wide range of commercial sectors”. Local economies have seen upturns because of increased employment, more visitors spend locally and air services are an attraction to mobile businesses that value frequency and cost-effective air travel when deciding on locations (Percoco, 2007). On the aggregate demand side, accessible airports can exert multiplier effect on a territory through secondary

<sup>2</sup> The “Mezzogiorno” includes the Southern regions of Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, and Sardegna.

<sup>3</sup> “The development of low-cost air services providing point-to-point inter-regional air services from regional airports can act as catalysts for regional economic development in accordance with the economic and social objectives of the Commission’s regional framework for territorial cohesion. The development of the network of low-cost point-to-point inter-regional air services operating from regional airports can be a major factor in raising the economic competitiveness of the regions, and therefore the EU (European Union Committee of the Regions, 2004).

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<sup>1</sup> In Katowice (Poland) the initiation of low-cost air services created 2000 new jobs and regional authorities assessed that every 100 000 passengers added \$1 million to the local economy. The regional rate of unemployment decreased from 15% to 10% (York Aviation, 2007).

and tertiary multiplier effects (Graham, 2003). Despite the potential economic importance an airport may have for a region, the topic has been little studied (Brueckner, 2003). One difficulty in conducting impact analysis is that airport traffic can lead to economic development, but also economic development leads to airport traffic; the direction of causation is not entirely clear (Green, 2006).

For Southern Italy's regions, where railroads are wanting and poor infrastructure represents an obstacle for local economic growth, air transportation seems to be one of a few promising stimulate short-run economic performance.

## 2. Effect of low-cost air transportation on the local economy

The liberalisation of air transportation in Europe<sup>4</sup> has brought radical changes to the structure of air transport markets. First, greater competitive pressures have led an erosion in the average yields earned on seats; effectively fares have fallen (Baccelli and Senn, 2004). The impact has been reinforced by the advent of low-cost airlines that have mixed low fares and, by often using secondary airports, high standards of punctuality, and safety LCCs are able to stimulate new demand in addition to diverting existing traffic. Skeels (2005) finds for example that only 37% of LCC passengers represent shifts within the airline market, while 59% are new demand, and of the latter, 71% would not have travelled with out LLC fares, and the remainder would have used alternative means of transport.

The empirical evidence shows that low-cost services have in some cases supported local economic development, often by increasing a region's tourism.<sup>5</sup> Mansson (2005), for example, shows that the economic and occupational impact resulting from the launch of a new low-cost service in Malmö-Sturup was significant: just one Ryanair's scheduled flight generated more than 200 job, creating an important tourist effect on local regional economy and tax revenues for the local administration.

A significant positive effect on a local economy can result from low-cost services reducing seasonal fluctuations in traffic flows; LCC services can make "off-season" travel to a region more attractive. The Italian evidence shows that regional airports specialized in low-cost services have not only experienced a growth in the number of passengers, but more even monthly traffic flows (Fig. 2). These effects are strongest in areas where regional airports treat low-cost operations as their core business. Looking at the airport systems of Rome (Ciampino and Fiumicino), Milan (Linate and Malpensa) and Venice (Treviso and Tesserà) shows that low-cost flights have reduced seasonality in passenger demand. Comparing the growth of the regional airport with that at the hub of each airport system, one finds that from 2000 to 2006, all the regional airports increased their traffic dramatically while the main hubs did not change, remained fairly static in terms of their traffic – for example in the case of Rome, Ciampino was up 514% whereas Fiumicino's traffic only increased by 15% and similarly for Venice, Treviso was up by 387% but Tesserà by only 53%. The dynamic of reduced seasonal variations in demand stimulated by the presence of LCCs can be quantified using an index (Eq. (1)) of the standard deviation of the monthly flows of traffic (Fig. 1):

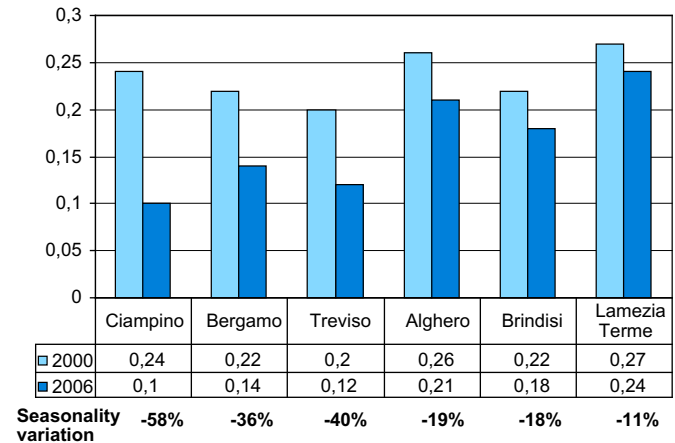


Fig. 1. Seasonal index of Italian regional airports: before and after LCCs.

$$I_{\text{seas},j} = \sqrt{\frac{\sum_{j=1}^{12} (f_{\text{PAX},j} - \bar{f}_{\text{PAX},j})^2}{11}} \quad (1)$$

Regional airports that are "bases" for LCC services register strong reductions in their seasonality index (down by 58% at Ciampino, by 40% at Treviso, and by 36% at Bergamo). The phenomenon is common across all airports offering low-cost flights, but even at airports such as Alghero (down 19%), Brindisi (down 18%) and Lamezia Terme (down 11%) that were traditional facilities for the legacy carriers, the degree of seasonal variation in demand has fallen.

## 3. Evidence from Southern Italy

In Italy, airport location and investment have generally been considered as part of regional development policy resulting in a proliferation of medium-sized and small airports spread over the country. Airports often generate spill-over effects that propagate to neighbouring regions. Most of the major airports are located in the northern part of the country and those that have seen the fastest growth in the last few years are specialized in low-cost services (Fig. 2).

Airports in the *Mezzogiorno* are responsible for less international traffic than those of Northern and Central Italy, being only 9% of the total, compared to 60% in the North. As Brueckner (2003) demonstrated, the capacity of an airport to stimulate face-to-face interactions and its impact on economic development is influenced mainly by its interconnectivity with other airports. This, coupled with low labour and facilities costs that are generally associated with more remote regions, can help encourage business to locate within a region. Comparing the low-cost airline accessibility index for Southern Italy's airports (Unioncamere Lombardia, CERTeT, 2006) with London (which has the largest concentration of international low-cost services), one finds that the *Mezzogiorno* is particularly inaccessible. Taking 100 as the low-cost air accessibility index for London, Naples is the most accessible city in Southern Italy with an index of 15.1.<sup>6</sup> From 2000 to 2006, the number of international arrivals into Southern Italy at airports that offer low-cost flights grew by between 20% in the area of Brindisi and 101% in Catanzaro (Table 1). The results indicate that the introduction of a low-cost flights has

<sup>4</sup> The liberalisation of European internal air transport market came into force on 1 July 1997, at the end of a long process of liberalisation culminating in "Three Packages" adopted from 23 July 1992.

<sup>5</sup> The development of Bergamo airport (50 km from Milan) has been driven mainly by low-cost carriers. Since 2001 to 2005, the airport's traffic has increased by 300%. Some estimates have put the overall multiplier effects on the regional economy as high as 785%. Additionally, compared to 2001, the number of job vacancies generated grew by 146% (Gruppo CLAS, 2005).

<sup>6</sup> Rating the European cities by this index indicates that Rome (42.7), Milan (39.8) and Venice (24.3) are the most accessible areas in Italy.

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