



Should regional airports get state aid?

COVID-19 pandemic has seriously disrupted the aviation industry including both airports and airlines. Many countries still keep stringent domestic and international travel bans to control the spread of the virus. The consequent sharp drop of passenger numbers and flights has started to impact the financial viability of regional airports. Unless a significant improvement of the current situation takes place, which is unlikely, financial bailout to some regional airports will be inevitable in the coming months.

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By Haihong Xu

It is not a question of if but how key regional airports should be bailed out

Some regional airports play a key role in connecting their regions with the outside world. While the needs for financial bailout of airlines are obvious to governments, similar needs from regional airports may emerge within the next few months. Even with normal operating conditions, regional airports tend to have a narrow profit margin. When the air traffic drops significantly, the financial burden and liquidity shortage will gradually become visible. We have been asked if such regional airports should get state aid. Our answer to that question is not if regional airports should get financial assistance but how regional governments can work with and provide financial aid to these airports to survive the crisis.

States should provide financial aid to key regional airports with liquidity shortage

Firstly, a regional airport is a critical element of regional transportation infrastructure. Some key regional airports enable airlines to transport people and goods conveniently and efficiently in and out of the regions. These airports promote the prosperity and economic development of the regions and enhance regional economic competitiveness. When evaluating the financial impact of regional airports, regional governments and authorities (“the Governments”) need to carefully assess the strategic importance of these airports based on well-defined evaluation criteria. These criteria take various macro-economic factors, such as GDP, export, labor market, consumption, investment and government spending into consideration. For regional airports that meet the Governments’ criteria, it will be of the Governments’ interest to rescue these airports regardless of their private or public ownership structure. Their tremendous social and financial impact on the macro economy is much more important than the financial risk to bail them out.

Secondly, the financial aid may actually save tax-payers money instead of wasting it. The traditional bailout practice often tends to raise worries about wasting tax-payers' money. However, times have changed. Due to the "lock-down" of major economies in the world, most of the countries/regions are facing a sharp increase in unemployment. Since airports' direct, indirect and induced employment is quite significant in their respective regions, one important reason to bailout these key regional airports is their contribution to job protection. As a result, every dollar spent in rescuing key regional airports may save more dollars in unemployment and other social benefit payments.

Figure 1: Key arguments for state bailout



Finally, like any major infrastructure project, regional airports involve material capital investment. If a regional airport has to suspend its operation due to lack of cash to keep its essential operation and employees, it may take months if not years to resume the normal operation and attract airlines to re-initiate their routes to and from that airport. The potential waste of leaving such a high value asset inoperable for a long time can be much higher than the financial aid that it will involve. Moreover, there will be another huge loss of opportunity for income and delay of macro-economic development due to such a suspension of airport operations.

The Governments need to ensure the financial transparency of the regional airport as a precondition for bailout

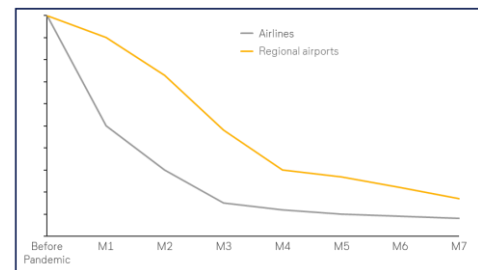
With key regional airports identified, the Governments need to set up preconditions for regional airports to be qualified for government financial aid. One of the key preconditions is that airports build up their creditability and financial transparency towards the Government. Unlike airlines, regional airports may still have certain levels of income from items like parking fees and rent of real estate. However, with the progress of the pandemic, such revenue streams may gradually diminish either due to the bankruptcies of tenants or the proactive waive of payment from airports themselves. After revenue streams reduce to a critical level, the risk of financial insolvency may emerge. Before talking to the Governments, airports need to clearly quantify how much liquidity they need and when they need government financial aid. Regional airports need to carefully prepare their financial forecast model so that the Governments can have a full picture of the airports' liquidity situation. On top of the financial model, airports also need to show to the Governments that they have a sound financial accounting system that is able to record and report the usage of government financial aid accurately and on time. In other words, airports need to make sure all bailout money and usage of bailout money is reflected clearly in their accounting system and ready for future financial audit. Such financial transparency is the key success factor and precondition to win the Governments' financial aid.

Financial assistance to regional airports shall be carefully planned and executed

With regional airports' financial transparency, the Governments can make their decision on which regional airports should be bailed out and start to construct the key components of their rescue package whether in a form of a special loan or a financial grant or a combination of both. Like any agreements, the Governments' bailout programs need to specify the exact amount, the time framework and under which terms and conditions such financial aid can be provided to airports. For example, if the bailout is designed for job protection, airports that receive respective financial aid shall not cut their payroll or furlough their employees during the bailout period. If the bailout is to support the financing cost of airports, airports' new capital expenditure programs/bank loans need to be approved by the counterparts.

Secondly, the bailout shall be provided only when airports' liquidity reaches their minimum cash balance and after appropriate cost saving and capital expenditure reduction measures have been taken. The payment of bailout will be implemented based on the nature of financial aid itself. Remember, the overall purpose of such financial bailout is to rescue the intended airports with minimum costs or financial risks to tax payers.

Figure 2: Exemplary cash balance of airlines and regional airports



Finally, for regions with multiple competing regional airports, we believe that it can be a challenge for Governments with limited financial resources. In some cases, the Governments may not be able to rescue each and every regional airport and need to perform further analyses to select the best candidates that can survive the pandemic. The Governments can provide financial aid only to the airport candidates with the highest strategic importance and operational efficiency.

In summary:

- The state must provide financial aid to the regional airports with strategic importance that have liquidity shortage, regardless of their public or private ownership structure
- These airports, must already have taken all necessary cost cutting measures and CAPEX reductions when applying for a clearly defined amount in a financially transparent way.
- Financial assistance to regional airports should be carefully planned and executed

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