

Does Ryanair's business model depend on blackmail?

The Irish airline is threatening to pull out of Spain's provincial airports, saying they are unprofitable without further public money

A. MARS / C. DELGADO / EL PAÍS

At a time when they must implement drastic spending cuts, Spain's regions face a tough choice. If they want to keep their provincial airports open, and keep the tourists and business travelers coming, they will have to continue paying low-cost airlines and regional carriers to do so.

Ryanair has already announced that from October it will no longer fly to Reus in Catalonia, cutting the airport's traffic by half. Talks are underway over whether the regional government will pay the Irish low-cost airline to continue servicing Girona airport.

Ryanair is not the only company that is paid with public money to keep provincial airports operating. Spain's short-haul carrier Air Nostrum receives subsidies from Valencia's regional government, as did Vueling, initially, to fly into Lleida.

But Ryanair is the biggest player, servicing 23 airports in Spain alone.

Ryanair's domination of Europe's low-cost routes dates back to 1992, when the European Union's deregulation of the air industry in Europe gave carriers from one EU country the right to operate scheduled services between other EU states.

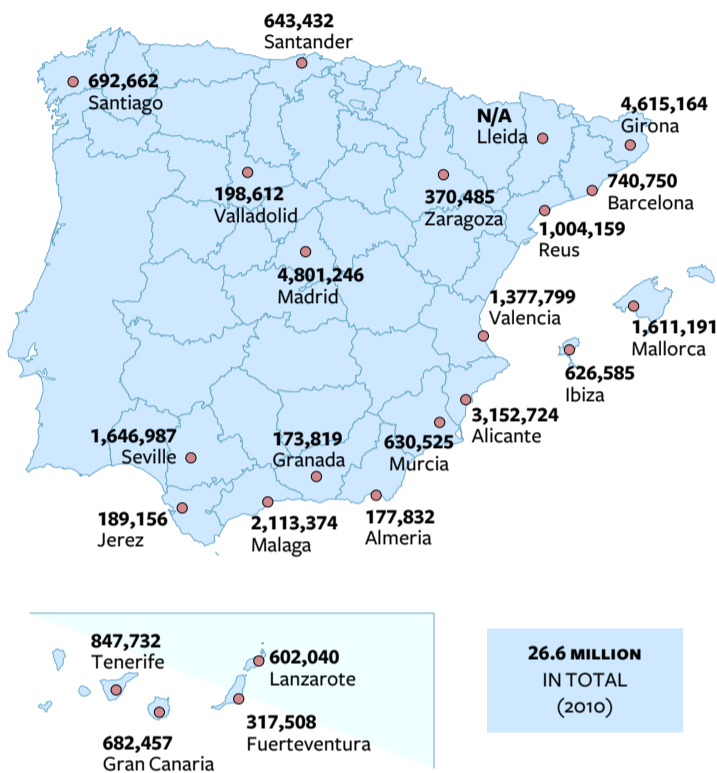
Although Ryanair trumpets its back-to-basics, low-cost approach, its business model is in fact based on subsidies from European regions.

Spain, which embarked on an ambitious program of airport construction at the same time, has provided the perfect market for Ryanair's expansion: it currently serves 23 of the country's almost 50 airports, carrying more than 26 million passengers a year. But now that it has found a foothold in the country's two main airports, Madrid and Barcelona, it is no longer that interested in flying to the country's more remote destinations. Meanwhile, the larger players, which were unable to match Ryanair's low-cost offer, are unable to step in.

AENA, the Spanish airports authority, and the Public Works Ministry say they are no longer prepared to allow the payment of subsidies to Ryanair.

"AENA provides the infrastructure to all companies and charges the same amount to all," says AENA. This is a model that works for the soon-to-be privatized entity: the subsidies are paid by regional governments, but it receives revenue from Ryanair for using its facilities. In the case of Girona, it earned more than €10 million last year. Of the 48 public airports in

Ryanair passengers in 2010



Source: in-house.

EL PAÍS

Spain, only 11 make a profit. Which raises a question: does Spain have too many airports?

Ryanair seemed to be Girona's salvation when it approached the city in 2000. The airport had struggled throughout the 1990s, surviving on charter companies bringing tourists into the Costa Brava. In 2002, some half-a-million passengers came through; the following year it saw a 173-percent increase in traffic.

By 2008, Ryanair had 11 aircraft based in Girona, carrying some 5.5 million passengers from the airport throughout Europe, and more importantly for the city and outlying areas: tourists from Europe to fill its hotels, bars and restaurants. But there was a hidden cost: subsidies paid by the regional government in the form of "tourist promotion" to the tune of €7 million a year. Investment to increase the capacity of Girona airport must be added to that figure. The same model was soon applied to nearby Reus airport, even closer to the Costa Brava resorts, and then rolled out to the rest of the country.

Once it had established itself in Spain, Ryanair began to put the pressure on regional governments to increase subsidies. Last year it announced that it intended to raise the number of flights into Girona and Reus, but then in July of this year the company announced that it would stop flights to Reus and would cut the number of flights into Girona by half.

"We have failed to reach a deal with the regional government," said the deputy CEO of



Ryanair CEO Michael O'Leary.

Ryanair's domination of Europe's low-cost routes dates back to the year 1992

Once established in Spain, Ryanair put pressure on regional governments

Ryanair. The company makes no bones about its strategy: "There are a lot of airports in Europe, but there is only one airline in a position to operate out of Girona: us," he added. The same applies to Alicante, the Canary Islands and Zaragoza, to name but three regional airports in Spain.

The method has worked in some cases. In 2008, Ryanair drastically cut back its flights at Valencia airport, with the concomitant drop in arrivals. Last

year, after reaching a deal with the Valencian regional government that saw it receive €800,000, it began to increase flights. In the north of Spain, it closed its operations in Foronda, just outside the Basque capital of Vitoria-Gasteiz, focusing on building up its presence in nearby Santander, where it receives official subsidies.

Ryanair is also battling AENA on a number of fronts: in April it threatened to slash flights to Alicante by 80 percent this winter if AENA does not withdraw a €2-million increase in fees, which has been imposed for the use of airbridges. "They think they have us by the balls. They are introducing new payments — what they forget is that we are an opportunistic company and we go where we can get the best deals," said Ryanair CEO Michael O'Leary in typically robust fashion at the time.

At first glance it would appear that Ryanair has the whip hand when negotiating with small regional airports that have come to depend heavily on the low-cost operator. But it should not be forgotten that Spain is a very important market for Ryanair. Of the 73 million passengers who traveled with Ryanair last year, 26.6 million did so to and from Spanish airports.

Ryanair would find itself in a very different position if it had to negotiate collectively with Spain's airports. This is what José Luis Zoreda, the vice president of Exceltur, the lobby that represents Spain's main tourism companies and airlines, believes should be the approach from now on.

"If Michael O'Leary had to sit down in front of representatives from all of Spain's regions at the same time, this whole subsidies auction would come to an end," he says.

For the moment though, each of Spain's regional governments must continue to negotiate with Ryanair alone. Meanwhile, its Catalan honeymoon seems over, now that it is expanding its presence in Barcelona at the expense of the provincial airports.

There are no global figures on the amount of money that Ryanair has received over the last decade and a half from Europe's regions. In March of last year, Air France filed a complaint with the European Commission in December, claiming that Ryanair now receives €660 million in public funds from local authorities in Europe each year, including €35 million in France. Far from making a profit in 2008, and a small loss last year, Air France insists that Ryanair made a whacking de facto loss in both years, disguised

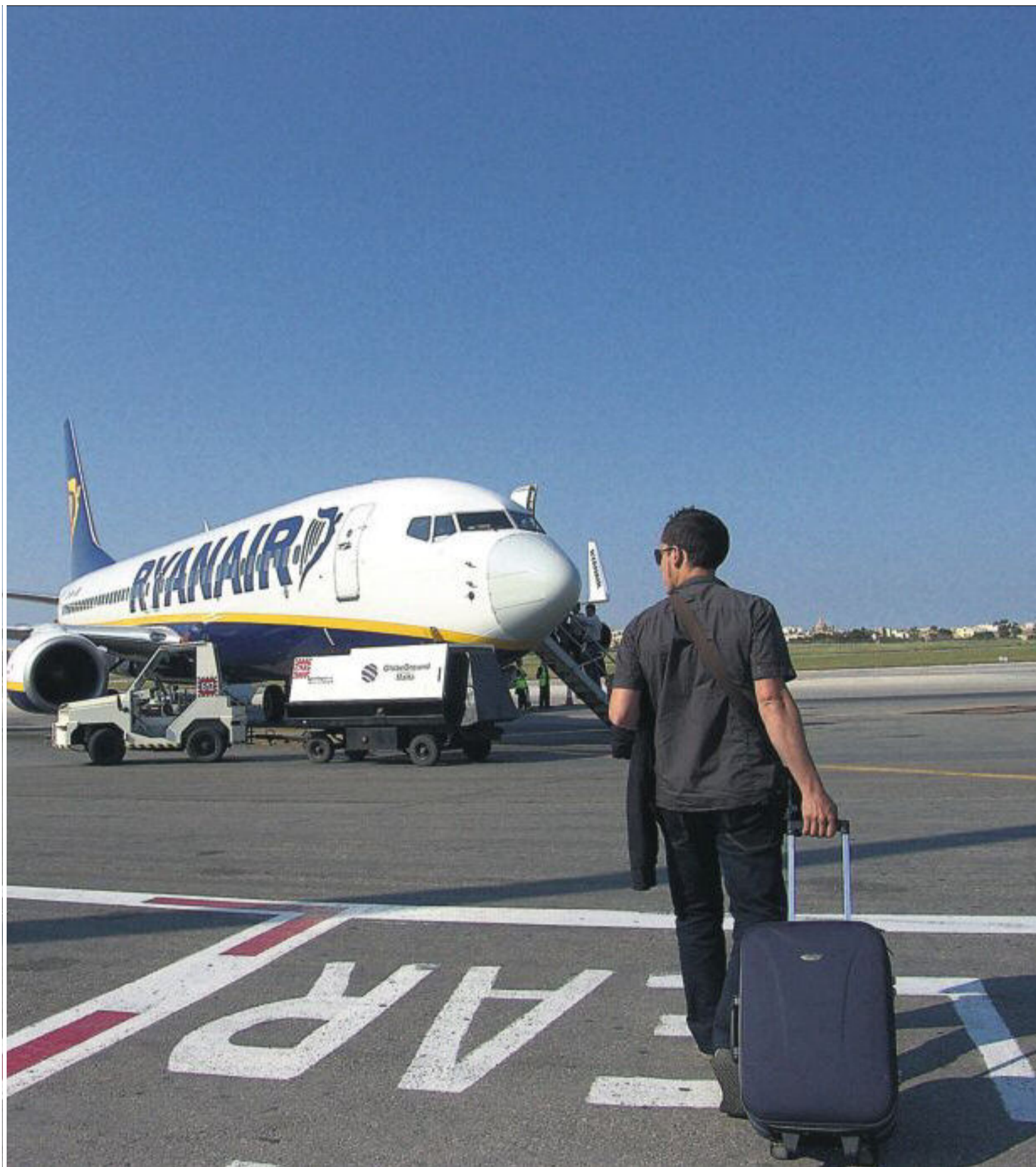


by allegedly illegal public subsidies.

"The Irish airline purports to be the Robin Hood airline, which offers unbeatably low prices, compared to the inflated prices of national carriers," a senior Air France official said this week. "In fact, Ryanair is only flying thanks to taxpayer money."

Ryanair dismissed the suit, which was brought under EU rules guaranteeing free and fair competition. "We pay no attention to false claims from high-fares, fuel-surcharging airlines like Air France," said the Ryanair spokesman Stephen McNamara. "Ryanair is investing millions in regional French airports, whereas Air France ignores them."

Ryanair has survived previous EU challenges to the "contributions" that it demands from local or regional councils for flying to regional airports. Air France claims it has pieced together the true extent of these "subsidies" by trawling through



Ryanair is threatening to cancel half of its flights to Girona airport (left).

/ JOSEP LLUÍS SELLART

tion. "The rules of the game should be the same for everybody," says Rafael Sánchez-Lozano, the CEO of Spanish flag carrier Iberia. In which case, why doesn't Iberia start operating from Spain's near-empty regional airports?

He says that Ryanair's business model is impossible to copy. The reason it is able to operate so many routes is its productivity policy, which means, for example, that aircraft are on the ground for the shortest possible periods: they land, they discharge their passengers, and immediately take on new travelers.

"The secrets of Ryanair's success are known to everybody, but the competition cannot copy them, either for ethical reasons, or for safety reasons," says Francisco Hoyas, spokesman for pilots' union Sep-la, which has complained to the government about Ryanair's practices. He says that the company's model cuts corners to the point of compromising safety: "The company decides how much fuel to use, not the pilots, which is dangerous. It moves its pilots around from month to month. And it has a no-unions policy, and sacks employees who refuse to accept this, so as to prevent any collective negotiation," he adds.

So far, the Spanish authorities have not taken up any of Sep-la's complaints.

Over the last decade, there have been several reports of Ryanair pilots allegedly cutting cor-

A council president in France recently accused the Irish airline of "blackmail"

Brussels has warned regions about using public money to keep airports afloat

the accounts presented to local financial watchdogs in France and other EU countries.

The money is paid to Ryanair for, among other things, helping to create new regional air links, or for "marketing" local attractions. In recent months, a couple of French local authorities have protested that Ryanair has demanded increased payments and threatened to move its flights elsewhere.

Michel Boutant, the president of the Charente council in western France, complained in December that Ryanair had asked for an additional €175,000 in "marketing" payments to continue its flights from London to Angoulême this year. He accused the Irish airline of "blackmail."

Under a framework agreement drawn up by the European Commission in 2004, Ryanair and other airlines can receive local taxpayers' money under certain conditions. The aid must be notified to Brussels, limited in duration and restricted to small air-

ports that would not otherwise attract international flights.

Air France complains that, in Ryanair's case, these conditions are often broken. It points out, for instance, that Ryanair receives payments from Marseille and Nice airports, both of which are already international and neither of which is small.

The Air France complaint is still being studied by the European Commission competition directorate, which must decide whether there are grounds to take action. Previous legal moves against Ryanair by Brussels have been overturned by the European Court of Justice or settled by negotiation.

In the case of Girona, Ryanair demands €15 million a year in return for a promise to bring in three million passengers on a yearly basis. The Catalan regional government has offered the airline half that sum, along with space for it to build a hangar, in the hope that this will keep it there.

Each regional government in Spain must negotiate with Ryanair alone

"Ryanair is only flying thanks to taxpayer money," says a senior Air France official

Brussels has repeatedly warned Spain's regional governments about using public money to keep unprofitable airports open. "In a sector that has been liberalized for 20 years it is difficult to justify spending money on duplicate airports, particularly at a time of cutbacks," said European Competition commissioner Joaquín Almunia.

"The majority of these regional airports are not profitable,

and only survive through subsidies," he continued.

Zoreda of Exceltur says that Spain "is a victim of excessive investment in overlapping infrastructure," and calls for a common, national transport infrastructure policy. The most recent airport to be built in Spain, at Castellón, in Valencia, was inaugurated a few months ago, and has still to check in a single passenger.

As Emérito Astuy, president of AEHC, which represents hotel and restaurant owners in the northern Spanish region of Cantabria, points out, it's not as if Ryanair and other low-cost operators always bring in tourists.

"We were very optimistic when the company moved into Santander airport, thinking that this would mean an increase in tourist arrivals," he says. "But the truth is that the airport has been used mainly by Spaniards to travel abroad."

Ryanair's rivals also accuse the company of unfair competi-

tioners because they were working under "extreme pressure on the flight deck to achieve programmed sector times."

Pilots were also said to be ignoring longer flight paths, which bypass residential areas and instead flying directly over villages and towns, increasing noise pollution.

"Ryanair plays fast and loose. Every year, in July, it threatens to reduce its flights for the coming winter, which of course is the low season," says Alex Cruz, the CEO of Spanish budget airline Vueling. "It does this in just about every place it operates. The company has, of course, already decided what it is going to do, but it is a way of putting pressure on airports and regional governments. It is basically playing a game of extortion. If Ryanair flies into an airport at the same time as us, we know that there will be consequences. We have seen this at Barcelona. But each company has its strategies. We have ours, and they have theirs."