



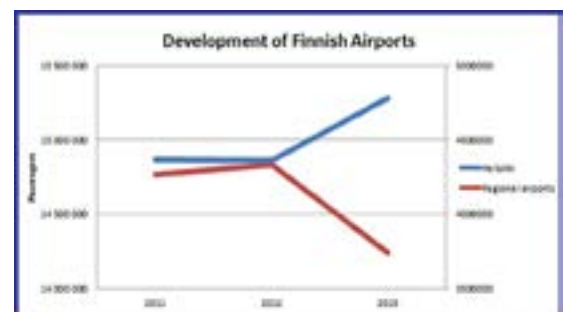
The Future of Finland's Regional Airports - is there light at end of the tunnel?

- Helsinki's Asia strategy is clever and it's working!
- But what is the strategy for Finland's regional airports?
- Signs of a bright future for regional airports outside Finland.
- Can Finland's regional airports capitalise?

The Finnish aviation market finds itself in a rather unique yet very interesting position. It is unlikely that there have ever been so many national and global developments which have the ability to directly shape the future of Finland's aviation market. Finland's regional airports probably stand to lose or gain the most in this process. And despite recent stagnation and declines in passenger traffic at many of Finland's regional airports – IC Aviation believes that there are many reasons to be optimistic about the future.

First, let's take a look at Finland's largest airport, Helsinki. Passenger traffic is starting to grow again, plus 4% in 2013 and indications are that this positive trend will continue into 2014. More importantly, both Finnair and Finavia are cleverly using the geographic advantage that Helsinki enjoys to access Asian markets from Europe.

There is no doubt that the "Asia Strategy" will continue to be a high priority for Finnair and Finavia. Finnair's Allister Paterson, speaking at an IC Aviation event in Stockholm recently said that "Anything that Finnair grows out of Helsinki now will be focused on either flows into Finland, but



more likely, flows into Asia. This year we added Tromso [Norway] strictly because our Asian passengers requested it. We really look at Europe as a flow destination and we are not that interested in the point to point market. We would like to develop things that connect to Asia”.



IC Aviation's Tom Shearer speaking to Finnair's Chief Commercial Officer, Alister Paterson.

The same level of development, in terms of international connectivity, is not yet evident at Finland's regional airports. However, IC Aviation believe that with the right strategy – increased international connections from some of Finland's regional airports is absolutely possible.



Etihad Regional Network – source: www.etihadregional.com

The Growth of Regional Airports in the Scandinavian Market

There is direct evidence of a resurgence of Europe's regional airports from Finland's nearest EU neighbour. In the last 6 months alone two regional airports in Sweden announced services to major EU hubs: Karlstad to Frankfurt and Växjö to Amsterdam. In the North of Sweden, Skellefteå Airport recently announced a direct year round connection to London – as well as enjoying a 50% increase in passenger traffic in recent years.

Evidence from Norway also demonstrates that regional airports are experiencing significant growth in the form of direct international connections. For example, KLM now operates from 7 regional airports in Norway directly to their hub in Amsterdam (and by consequence they are now the second largest non-Norwegian carrier in that market). And in April of this year, KLM also announced that it was increasing capacity on its Bergen to Amsterdam service from 3 flights per day, to 5 per day. Norwegian Airlines is also opening new connections from Norway's regional airports to international cities, like Alesund to London and Bergen to New York, for example. easyJet, one of Europe's largest low cost carriers also flies directly from London to Bergen.

Further evidence of a brighter future for Europe's regional airports is the birth of Etihad Regional. This revolutionary new airline (formerly known as Darwin) primarily acts as a feeder bringing passengers from various points in Europe to its hubs in Geneva and Zurich, from where it is possible to connect with Etihad's services to the Middle East. It is not impossible to imagine Finland's regional airports starting to feature on Etihad Regional's radar in the near future.

IC Aviation spoke recently with the CEO of Etihad Regional Mr. Maurizio Merlo, who said that, “for the beginning our strategic approach is growing in markets close and north of Switzerland, like Germany and France. In a second step we are currently evaluating potential market entries further north, where our Regional Aircraft can ideally serve certain destinations and can add value across the Etihad group network. I am confident that rather sooner than later we will see an Etihad Regional aircraft flying to the north of Europe”.

The long term consequences of increased international connectivity for regional airports are incredibly important. The connections obviously bring increased passenger volume and revenue streams – but one a long term strategic level it gives the airports the opportunity to become regional hubs, bringing passengers into their airport from more remote areas of Europe and then directly on to some of the biggest hubs in Europe.

The Watershed Moment for Finland's Regional Airports

Of course one of the biggest uncertainties facing Finland's regional airports is the continuing speculation that Finavia will be directed by the government to sell or close some of its airports. Speaking recently at an IC Aviation event in Stockholm, the CEO of Finavia, Mr. Kari Savolainen stated that he believes, due to the current political situation in Finland, the government will find it difficult to make a definite decision about the future Finland's regional airports: "one solution [for Finland's regional airports] is to somehow do what Swedavia has done, so that some airports will not be part of the Finavia network, whether they are sold or what's the process, that's a governmental decision, but for them to make a decision on such a big issue, I think it will not take place".



Finavia's CEO Kari Savolainen speaking at IC Aviation's event, The Future of Aviation in Northern Europe

The implication would therefore appear to be that Finavia will continue to manage the same amount of airports in the future as they do today. However, recent speculation about the future of Lappeenranta Airport has thrown yet more uncertainty on the issue of Finland's regional airports.

YLE recently reported that Lappeenranta Airport would be transferred from the Finavia network to a foundation managed by the Regional Council of South Karelia. A final decision as to what will happen with Lappeenranta is due in the coming months. If this development proves to be successful, perhaps this could also be the future for other regional airports in Finland?

Whatever happens, there is no doubt that interesting and challenging times lie ahead. Whether or not the national or regional governments will make the right decisions to encourage international connectivity at Finland's regional airports, to the same extent as can be seen in Sweden and Norway for example, remains to be seen.

Look out for IC Aviation's next Market Watch Report:

"Low Cost Airline Development in Finland – is it Possible?"

