

# Flights of fancy

A case study on aviation and  
EU funds in Poland



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# Contents

Executive summary .....	2
Introduction.....	3
Existing airport network in Poland.....	4
Regional airports – burden on the regional budget.....	5
Justification for EU investments in airports	
Overview of strategic documents.....	7
EU investments in air transport in Poland 2007–2013.....	8
Conclusions and Recommendations.....	11
Footnotes.....	13

# Executive summary

The aim of this paper is to review the rationale of EU Cohesion Policy investments in airport infrastructure using the example of Poland, with a particular focus on newly developed regional airports.

The paper gives a brief overview of the existing airport network in Poland. The functioning of smaller airports is examined with regard to the burden that they create for regional and local budgets. Furthermore, the paper describes planned EU investments in airport infrastructure under Cohesion Policy 2007–2013.

Additional topics covered include the cases of new investments clashing with nature protection, as well the use of EU funds for constructing rail connections to airports.

The main recommendation drawn from the study is the need to phase out EU funds support for airport infrastructure, most urgently in case of newly constructed regional airports. In addition, EU investments in rail infrastructure should be redirected from connecting airports (particularly smaller ones) to railway lines which serve clear mobility needs in regions.

# Introduction

Aviation is the most intensive transport mode in terms of contribution to climate change. Air transport is responsible for 4.9 percent<sup>1</sup> of man-made climate change and its impact is not limited to emissions of CO<sub>2</sub>, but also includes emissions (e.g., NO<sub>x</sub>) and effects such as vapour trails and cirrus clouds. Air traffic continues to grow rapidly worldwide at a rate of 4–5% annually<sup>2</sup>.

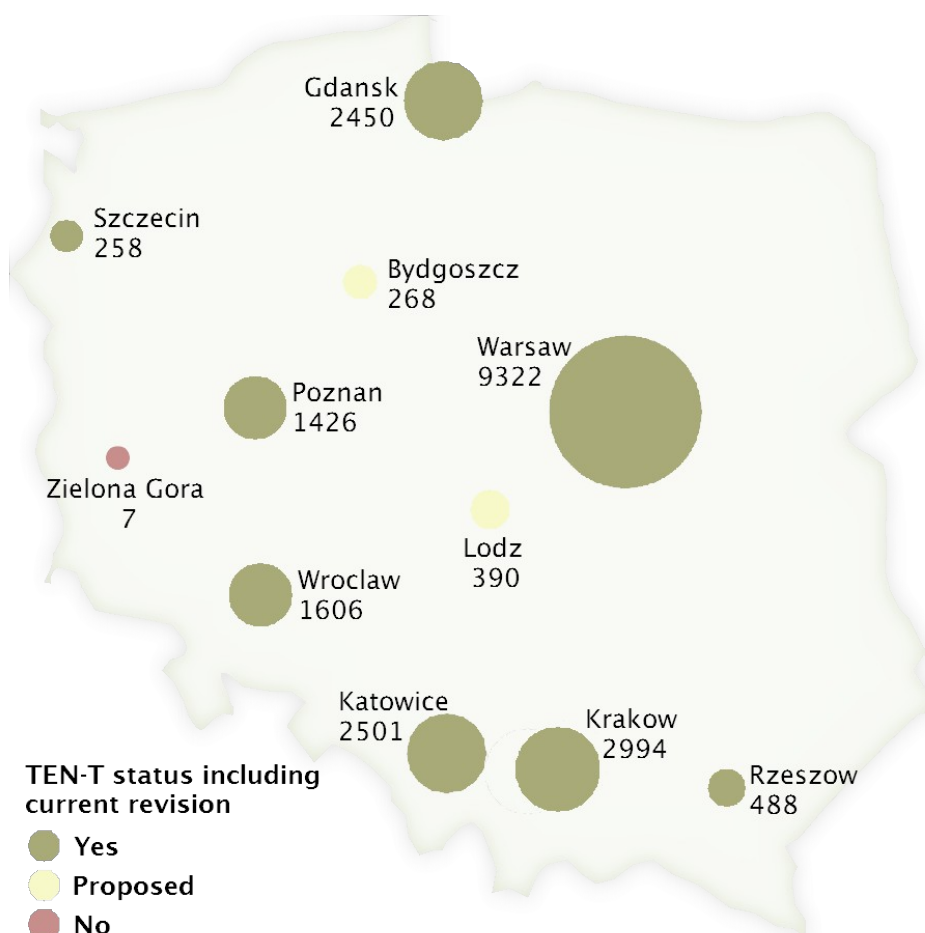
Despite the high external costs associated with the contribution to climate change, aviation enjoys many levels of public budget support in Europe and worldwide. The most basic element of this support currently taking place in the EU are tax exemptions, namely no fuel taxation for the aviation industry and the zero VAT rating on international air tickets. Both the development and maintenance of airport infrastructure benefit from EU, national and regional budget support. Beyond this, public money flows to airline companies, in practice as gratification for opening and sustaining flight connections<sup>3</sup>.

Poland has experienced rapid growth in air transport in the last decade, fueled by its accession to the EU and economic development (8.8 million passengers in 2004, jumping to 21.7 million in 2011<sup>4</sup>). Practically all existing airports are undergoing expansion and modernisation, while several new regional airports are also to be opened shortly. A major share of this investment comes from the European Regional Development Fund and Cohesion Fund, instruments of the European Union's Cohesion Policy.

# Existing airport network in Poland

As of 2011, Poland had 11 passenger airports, eight of which are part of the trans-European transport network (TEN-T). Under the current revision of the TEN-T two more airports – Łódź and Bydgoszcz – have been proposed for inclusion in the network.

**Map 1: Existing airport network in Poland – Airports depicted by numbers of passengers in 2011<sup>5</sup> (in 1000) and their TEN-T status<sup>6</sup>**



## Regional airports – burden on the regional budget

Most Polish airports are operated by companies whose shareholders are mainly regional and local authorities. The most significant exception is the largest Warsaw Chopin airport, run by a state-owned company.

A report<sup>7</sup> compiled in 2011 by a popular aviation portal (pasazer.com) concluded that only the larger airports (Warsaw, Krakow, Katowice, Gdansk, Wroclaw, Poznan) generate profits, while the remaining smaller airports operate at a loss. Profitability is clearly linked to the number of passengers served – the airport in Poznan, with 1.4 million passengers per year, is slightly above the profitability threshold. The poor financial performance of airports is a burden on shareholders, including the regional and local budgets concerned.

Apart from the existing public subsidies to air transport mentioned above, additional and intentional forms of public support to passenger airlines are practiced currently in Poland in cases where regional authorities struggle to ensure that connections are opened and maintained. In order to avoid direct subsidies to airline companies which are not allowed by law, regional authorities rely on two systems of support.

First, regional and local authorities pay airline companies for introducing and maintaining connections by purchasing promotion services, such as placing the region's logo on and inside aircraft<sup>8</sup>, and inserting tourist information about the region in onboard magazines, web banners and e-mail promotions. In theory these practices are aimed at promoting the particular region throughout Europe among potential visitors – both business and tourists. In practice these payments serve as an incentive for airlines to open and sustain connections which might not otherwise be profitable for them. In fact purchasing "promotion" is in many cases the only way for some airports to attract any passenger airline. Payments for promotion provided by regions are an important factor contributing to the success of low-cost airlines throughout Europe.

In the region of Kujawsko-Pomorskie, such payments to Ryanair are provided by the regional authority jointly with the local governments of the two largest cities, Bydgoszcz and Toruń. The current contract will run from August 1, 2011 until October 31, 2014 and is worth PLN 13.8 million in total, roughly EUR 3.45 million. In its official communications, the regional authority has stated that this contract is "an introduction to negotiations about new connections from the Bydgoszcz airport"<sup>9</sup>. Ryanair was the only company to participate in the tender procedure. The participating cities have agreed to pay 1 euro plus VAT per inhabitant from municipal budgets; the rest of the amount is provided from the regional budget.

A similar tender in 2011 in the region of Podkarpackie resulted in the contracting of PLN 24 million, roughly EUR 6 million, to Ryanair for promoting the region over a period of three years, including the placement of the region's logo on one aircraft. Ryanair serves several destinations from the airport near the regional capital Rzeszów.

Another established method of subsidising air connections is the purchase by a regional authority of a fixed number of seats on each flight on a certain connection. In practice this applies exclusively to connections linking regional airports with Warsaw and has been used in Kujawsko-Pomorskie (Bydgoszcz – Warsaw connection) and Lubuskie (Zielona Góra – Warsaw connection).

With the smallest operating regional airport in the country, the authorities in the Lubuskie region have been struggling to sustain the only existing passenger connection (to Warsaw) by offering airlines the purchase of a fixed number of seats on each flight for regional officials (Marshall Office) traveling to the country capital. There have been problems with finding an airline willing to provide the connections: a tender in late 2011 failed to find an interested airline (the offered prices were too high). The requested services included six seats on each flight, a specified number of flights per week and – for the duration of the entire contract period – bus transfers to and from the airport, as well as promotional onboard materials.

Subsequently in January 2012 the regional authority announced the free selection of the service provider<sup>10</sup>, Sprint Air, justifying the free selection with the need to sustain flight connections in line with the strategy for the airport and the “need for immediate realization of the subject of the tender”. The contract value was PLN 800 000 + VAT for the period between January 5 and February 29, 2012.

It should be noted that these described forms of support do not include other indirect methods of attracting airlines at the expense of regional budgets, in particular the discounts in airport fees given by airport managers to airlines.



# Justification for EU investments in airports

## Overview of strategic documents

The expansion of airport infrastructure to meet growing passenger demand is considered essential in numerous national strategic documents, including the National Strategic Reference Framework for EU funds 2007–2013<sup>11</sup>. This key document mentions the modernisation and expansion of not only the largest but also smaller regional airports as a means to improve the attractiveness of Poland's more remote urban centres for investors. Similarly, in Regional Operational Programmes for EU funds (e.g. Lubelskie, Podlaskie) the role of airport infrastructure in attracting investment and business activity is underlined as a key rationale for the construction of new airports.

Nevertheless, the ex-ante assessment for Operational Programme Infrastructure & Environment questioned the rationale of financing air transport infrastructure within the programme<sup>12</sup>. Air transport was diagnosed as a profit-making branch of transport capable of financing its own infrastructure. Public support for air transport was judged as not justified given the fact that there is little fiscal commitment from this branch to the public budget. This suggestion was not taken into account. The response to this particular finding of the ex-ante assessment included the final text of the Operational Programme that justified the choice to finance air transport infrastructure by the 'pro-development' nature of this transport mode<sup>13</sup>.

At the European level, the rationale of EU support for airport infrastructure from the European Regional Development Fund (ERDF) has been evaluated for the European Commission within the ex-post evaluation of the ERDF 2000–2006<sup>14</sup>.

The conclusions from this study are mixed. The evaluated investments in airport expansion have resulted in numerous new connections and are deemed to have stimulated the overall development of the regions concerned, although this development could barely be quantified. The report also mentions the following reservations towards ERDF funding for airports, based on two case studies (Liverpool, UK and Bari, Italy)<sup>15</sup>:

- investments in airport expansion could have taken place under commercial terms, given the income generated by higher traffic levels;
- new air connections can have a perverse effect on the local economy by providing the residents of the region with the opportunity to spend time and money elsewhere (tourism);
- expanded airports can divert traffic from other airports, therefore this cumulative impact should be assessed as well.

# EU investments in air transport in Poland 2007–2013

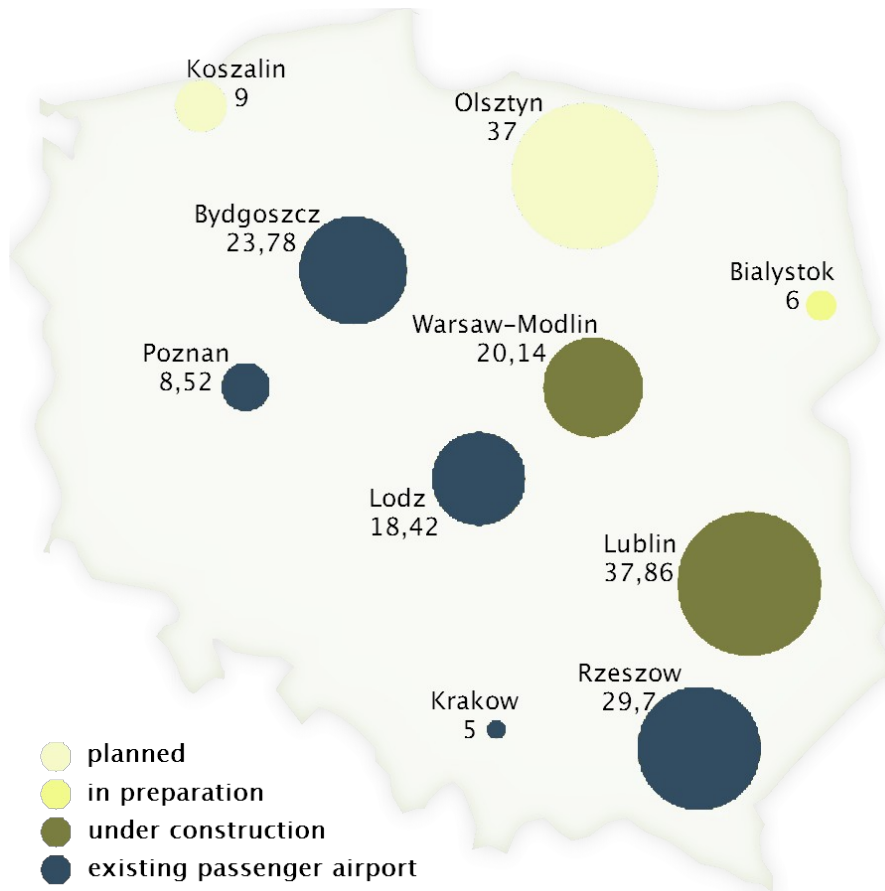
EU investments in airports are channeled both centrally, through the Operational Programme Infrastructure & Environment, and at the regional level, through Regional Operational Programmes.

Within OP Infrastructure & Environment, eight TEN-T airports (Warsaw, Kraków, Katowice, Wrocław, Poznań, Gdańsk, Rzeszów, Szczecin) are set to receive EUR 353 million from the Cohesion Fund (Measure 6.3 *Development of the air TEN-T network*) for investments in upgrading and expanding their infrastructure. In addition, all airports that serve international traffic can apply for funding under Measure 8.4 *Safety and protection of air transport*. The foreseen allocation for this measure is EUR 50 million from the ERDF<sup>16</sup>.

Map 2 presents airport investments to be co-financed by the EU (ERDF) under Regional OPs until 2013, with corresponding current allocations of funding. The original foreseen total allocation for airports under Regional OPs was EUR 406 million<sup>17</sup>. However, not all of this funding will be used, as some of the projects have been delayed.

Currently two new regional airports are under construction in Poland. In Modlin, near Warsaw, a former military airport is being redeveloped to supplement the existing main Warsaw airport mainly for charter, low-cost and cargo operators. The airport will be opened to passengers in July 2012. The other airport under construction is in Świdnik near Lublin.

**Map 2: Polish airport investments to be co-financed by the EU until 2013<sup>18</sup>, depicted by allocated amount of funding (in million euros)<sup>19</sup>**



It should be mentioned that the European Commission, as well as experts from JASPERS (Joint Assistance to Support Projects in European Regions)<sup>20</sup>, have already played a significant role in limiting the number and scope of planned airport investments with EU funds, e.g.:

- the original proposal for the Regional OP in Świętokrzyskie envisioned a regional airport near Kielce, which was rejected by the European Commission;<sup>21</sup>
- a new regional airport near Opole was included in the Regional OP for Opolskie, but abandoned after suggestions from JASPERS;<sup>22</sup>
- JASPERS experts suggested downsizing of the terminal for the new Lublin airport. Following this intervention, the planned terminal was downscaled from 23,000 to 11,000 square metres.<sup>23</sup>
- The authorities of the Lubuskie region wanted to allocate PLN 20 million obtained by the region in 2011 from the performance reserve of EU funds for investments in the regional airport (Babimost, near Zielona Góra). However this idea was deemed controversial by regional politicians and rejected by the European Commission.<sup>24</sup>

## Regional railway upgrades: prioritising access to airports

Currently, the only Polish airports with a railway connection are Krakow and Warsaw (the latter since June 1, 2012). A number of railway connections to airports have been planned for construction or upgrade with the support of EU funds 2007–2013. These include both investments financed under OP Infrastructure & Environment (Warsaw, Krakow and Katowice) and Regional Operational Programmes (Lublin, Olsztyn and Szczecin)<sup>25</sup>.

EU investments for rail links to airports have a questionable rationale, especially those connecting the smaller airports. One of the most questionable examples is in the Warmińsko-Mazurskie region: the only railway upgrade carried out under the Regional OP concerns the linking of the regional capital Olsztyn with Szymany (a planned new airport site), and will cost over PLN 100 million<sup>26</sup>. The investment in the airport itself has not yet started and its finalisation within the current EU funds programming period is not certain. Even if completed, the airport is not likely to attract a sufficiently high number of connections and passengers to justify the demand for a dedicated train connection. The funding could have been used for other railway upgrades, chosen according to an assessment of the most urgent needs and potential to attract passengers.

In the case of Bydgoszcz, a railway connection to the airport was part of a larger project concerning a regional public transport system. However, the plans were abandoned after suggestions from JASPERS experts assisting with the project preparation.<sup>27</sup>

### New airports in clash with Natura 2000

The investments in new regional airports have caused conflicts related to nature protection. This concerns in particular the planned (but suspended) investment in the vicinity of Białystok, as well as the secondary airport for Warsaw (Modlin).

The selected location for the new airport for the Podlaskie region (Tykocin, near Białystok) has been controversial due to its vicinity to the world-famous wetlands of the Biebrza National Park, Narew National Park. The airport would negatively impact the integrity of eight Natura 2000 sites, including for extensive bird populations based there. This could also pose a threat to air traffic safety due to the high probability of birds colliding with aircraft.

The environmental impact assessment (EIA) for the Tykocin airport did not adequately address alternative locations for the airport nor the impact of the airport's operation on the surrounding Natura 2000 areas. Despite protests from NGOs including OTOP (the Polish partner of Birdlife) and local communities, the Regional Directorate for Environmental Protection issued a positive decision for the investment. However, this decision was revoked in 2011 by the General Directorate for Environmental Protection, following complaints from NGOs. This means that the EIA for the airport will be prepared again, taking into account more viable locations for the investment. However, the construction will not be financed via Cohesion Policy 2007–2013 money as the project will not be finalised in time to be eligible for EU support. The regional government has thus shifted the majority of the funding reserved for the airport to upgrades of regional roads. However, EUR 6 million was maintained for preparing analyses and project documentation for the project in order for the construction to be financed as early as possible in the 2014–2020 programming period.

Similar nature protection issues accompanied the environmental procedures for the airport in Modlin near Warsaw, currently under construction and due to be opened in 2012. The airport is situated next to the confluence of two major Polish rivers, the Narew and Vistula, a key stopover site for migrating birds close to several Natura 2000 sites. Not only will the airport impact the surrounding environment but it also may pose dangers to flights due to likely collisions with birds.

The EIA did not assess alternative locations and did not properly address the impacts of the airport (including its operation) on bird populations in the vicinity. In spite of complaints filed by NGOs, the environmental decision for the project was upheld in Polish courts. The project has not been yet approved by the European Commission, which has been notified by NGOs about the environmental concerns.

# Conclusions and recommendations

The existing airport network in Poland is not as dense as in EU-15 countries. Nevertheless, it currently satisfies the demand for air transport and contains capacity reserves as none of the airports has reached its capacity limits. Only the largest airports are financially viable: the smaller ones do not attract sufficient traffic. In some cases, in order to attract any passenger traffic at all, regional authorities offer payments to airline companies in order to sustain connections (not to mention the discounts offered to airlines by regional authorities when negotiating airport fees).

Still, with EU support of up to EUR 800 million, massive investment is taking place in the 2007–2013 budget period, including the upgrading and extensions of existing airports, despite the questionable rationale for the use of any public money to subsidise air transport infrastructure.

More worrying are the proposed investments in new airports, most of which are not likely to attract sufficient traffic to be profitable. Their construction will put more burdens on regional budgets: regional authorities need to provide co-financing to the EU investments, and as shareholders they will bear the costs of maintaining and operating these airports.

In addition we are likely to see more contracts for ‘promotion of regions’ between regional authorities and airlines, meaning even more public subsidies to airlines under pressure to attract passenger connections. Political and time pressure to develop new airports has in two cases (Białystok and Warsaw–Modlin) led to serious clashes with nature protection and Natura 2000 sites.

EU funds are also being overused for the construction of railway links to existing and newly constructed airports, even when much-needed investments in regional railway lines – crucial for modal shift and serving local mobility needs – are missing.

In particular, the rationale for developing new airports serving cities such as Białystok and Lublin can be questioned based on the fact that these cities could gain fast rail connections (travel time of approximately 90 minutes) with Warsaw and the largest airport in the country, with the second airport serving low-cost airlines due to open in July 2012. The required investment would be a standard upgrade of the existing railway infrastructure allowing passenger train speed of 160 km/h.

Such investments are possible with the EU funds and are in fact encouraged by the national and European transport policy. Unfortunately, neither of these railway links will be upgraded in the current 2007–2013 programming period.

Taking the above into account, CEE Bankwatch Network calls upon the European Commission, as well as national and regional authorities in Poland and other EU countries, to:

- exclude investments in air transport infrastructure from any EU support in the next budget period 2014–2020 – investments in new regional airports should be comprehensively banned in the first place;
- carefully assess proposed investments in railway links to airports and concentrate instead on efforts to improve public transport infrastructure that facilitates modal shift and serves the mobility needs of communities;
- direct more EU funds towards, and speed up the implementation of, railway upgrades on connections linking the more remote regional capitals with the largest cities (e.g. Warsaw – Białystok, Kraków – Kielce).

# Footnotes

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- 18 For the planned Białystok airport, only project documentation will be provided in this programming period with the intention to finance airport construction in the 2014–2020 EU funds period.
- 19 Compiled from websites of Regional OPs, status as of 26 April 2012.
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