

POLAND

Hundreds of millions of euros have gone from the European Union's coffers into Polish airports. Passengers aren't following.

No-fly zone

BY CHRISTIAN LOWE AND WIKTOR SZARY

PHOTOS BY KACPER PEMPEL



READY FOR ACTION: The new airport at Lodz, pictured on pages 1-7, opened in 2012. The EU provided around 30 million euros for the project, which was based on a forecast of 1.35 million passengers in 2013. Photographer Kacper Pempel spent a day at the airport in October 2014 and found travellers scarce.

REUTERS/KACPER PEMPEL

LODZ, POLAND, DECEMBER 14, 2014

The European Union has given Poland more than 100 million euros (\$125 million) to build at least three “ghost” airports in places where there are not enough passengers to keep them in business.

The result is gleaming new airport terminals which, even at the peak of the holiday season, echo to the sound of empty concourses and spend millions trying to attract airlines.

Poland is not the only country in Europe to have built airports that struggle to attract flights. Around 80 airports in Europe attract fewer than 1 million passengers a year, and about three-quarters of those are in the

red, according to industry body Airports Council International. Some cost much more to build than the Polish projects. One airport in eastern Spain, open for three years, has so far received not a single flight.

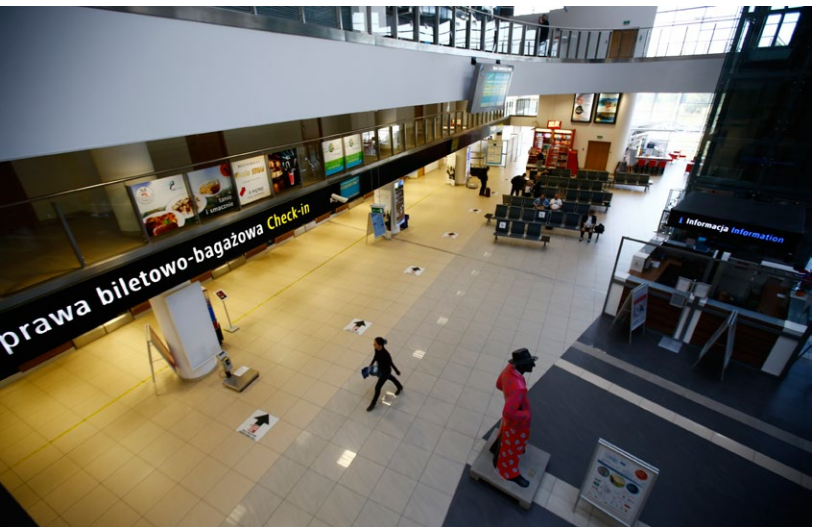
But Poland is striking because the country received so much money for its projects from EU funds.

Poland received 615.7 million euros in EU support for airports between 2007 and 2013, according to figures supplied to Reuters by the European Commission. That was almost twice as much as the next biggest recipient, Spain, and more than a third of all member states’ money for airports (see chart). The government declined to provide all the information on which it based its decisions to invest in the airports,

but Reuters has reviewed data on three sites where traffic fell dramatically short of forecasts.

Poland is often touted by Brussels as one of the most efficient users of EU aid, and there is no suggestion the country used EU airport money corruptly. European help has been vital in improving Poland’s aviation infrastructure, only a small share of the country’s airport spending has been on white elephants, and passenger shortfalls may have been exacerbated by the 2008 global financial crisis. Spokespeople at some airports said the projects could be considered a success because they were creating jobs, bringing in tourists, and driving investment in the regional economy.

Text continues on page 4





But it is clear mistakes were made in Poland, planning officials and aviation executives say. The whole experience raises questions about how the government will handle the next big injection of EU money, which it expects to be 82 billion euros over the next seven years.

The problem is most striking at the recently rebuilt Lodz passenger terminal, where passenger numbers in 2013 fell almost one million short of forecasts, according to European Commission documents examined by Reuters.

On a relatively busy day this summer, just four flights arrived and four departed. In between, the place was almost deserted. In the early afternoon a single passenger, a woman in a blue-and-white striped T-shirt, sat in a 72-seat waiting area. Outside on the tarmac, five sets of movable steps stood waiting for a jet to land.

Where there aren't enough passengers to make an airport viable, local governments keep them on life support through subsidies, according to a report by CEE Bankwatch Network, a non-governmental watchdog. The beneficiaries have often been the airlines that use them.

Jacek Krawczyk, the former chairman of the board of Polish national airline LOT who sometimes advises the European Commission on aviation policy, said Poland was no worse than other EU countries at building airports, but the sheer volume of EU money it was trying to absorb in a short space of time explained some problems. The European Union has now tightened up the rules on state aid that airports can receive.

Krawczyk, who was not directly involved in planning any of the airport investments, said that in those Polish cases where things did go wrong, "there was no corruption, just wrong priorities."

FAULTY FORECASTS

Between 2007 and 2013, the European Union promised funding to help build and upgrade 12 Polish airports. Some of the projections underlying the plans were highly ambitious.

The government declined to detail its predictions for passenger numbers. But figures for three of the airports – Lodz, Rzeszow and Lublin – are contained in letters on a related topic sent by the European Commission to the Polish foreign minister.

Project "Quartz"

Poland's next big European-funded airport project is at Szymany, a remote airfield which the CIA used just over a decade ago to transport al Qaeda suspects to a secret interrogation centre it ran in Poland.

Khalid Sheikh Mohammed, alleged mastermind of the Sept. 11, 2001 attacks, was probably among detainees who landed at the airfield en route to the CIA facility, code named "Quartz," in a nearby forest, according to a Council of Europe report.

A U.S. Senate report said last week the CIA operated a jail near the airport, though it made no mention of the airport. Polish officials have not acknowledged the existence of the CIA jail. Former President Aleksander Kwasniewski said after the Senate report he knew the CIA was holding detainees there, but did not know they were being abused by interrogators.

Now, a 48.6 million euro (\$60 million) project is underway to create an international airport on the site of the airfield. Just over half the cost will come from the EU.

The airport's operator, Warmia i Mazury Sp., says it expects 80,000 passengers in 2016, the first full year of operation, and about 250,000 passengers a year by 2035.

It is in a sparsely populated corner of north-east Poland. The nearest big population centre, Olsztyn, with 175,000 people, is a one-hour drive away along narrow bumpy roads that are clogged with traffic in summer.

"That part of Poland needs an airport, but not there," said Jacek Krawczyk, a former chairman of Polish airline LOT who has a senior role at the European Economic and Social Committee, which advises the European Commission. "It's a complete mistake."

The airport said it was in talks with low-cost carriers, and had provisional agreements with two Polish regional airlines, EuroLOT and SprintAir. It said work was underway to make the airport more accessible. It expects to start making a profit from around 2020.

Reporting by Wiktor Szary and Christian Lowe

The letters show Polish authorities projected combined passenger numbers for the airports to be more than 3 million passengers a year. In 2013, the actual number was just over 1.1 million (See chart).

Together, the investments in the three airports totalled about 245 million euros. Around 105 million of that came from the European Union. The rest came from central government in Warsaw, local governments and the airports themselves.

The airport with the biggest projected traffic was in Lodz.

In its heyday, the city was a thriving textile manufacturing centre. Now, many of the elegant 19th-century merchant's houses lining the main drag, Piotrkowska Street, are crumbling.

Jerzy Kropiwnicki, mayor of Lodz between 2002 and 2010, wanted to attract foreign investment and tourists. The city had a small airport that handled domestic flights; but Kropiwnicki felt a big international terminal would revive the local economy.

"I used to endlessly answer questions like: 'How do we get to you?' and 'How do we fly there?'" Kropiwnicki told Reuters.

Poland, which had joined the European Union in 2004, was gearing up for a massive injection of EU cash to be spent on development projects between 2007 and 2014. To get the funds, the country had to prepare a strategic plan for civil aviation. At the Transport Ministry, this task fell mainly to Andrzej Korzeniowski.

He was given three months to draft the plan and meet the EU funding deadline. "I slept on a camping mattress under my desk," Korzeniowski, now retired, told Reuters. "I had no time to eat."

Looking back on the 160-page document he drafted, Korzeniowski says it was, under the circumstances, a good programme. But it had a big shortcoming: It let local governments decide where new airports should be built, and how big they would be. "That was the biggest mistake,

Funding for airports

EU funds by member state, 2007-2013*



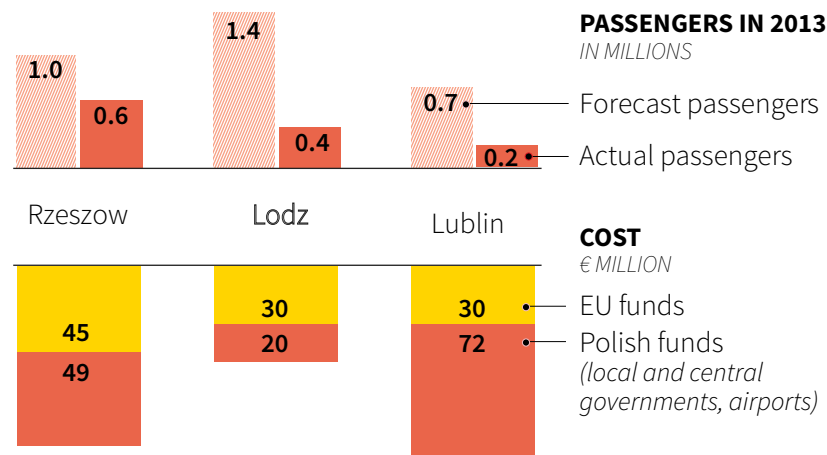
Between 2007 and 2013, the European Union promised funding to help build and upgrade 12 Polish airports.

In that period Poland received 615.8 million euros in EU support for airports, almost twice as much as the next biggest recipient, Spain, and more than a third of all member states' money for airports.

*Source: European Commission

Expansion of three Polish airports

Polish authorities projected combined passenger numbers for three Polish airports to be almost 3 million in 2013, three times higher than the actual number.



Sources: airports; European Commission letters

M. Ulmanu/Reuters Graphics

for which we're now paying the price," he said. "The local governments decided, I'm a prince in my domain, the government doesn't tell me what I'm supposed to do, we do what we want."

By 2005, passenger numbers in Lodz were shooting up. Wojciech Laszkiewicz, an adviser to the mayor who went on to be deputy chief executive of the airport, said the team decided to rebuild the terminal entirely.

The airport commissioned a feasibility study from advisory firm Ernst & Young (EY), published in November, 2009. EY predicted a minimum of 1.042 million passengers in 2013 for Lodz. That was less than the government forecast but many more than the 353,633 who actually passed through the airport last year. EY declined to comment.

Lodz's mayor, Kropiwnicki, left office in 2010, two years before the new terminal opened. The aim of the airport was to help stimulate the local economy, he said, and it is achieving that. "From my point of view, the airport wasn't supposed to make a profit."

"CANNIBALISATION"

The problem, say aviation industry officials and consultants, is that passenger numbers for any individual airport are impossible to predict with confidence. Even if national forecasts hold true, local factors can pull passengers away from one airport and attract them to another.

Lodz quickly became a victim of this "cannibalisation," as the airline industry calls it, because Warsaw airport was also upgraded, and a new highway built which brought the capital within 50 minutes' drive of Lodz.

"To have an airport in Lodz from that point of view makes no sense at all," said Krawczyk, the former airline chairman. He is now president of the Employers' Group of the European Economic and Social Committee, a Brussels-based consultative



body that advises on EU decision-making.

In a statement, a spokesman for the Ministry of Infrastructure and Development said it could issue guidelines, but could not directly influence local authorities: "A decision on expanding or building an airport for a particular region is the prerogative of the local authorities."

Under EU rules, though, the initial cash for airports comes from national governments. They are reimbursed by the EU when it approves a scheme.

Only investments worth over 50 million euros have to seek the Commission's prior approval, and many of the Polish airport investments were below that threshold. The Commission has since said its approach to funding the airports will undergo a radical change. In February, it introduced stricter criteria, and said loss-making airports will be forced to wean themselves off state aid. It did not name any countries.

PAYMENTS TO AIRLINES

For now, the Polish airports still need help, and that can be expensive. Senior managers in the Polish aviation industry said the cost of running a small regional airport would be at least 3 million euros a year. At the

moment in Europe, they are often propped up through financial injections from local authorities, which are often their biggest shareholders.

The state also has indirect methods of helping the airports, in particular by giving money to the airlines – mainly low-cost carriers like Ryanair.

"In practice, these payments serve as an incentive for airlines," CEE Bankwatch Network, the non-governmental watchdog, said in its report.

Lodz and Rzeszow airports did not respond to questions about how much they pay airlines. A spokesman for Lublin airport said only that it was successfully boosting communications to help the local economy.

But public records for Podkarpackie, the mountainous, forested region where Rzeszow airport sits, show that between 2011 and 2014 its government paid 5.7 million euros to Ryanair in exchange for advertisements promoting the region, which appeared on Ryanair's web site and in its in-flight magazines. Podkarpackie spent another 3 million euros to advertise with Polish carrier Eurolot over a three-year period.



In all, 70 percent of the region's 2013 promotional budget went to airlines that fly into Rzeszow airport.

These payments are problematic, say several people involved in Polish aviation, because the airports are at the mercy of the airlines. With so many airports to choose from, airlines can easily shift routes.

"The relationship between the local airports and low-cost carriers is suicidal," said Krawczyk, the former airline chairman. For low-cost carriers, he said, "nothing will ever be enough. ... At some point they will say, 'If you don't give us more, we'll go.' And they go."

A spokesman for the region where Rzeszow is located said the deals were good value because they allowed it to target the kind of travellers it wants. He said tourist numbers in 2013 were double the level in

2010. A EuroLOT spokeswoman said such marketing deals were widely used in the aviation business in Europe. She said the airline provided marketing exposure for the region, for example by painting its jets in the region's colours.

Ryanair chief executive Michael O'Leary told Reuters such advertising was a good deal for local governments because the Ryanair website reached a huge audience. He said Ryanair brought economic benefits to places that are off the beaten track, in part by flying in tourists. But "if the airport doesn't want me, that's fine. I've 80 other airports in Europe who want the growth. We don't force any airports" to pay.

"If Rzeszow has enough low fares, Rzeszow can grow to 1 million visitors, 5 million visitors, 10 million visitors," said O'Leary. "They provide – well, I don't know

what Rzeszow is famous for, but it's famous for something."

Additional reporting by Robert Hetz in Madrid and Rene Wagner in Berlin; Edited by Sara Ledwith

FOR MORE INFORMATION

Christian Lowe

christian.lowe@thomsonreuters.com

Wiktor Szary

wiktor.szary@thomsonreuters.com

Christian Lowe, Bureau Chief, Central Europe and the Balkans

christian.lowe@thomsonreuters.com

Sara Ledwith, Assistant Enterprise Editor

sara.ledwith@thomsonreuters.com

Michael Williams, Global Enterprise Editor

michael.j.williams@thomsonreuters.com