

Summary:

Evaluation of tendering of regional air routes in Norway

Subsidies to regional air routes in Norway have risen since the first tender for the period 1997-2000. There is limited competition on the tenders. The main reason is that only the airline Widerøe, with its Dash8-100s, is able to satisfy the tender requirement that air craft should have more than 30 seats, pressurised cabin and still be able to land on 800 m runways. Extending runways or allowing for smaller airplanes may increase the level of competition. Better roads and competition on main routes have over the years changed the transport supply situation. It is time to evaluate the need for subsidising regional air routes and develop clearer criteria for public subsidies.

The first tender of regional air routes was for the period 1.April 1997- 1.April 2000. Widerøe won the tender with a bid for all routes combined that was 20-30 % lower than before tendering. Since then, subsidies have risen. In 2009, the average subsidy level was €70 per passenger. There was competition only on routes where airplanes with less than 30 seats were allowed or where the runway was at least 1199 m.

Short flight distances, 165 km in average, contribute to high costs. Many stops lead to low utilisation in terms of air borne hours, thereby contributing to high costs. There are economies of scale when it comes to utilisation of aircraft fleet and crew on account of need for reserve capacity. Thus, there is a trade off between tendering large route areas and smaller, simpler route areas where small airlines may also compete.

A system of maximum *average* fares is proposed instead of the present system with maximum fares. The new system should clear the market in peak hours, securing seat availability for the business market, and at the same time give the airline incentives to increase the number of passengers (the denominator when calculating average fares) by increased discounting off peak.

The Dash8-100 aircrafts are no longer being produced, and no aircraft of similar size being able to land on 800 m runways seems to replace them. Sooner or later changes are required. Extended runways at some airports and closure of others due to better roads to nearby airports may increase the level of competition and provide a better fit to new transport needs. It is time to evaluate the need for subsidising regional air routes, to develop clearer criteria for public subsidy and to revise the airport structure in a country with 48 airports and only 4.8 million inhabitants.