

# **Air travel and tourism in Malta: Impacts of low-cost airline introduction**

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## **1. Introduction**

The introduction of low-cost carriers (LCCs) is strongly related to air traffic movements and the tourism sector. This is especially so for island destinations where the role of tourism is critical to maintain economic growth.

This paper analyses the impacts of low-cost airline introduction in the islands of Malta. The impacts of low-cost aviation have been widely studied, with similar results of increased traffic and tourism at destinations. However, when the destination is an island state, and a member of the European Union with limited land and space resources, the impacts of increased LCCs and tourism activity can have significant impacts. Shortly after joining the EU in 2004, the Maltese Government enacted policies to encourage greater LCC services to Malta with a goal of increasing and diversifying tourism activity.

Malta experienced rapid growth in GDP and tourist arrivals over the last decade and unlike other islands which are dependencies of larger states, is a unique case study and a good example for other small independent island states. In Europe, the other island state is Cyprus which has a much larger land mass, is affected by political instability and whose economy suffered greatly during the 2008 financial crisis. Malta on the other hand, has a small land mass and economic activity, including construction for tourism, which have severe effects on its environment. Indeed, increasing tourist arrivals might jeopardise the sustainability of its limited infrastructures (such as the small pocket beaches and archaeological sites). This study investigates these impacts by looking at air travel and the contribution of LCCs. The study hopes to encourage other studies in small independent island states, in order to support sustainable travel and tourism.

## **2. Low-cost airlines in Europe**

The emergence, subsequent rapid expansion, and resulting evolution of LCCs in Europe was a direct consequence of three packages of air transport liberalisation measures that were enacted by the European Commission (the legislative body of the European Union) to open up the market to more effective competition and improve consumer utility. While the first and second packages, which were ratified during the early 1990s, progressively removed some of the regulations pertaining to market access and air fares, the third and final package enacted in 1997 was revolutionary as it granted EU-registered carriers 9<sup>th</sup> freedom cabotage rights on services within the EU. This effectively created a single regulatory sky for EU airlines and enabled any EU-registered operator to fly domestically within the territory of another Member State.

The removal of many historical regulations governing airline market entry, competition and route licensing enabled a new generation of entrepreneurs to exploit the benefits of the more liberalised market and either inaugurate new airline services within the continent or reconfigure the service offering of existing carriers to undercut the airfares that were being charged by the incumbent full-service flag carriers. Many of the new start-ups were inspired by the consequences of air service deregulation in the United States and they sought to bring aspects of Southwest Airlines' pioneering low-cost model to Europe. By eschewing expensive 'frills' and only providing what was necessary for safe and efficient air travel, the low-cost operators were thus able to offer airfares that were significantly cheaper than those the market was used to (in some cases only charging passengers the compulsory national taxes and charges). Lower airfares stimulated dramatic demand for flights and new airlines and Origin- Destination (OD)-pairs entered the market, breathing life into previously underserved regional airports and offering new connections for business, leisure and migration (Budd and Ison 2014).

The effect of LCCs was especially dramatic in Europe's leading tourist destinations which, in the years prior to liberalisation, had been served only by relatively expensive flag carriers or by inclusive tour charter operators. The rise of LCCs combined with growing internet penetration and consumer confidence with online financial transactions in the early 2000s enabled passengers to book bespoke 'do-it-yourself' itineraries. This change in consumer behaviour led to considerable traffic growth in certain markets with all the attendant concerns about environmental sustainability and the risks presented by over-tourism. However, as in the US, as the European LCC market matured during the 2010s, a wave of bankruptcies, mergers and acquisitions reduced the number of airline operators and consolidated flights into markets and destinations that consistently exhibited the greatest demand. One market that has proved especially attractive for LCCs is Malta. The island nation has a long history of aviation activity and innovation and this is now manifesting itself most notably in the number of European LCC subsidiaries that are establishing a presence in Malta and gaining a Maltese Air Operator's Certificate (AOC – the licence that is required to operate commercial air services).

### **3. Geographic context of Malta and importance of air transport and tourism**

The islands of Malta are located at the centre of the Mediterranean Sea, some 100km south of the Italian island of Sicily. The European island state measures 316km<sup>2</sup> in total area over three main islands, of which only two are inhabited, and has a population just over half a million. This reflects one of the highest population densities in Europe. Add to this the annual arrival of tourists which had increased to 2.8 million in 2019 (pre-COVID) and reached 2.3 million in 2022 (NSO, 2023a). When one excludes the cruise passenger arrivals (43,723 in 2022), the percentage of inbound tourists arriving by air in the islands amount to 98% with the rest arriving by sea through ship and ferry connections, primarily via the port of Pozzallo in Sicily. Just under 70% of the tourists come from the EU where Malta has the strongest links partly supported by its historical connection to the United Kingdom (UK) (as a British dependence until 1964) and traditionally strong markets like Germany and Italy which flourished in the mass tourism era encouraged by sea and sun related tourist products.

It is also important to note that over 700,000 outbound tourists were recorded in 2019 with 96% leaving the islands by air and an equal distribution of passengers using low cost airlines (341,762) versus other airlines (335,242). This situation changed slightly in 2022 where a higher share of outbound tourists were recorded using low cost airline (305,673) versus other airlines (244,682) (NSO, 2023b). This might reflect a developing post-pandemic reality.

Despite attempts to diversify the economy since joining the EU in 2004, Malta is still very much reliant on the tourism industry which contributes over 20% to the islands' Gross Domestic Product (GDP). The recent construction boom has also seen a significant investment in the construction of new hotels and residences despite claims about potential saturation levels and the islands' frail infrastructure, unable to cope with the fast increasing rates of population and economic growth (Zammit, 2023). For example, Malta's population grew from 417,000 in 2011 to 520,000 in 2021, the fastest growth rate of any country in the EU (Farrugia, 2022). These discussions and debates highlight the need for more evidence that support a more sustainable tourism industry. By default, it illustrates the need for a deeper understanding of the role played by LCCs in the development of tourism and population growth, and also Malta's future.

## 4. Data and preliminary results

### 4.1. Data and categorization

The data used for this analysis were obtained from several sources. Air passenger data were provided by the Statistical Office of Malta International Airport, including its Annual Statistical Summary and semi-annual Flight Schedules. Tourism data were obtained from the annual publications of Tourism in Malta: Facts and Figures, produced by the Malta Tourism Authority.

In order to assess the impacts of LCCs on air travel and tourism in Malta, it is important to place airlines into relevant categories for analysis. We have followed standard classifications of airlines as expressed in previous literature. Specifically, we have grouped airlines providing service to Malta into three categories: LCCs, Flag and Full Service Network Carriers (FSNCs), and Charter airlines. Airlines comprising each of these categories during the time period from 2004 to 2022 include those listed in Table 1.

**Table 1: Categorization of Airlines Serving Malta, 2004-2022. Source: Malta International Airport, Annual Statistical Summary and Authors' Categorization**

LCCs	Flag and FSNCs	Charter
Bmi baby	Aegean	Air Mediteranee (France)
Clickair	Air Berlin	Astraeus (UK)
EasyJet	Air France	BritishJET
Germanwings	Air Malta	Brittania (UK)
Hapag Lloyd Express	Alitalia	Condor (German)
Iberia Express	Atlantic Airways	Euralair (France)
Jet2.com	Austrian Airlines	First Choice (UK)
Niki	British Airways	Germania
Nordic Regional	Corsair Int'l (France)	Hamburg
Norwegian Air Shuttle	Egypt Air	Hello (Swiss)
Ryanair	Emirates	Jetairfly (TUIfly Belgium)
Sterling (Denmark)	Finnair	Jetttime
Transavia Holland	ITA Airways	JetX Limited
Transavia.com France	Libyan Arab Airlines	Maersk Air
TUIFly	Lufthansa	Monarch
Volare Web	Qatar	MyTravel Airways
Volotea	Scandinavian SAS	Thomas Cook
Vueling	Swiss Int Airlines	TUI Airways/Thomson
WizzAir	Tunisair Express/Sevenair	XL (Excel) Airways UK
	Turkish Airlines	

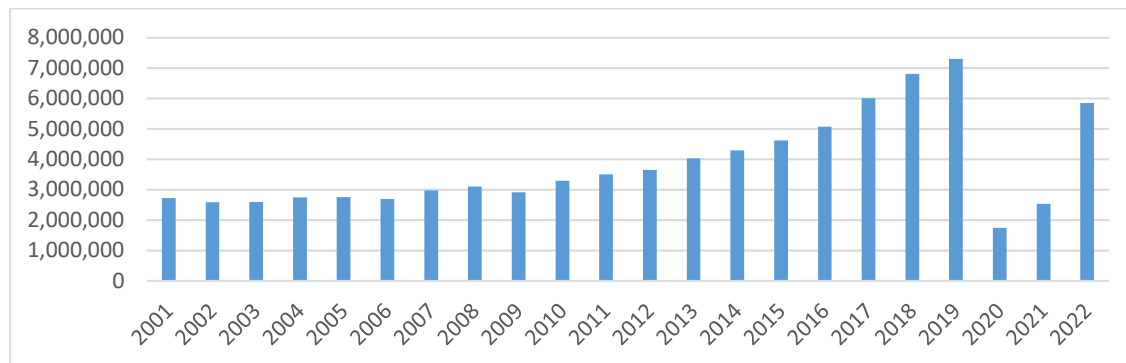
## 4.2. Air Passenger Traffic in Malta

Historically, Malta has benefitted from the service of its Flag carrier, Air Malta, which has regularly accounted for the majority of its air passenger traffic. Malta has also received significant air service from other Flag and Full-Service Network Carriers (FSNCs), such as British Airways, Alitalia and Lufthansa. Another category of significant air service provision has come by way of Charter services, featuring companies such as Thomas Cook, Britannia, and TUI Airways/Thomson.

After joining the EU Malta became part of the deregulated market of European airlines thus providing an opportunity for greater competition from LCCs. In contrast to other countries which had joined the EU in 2004 such as Poland and Hungary where LCC entry and passenger traffic increased, Malta generated little interest from LCCs and its air passenger traffic did not grow in the first several years after joining. In response, in July 2006, the Maltese Government introduced incentives to attract new airlines and new routes, and to encourage growth from LCCs. As a result, several LCCs, including Ryanair, Germanwings, Click Air, EasyJet, Vueling, Norwegian Air Shuttle and Volare Web began offering new air service to Malta between 2006 and 2008 (Graham and Dennis, 2010).

Our current analysis shows that after the introduction of LCC service to Malta and prior to the onset of the COVID-19 pandemic, air passenger totals increased significantly from 2.7 million in 2004 to 7.3 million in 2019 (See Figure 1). After the slight drop in 2009 from the Global Economic Recession, passenger traffic grew each year with especially rapid growth from 2016 to 2019. The very sharp drop due to COVID-19 in 2020 and 2021 has been tempered by a relatively strong recovery in 2022.

**Figure 1: Total Passengers at Malta International Airport, 2001-2022. Source: Malta International Airport Annual Statistical Summary, 2005-2022**

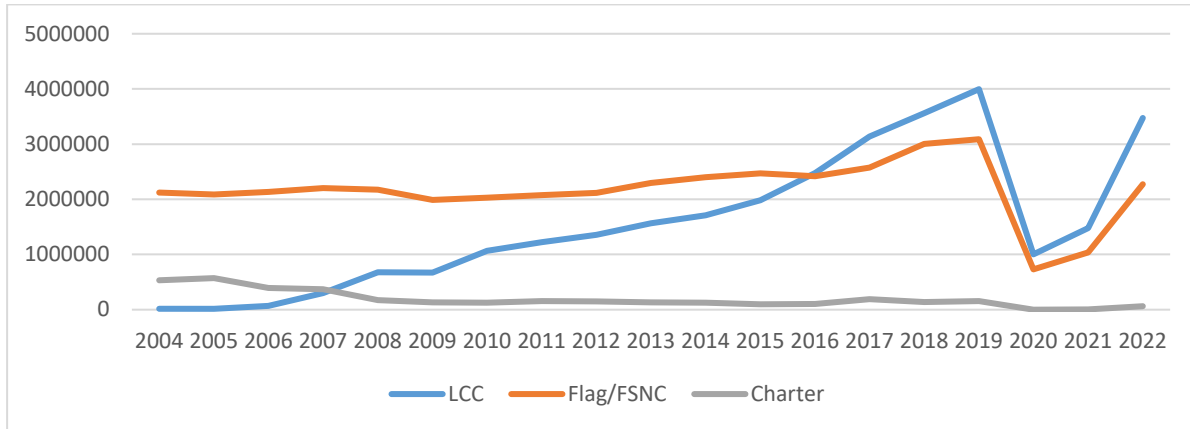


Further analysis of passenger data reveals that the role of LCCs in Malta's air passenger growth has been pivotal (Figure 2). The number of passengers carried by LCCs grew strongly from 2006 to 2019 while those from Flag carriers and FSNCs grew slowly. LCC traffic grew so strongly that by 2016 LCCs accounted for a larger share of passengers than Flag carriers and FSNCs. Meanwhile, Charter carrier traffic declined over this time period to very low levels of activity.

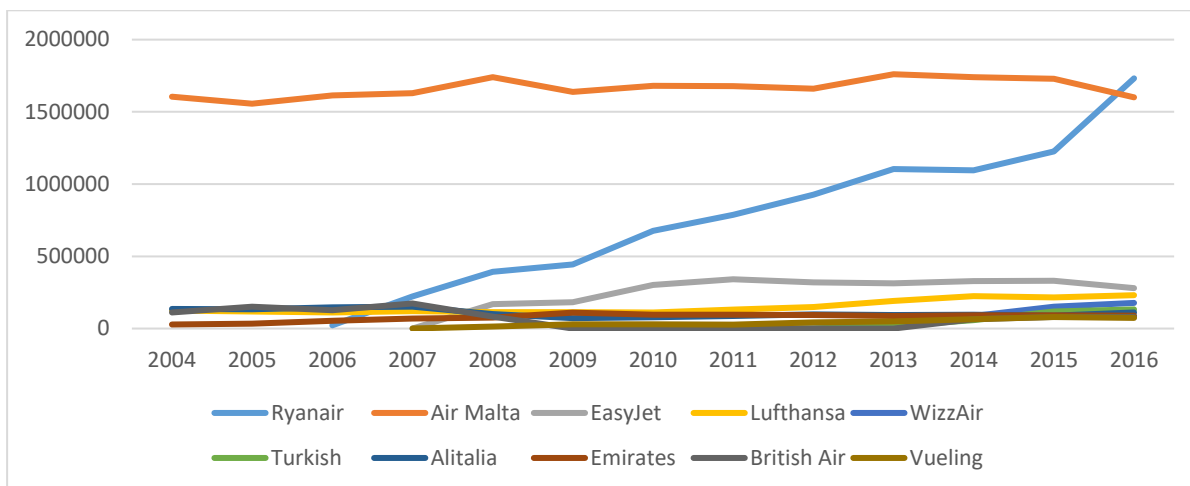
Through 2016, passenger totals registered by individual airlines serving Malta were published by the airport. Figure 3 shows that Air Malta's historically dominant position as the leading airline serving Malta has been challenged by the rise of Ryanair to the point that by 2016, Ryanair had more air passengers than Air Malta. These two airlines served by far the largest

number of passengers, together accounting for over 65% of Malta's air traffic. EasyJet, Lufthansa and WizzAir had the next largest volumes of passengers serving Malta as of 2016 but their totals were substantially below those of Ryanair and Air Malta.

**Figure 2: Total Passengers at Malta International Airport by Airline Category, 2005-2022. Source: Malta International Airport Annual Statistical Summary, 2005-2022**

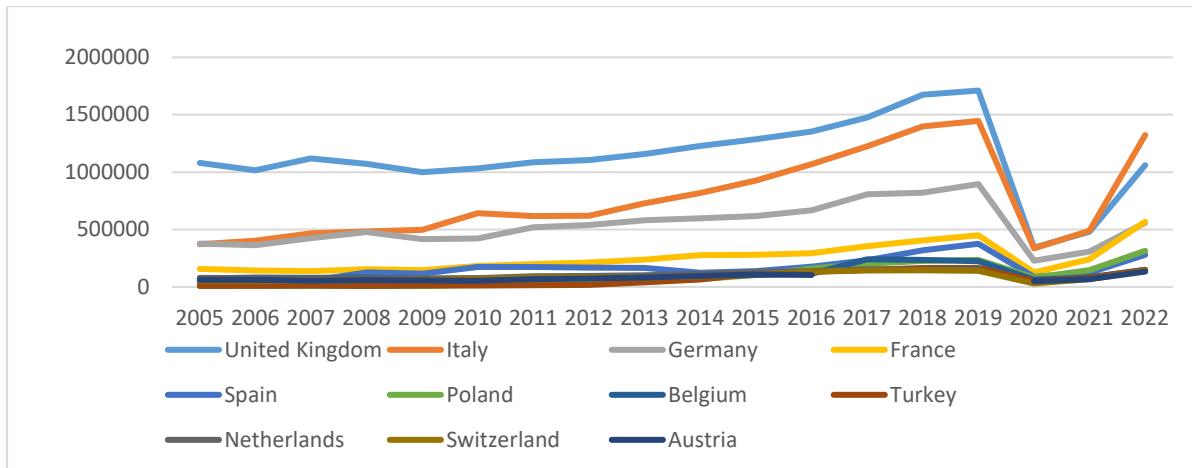


**Figure 3: Total Passengers at Malta International Airport by Airline, 2005-2016. Source: Malta International Airport Annual Statistical Summary, 2005-2016**



The geographic pattern of country origins and destinations for Malta's air passengers over time reveals several interesting trends (Figure 4). European countries continue to be the largest markets for Malta. The UK has traditionally been the principal air transport market for Malta, owing especially to Malta's historical role as a British dependence until 1964. While the UK remained Malta's dominant air transport market through 2019, its share of Malta passengers had been reduced from 39% in 2005 to 23% by 2019. During the same time, Italy's share of Malta passengers rose from 13% to nearly 20%. The growth of air passengers to and from Italy continued after the COVID slump to the point that, as of 2022, Italy emerged as Malta's leading air transport market eclipsing the UK. Whether this reversal is just a product of the COVID disruptions or indicative of a longer-term change is yet to be fully revealed. It should be noted however that Ryanair has added substantial amounts of Italian destinations to its offer to and from Malta. Prior to 2019, air passenger traffic increased for most other European countries, especially Germany, France, Spain, Poland and Belgium, though these countries' total passenger numbers were considerably below those for Italy and the UK.

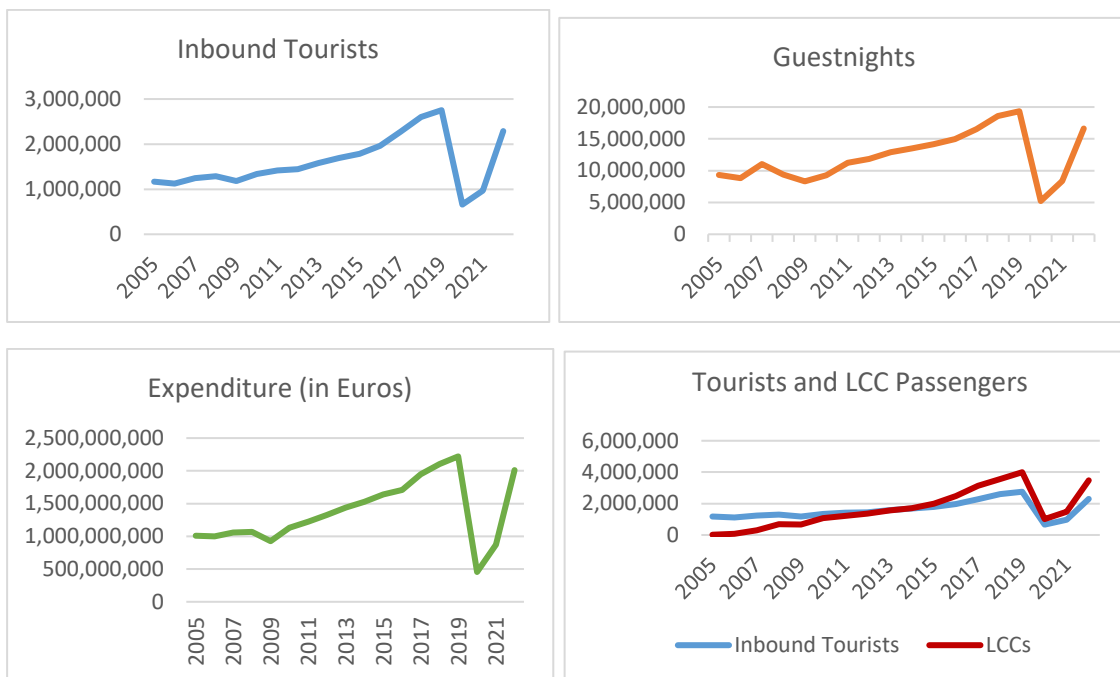
**Figure 4: Total Passengers at Malta International Airport by Country of Origin/Destination, 2005-2022.**  
**Source: Malta International Airport Annual Statistical Summary, 2005-2022.**



### 4.3. Tourism in Malta

The tourism data for inbound tourists, guest nights and expenditures reveal similar patterns of accelerating growth during the period from 2005 to 2019 followed by the COVID decline in 2020 and a sharp rebound since 2021 (Figures 5a-c). Figure 5d illustrates how the growth in the number of LCC passengers has paralleled growth in the number of inbound tourists over the 2005-2022 period. The number of LCC passengers grew rapidly during the same time as the number of tourists, guest nights and expenditures grew while the number of passengers on flag and Full-Service Network Carriers grew more slowly.

**Figures 5a-d: Number of Annual Inbound Tourists, Guestnights, Expenditures and LCC Passengers in Malta, 2005-2022.** Source: Malta Tourism Authority and Malta International Airport Annual Statistical Summary, 2005-2022.



## 5. Discussion and Conclusions

This study has analysed the growth of LCCs in Malta and impacts on the islands' economy, in particular tourism which is a fickle economic sector. The government incentives to encourage LCC service to Malta have clearly worked, so much so that LCCs now account for a larger share of passengers than Flag carriers and FSNCs. The rapid growth of air passenger traffic has mirrored both tourism and population growth. Much of the coveted tourism products that make a destination so attractive can be easily tarnished by large numbers of visitors and poor management.

In a recent study commissioned by the Malta Hotels and Restaurants Association (MHRA, 2022) the threats of a growing tourism sector were identified and, to a certain extent quantified. These range from pressures on infrastructure (sewage, waste management facilities, energy, water and transport) but also on the missed environmental (biodiversity) and emission targets which come at a considerable cost for the islands in emissions trading with other, better performing EU countries every year. The impacts also extend to property affordability, disruptions from construction which impact the tourist product but also the wellbeing of residents, and labour force structures where the Maltese worker has been increasingly replaced by EU and third country nationals. Ultimately, all these impacts will affect tourism and the islands, especially at a time when the hotel offer and number of beds continue to increase and pressure is placed on Governments to attract more tourists to ensure sustainability of the supply. Whether this is a good strategy is, of course, questionable.

Malta is a small island nation with limited resources and like others it needs to understand the limitations and potential carrying capacity of tourists and tourism. Researching islands with similar limitations, and the role that LCCs play in expanding limitlessly the number of tourists is important for the sustainability of islands like Malta. Our study is also relevant to Australia and the impacts of LCCs on tourism sites such as remote inland destinations (e.g. Uluru/Ayres Rock) as well as off-shore Australasian islands.

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