The Airline – Airport –Destination Authority Relationship: The Case of Greece

Andreas Papatheodorou, University of the Aegean

Irini Vlassi, University of the Aegean

Dominiki Gaki, University of the Aegean

Lemonia Papadopoulou – Kelidou, University of the Aegean

Marina Efthymiou, Dublin City University

Dimitrios Pappas, University of the Aegean

Eleni Paraschi, University of Patras

Abstract: The latest European Aviation structural changes have significant implications for the tourism industry and facilitate the formation of a new contractual arrangement among destination stakeholders. Greece has experienced full air transport liberalization since 1998 being a member of the European single aviation market. However, although there is a rise in the country's international tourism receipts this is not in line with arrivals growth and consequently per capita tourism receipts decrease. Given the unprecedented economic crisis faced by Greece today, it is very crucial to rationalize expenditure and make the best use of the very limited available public resources. An agreement under the defining aspects «Win - Win - Win» which has been developed among airports, airlines and destination authorities needs further economic and legal investigation. This chapter discusses the complex relationship that exists among the three stakeholders in the Greek marketplace. Section two emphasizes on Transaction Cost Economics (TCE) governing the triangular relation and reveals the interdependent conflicting and/or competing attachments of a transactional nature. The Greek travel and tourism sector dynamics under the current economic conditions are discussed in the third section; the important role of aviation in boosting international arrivals causing promising direct and indirect effects (enabling foreign investment, enhancing overall productivity etc.) in the direction of the country's recovery is outlined in conjunction with related institutional market changes. Finally, section four summarises and concludes.

1. Introduction

2017 marks the twentieth anniversary since the completion of the liberalisation process in the intra-EU (European Union) air transport market. In particular, the Third Package of policy measures fully implemented by the EU in 1997, liberalizes the protected domestic aviation market of the Member States; makes market accessible to airlines; and launches the concept of Community Air Carriers to substitute previous reference to National Airlines. Community air carriers may now freely determine fares for passengers and cargo and have access to all intra-community routes without any license or authorization, with the exception of certain specific routes on which Member States may impose Public Service Obligations (PSOs) under certain conditions and for a limited time period. In the same spirit, airport management shifts gradually away from public service-oriented authorities towards commercially-minded private operators (Efthymiou et al., 2016, Halpern and Graham, 2013). In many cases, airports are now free to set airport charges (subject to certain regulatory constraints); recognize new route opportunities; and develop marketing strategies that until recently were initiated solely by airlines (Graham, 2013).

These structural changes in the European aviation sector have caused significant impacts on the tourism industry and the formation of related contractual arrangements. In fact, destination stakeholders are aware of the important role that airports and airline networks play in the economic development and attractiveness of their region (Malina et al., 2012, Allrogen et al., 2013). Consequently, the converging interrelated interests of Airports, Airlines and Destination Authorities in this fragile and demanding environment make their relationships complex and raise the need for new participatory practices to optimize the performance of all parties and enhance sustainable tourism development (Papatheodorou, 2016). An emerging agreement among the three (3) parties, namely the community air carrier (airline), an airport and a Destination Management/Marketing Organization (DMO) – the latter as a collective representative/coordinator of local destination interests - undoubtedly constitutes a new contractual arrangement in the modern economy that is regulated neither by domestic private law nor by the EU Directives or Regulations and consequently needs further economic and legal investigation. Economic research should focus on synergies and conflicts, partnership dynamics and transaction costs, while legal research should elaborate and stipulate the framework within which embedded parties act, negotiate and collaborate. The above consist the backbone of the tripartite relation that can help deter behaviours infringing upon competition and institute economic and legal safety valves for all stakeholders thus stimulating them to trust the negotiation mechanism for their mutual benefit.

As Greece struggles to recover from the severest economic recession of the last fifty years, air transport liberalisation can possibly boost international tourism arrivals and revenues causing promising direct and indirect effects by enabling foreign investment; enhancing overall productivity; and encouraging innovation. The fourteen (14) regional airports that have been recently conceded to Fraport-Greece aim at being profitable within a competitive, free market environment. Nonetheless, as discussed in Papatheodorou and Arvanitis (2009) and Farmaki and Papatheodorou (2015) even if air transport liberalisation is necessary it is certainly not a sufficient condition to achieve sustainable tourism development to the benefit of involved stakeholders. For this reason, this chapter expands on the business triangle that involves the following business stakeholders: airports, airlines and destination authorities. Amongst them, interdependent, conflicting and/or competing relations of a transactional nature are established. These relations and their implications on the Greek tourism industry are thoroughly discussed. Economic and legal conflicts and obstacles governing the triangular relation and preventing the sustainable development of tourism are explored in the second section. Literature and current research are reviewed in section three to reveal the important role of aviation and tourism in the sustainable economic development of Greece without ignoring the potential shortcomings that may arise. Moreover, airports, airlines and destination authorities and their role in boosting tourism demand for Greek areas on a sustainable basis are extensively examined.

2. Air Transport and Tourism: Interdependence and Transactional Complexity

Air transport plays a major role in the contemporary service economy. It mainly consists of the aviation industry (airlines, airports and ancillary services) and the civil aerospace sector (aircraft manufacturing and maintenance). Despite the period of turbulence which commenced in 2000 with the September 11th incidents in the United States and continued with the wars in Afghanistan and Iraq, the SARS syndrome and more recently the hike in oil prices, the swine flu and the global economic recession, commercial airlines carried about 3.57 billion passengers in 2015 and generated revenues of 718 billion US dollars (IATA, 2016). Moreover, the airline and airport industry employed about 9.9 million people globally in 2016; when indirect and induced effects are also taken into account, it is estimated that air transport generates about 63 million jobs at a global level (ATAG, 2016). In addition to its well-established linkages with local, regional and national economies (Debbage and Delk, 2001; Gillen and Hinsch, 2001; Goetz, 1992), air transport is explicitly related to tourism (Bieger and Wittmer, 2006). Using the concept of the 'tourism ratio', i.e. tourism related receipts of a specific sector expressed as a percentage of its total turnover, it may be argued that civil aviation is a tourism industry par excellence as its related figure is often over 90%. Interestingly, about 54% of international tourists travelled by air in 2015 (UNWTO, 2016), whereas the related percentage in 1980 was only 38% (UNWTO, 2012b). In addition, and according to ATAG (2016), the direct employment effect of air transport on tourism is estimated at 15.9 million jobs; when multiplier effects are considered, the total effect rises to 36 million.

Having the above in mind, a thorough examination of the air transport – tourism nexus is needed in the context of a concise stakeholder framework involving airlines, airports and tourism destination authorities. In fact, if the three stakeholders under consideration focus solely on maximising narrowly defined, short-term individual objectives, then they are unlikely to reach a jointly efficient outcome due to the conflicting elements arising in the tripartite interactions. Transaction costs theory provides the ground for gaining a deeper understanding of the forces governing this triangular relationship. Transaction costs exist when a product is assembled from different resources and providers as with package holidays (Stabler et al., 2010). Williamson (1996) compares transaction costs with frictions that exist in mechanical systems. Misunderstandings, delays and breakdowns are some examples that can cause loss of energy in a business environment. Transaction costs can be further distinguished into coordination and motivation costs. The former relate to problems like matching potential consumers with producers while the latter are associated with information incompleteness and imperfect commitments (Milgrom and Roberts, 1992). In the triangular relationship of airports, airlines and destination authorities, available information sources are limited. The decision-making behaviour of the involved parties is subjugated and indissolubly affected by the narrow extant information. The potential parties of the specific transaction miss information needed to determine if transactions' terms are acceptable from all the parties and if they are going to be met. Transaction is characterized by information asymmetries as parties possess information but reveal only a small part of it when negotiating. Asymmetric information is expressed by hidden actions (airlines secretly deal with various airports and destinations) and hidden characteristics (airlines use price discrimination to detect customers' willingness to pay for a seat).

Asset specificity is demonstrated as the most important aspect in transactions (Williamson, 1996; Milgrom and Roberts, 1992) that can take many forms and can distract ex ante incentives or can affect ex post governance structure. Some types of asset specificity are site specificity, human specificity, physical asset specificity, brand name specificity and dedicated asset specificity. Airports infrastructure can be characterized as a high-risk investment since the built assets cannot be redeployed to other uses. On the other hand, while airlines cannot fly to a place where there is no airport, they can easily switch destinations and redirect their aircraft elsewhere. Consequently, there is a structural interdependence shaped among airports and airlines and therefore airports ask for compensation for their irreversible investment while airlines are charged for retaining their flexibility to relocate (Papatheodorou, 2003). The potential market power of airport operators depends on the specific characteristics of each airport (Gillen, 2008; Starkie, 2002). Thus, airports with the heaviest volume of traffic (particularly if congested) are expected to be most susceptible to charge high aeronautical fees to airline operators. Likewise, airports that serve as hubs are more likely to charge higher fees than peripheral ones. Furthermore, airports with a high volume of long distance traffic and those located on islands are less vulnerable to competition from other modes of transport such as road transportation or high-speed rail. The absence of competition may also derive from the absence of any neighbouring airports with a different management company. In such instances, it is possible that the airport operator will exploit its market power. Finally, privately managed airports may have greater incentives to charge higher fees compared to public providers (Zhang and Zhang, 2001). Low Cost Carriers (LCCs) and airlines with a high traffic share seem to have a stronger countervailing power against airport managers (Borenstein and Rose, 2007; Brueckner, 2002). For this reason, we can expect conflict arising between airlines and airports in the determination of airport fees.

From a destination perspective, a clearly defined destination management structure can provide destination managers and stakeholders with a place to negotiate and agree on the various strategic issues (S.T.O., 2015). Therefore, with regards to the role of a Destination Management Organisation (DMO), managers and planners must formulate and implement processes which ultimately satisfy not only shareholders (characteristic for classical corporate approach) but also other various groups related to the business (Peric et al., 2014). The central task in this process is to manage and integrate the relationships and interests of all the identified stakeholders in a way that ensures the long-term success of the firm (or destination). Ideally, a DMO should be a Public-Private Partnership (PPP), to better represent all involved stakeholders and keep an objective status with the legal framework to support its role. A DMO must also be able to identify opportunities and select the optimal solution as well as to assist in using the most suitable infrastructure available – nobody would want a 'white elephant' in the room, i.e. grandiose infrastructure built for a reason but not used to achieve its potential. A DMO may best serve to facilitate dialogue among the private and public sectors as well as other stakeholders that may otherwise never collaborate or understand how their decisions reverberate down a destination's long tourism value chain. Because of this unique capability, DMOs can prove invaluable, especially in developing destinations where tourism is an important economic driver and mechanism for equitable social capacity building.

Transaction costs and asset specificity raise substantially the level of complexity in the airline-airport-tourism destination authority relationship and thus render the study of power, negotiation and systemic conflict management (Nikolopoulos, 2013) of great added value. In fact, airlines seem to have a leading negotiating power against airports and destinations in terms of asset specificity. Airlines' property (aircraft) is spatially transferable whereas airports' and destinations' infrastructure is fixed in location. A badly handled conflict may lead an airline to move away from an airport and its served destination resulting in a loss of business at a local level. Airlines constantly struggle to change the economic terms of the contracts and agreements they sign with airports. Aeronautical charges are a big issue for airlines. Airports, on the other hand, have an incentive to impose high aeronautical fees on airlines to increase their revenue especially in cases where they have a locational advantage due to absence of substitutes and/or strong brand of local destinations. A battle of aeronautical charges can be an endless win-lose procedure. A strong international Low-Cost Carrier (LCC), such as Ryanair, and/or an airline vertically integrated with a major European tour operator, such as TUI, has many alternatives and hence a higher negotiating power vis-à-vis airports and destinations especially when the latter's brand name is weak.

To resolve the above conundrum, airports are often willing to expand their non-aeronautical offering to increase inbound and outbound passenger flows. Such an expansion may include shopping centres, hotels, entertainment parks, restaurants etc. that causes conflict with high street shops, which also claim a part of tourist expenditure. Nonetheless, local tourism authorities may become suspicious of airport cities developing rival commercial activities outside the formers' tax and administration jurisdiction. A fortiori, airports and airlines seem to be absent from local destination boards such as the DMOs, i.e. they are not somehow represented in a decision-making process that affects their performance. Moreover, airlines and airports are interested in both incoming and outbound point-to-point and network traffic, while local tourism authorities are only interested in inbound traffic. Likewise, local tourism authorities and airlines care much more about the socio-demographic profile of tourists/passengers compared to airports whose passenger-related aeronautical revenue is based solely on volume.

Having all the above in mind, the emering high transaction costs may be reduced via vertical governance or even integration. While the latter may face managerial and legal challenges, the interrelation of the three main stakeholders (i.e. airlines, airports, destination authorities) motivates cooperative practices. Incentive schemes covering marketing and advertising, revenue guarantees and discounts in aircraft-related or passenger related charges are common practices aiming to share start up costs and financial risks when airlines establish a new route or further developing existing ones (Halpern and Graham, 2013). A research carried out by Malina et al. (2012) shows that from a sample of 200 European airports about the one-third adopted incentive programmes providing lower aeronautical charges and promotional payments when negotiating with airlines (66 of the 200). Moreover, 33 bilateral agreements in the form of fixed payments guarantee were detected among airports and airlines and 26 among destination authorities and airports. The rationale behind state or other form of aids provided to airlines and especially to LCCs is that reduced fares boosts tourist flows and increased local employment and income (Papatheodorou, 2003). In Greece, Athens International Airport offers incentive programmes to airlines and until the entry of Fraport Greece, it was the only airport in the country following such practices. Legislation on state aid and competition (mergers, alliances, pricing, etc.) is in force and applicable to ensure the level playing in the unified and deregulated EU aviation market. In 2014, the European Union, which supports open market and is against state-aid measures, announced new guidelines to improve competitiveness and reinforce further development in the aviation sector. While subsidization is not considered an appropriate practice, new forms of cooperation seem to optimize the performance of all the parties.

In essence, and despite the various conflicts and frictions all three stakeholders seem to desire satisfied passengers/tourists and increased levels of revenues and profits. Nonetheless, their relationship seems to be transactional rather than based on bonding, trust and long-term cooperation for a common future that is worth to invest in. This is because route development can only prove sustainable if it results in a triple-win situation; to achieve so, however, related risks should be properly understood and possibly shared by all involved parties and compensated by appropriate returns. Further research should be conducted to demonstrate the plausibility of a triple win outcome by raising the profile of practices where common ground may be found. Among others, an airport may accept reduced aeronautical revenue if compensated by a rise in non-aeronautical revenue and partial financing of its infrastructure by the other two stakeholders. Likewise, an airline may accept reduced advertising income from the local tourism authority if the authority commits to improve the brand name of the destination and the airport agrees to fix reduced charges over a long period of time. A tourism authority may accept tax concessions and provide other services to the partnering airline and airport if its overall promotional budget is reduced and/or not funnelled exclusively to the other two involved stakeholders. If such agreements are realised in the context of transparent systemic external governance, then seamless sustainable development can be achieved.

3. Aviation and Tourism in Greece: Current Situation and the Role of Institutional Changes

As expected, the structural interrelation between air transport and tourism is apparent in all tourism destination countries such as Greece. In fact, the travel and tourism economy accounts for 18.5% to GDP, and 23.1% of total employment in Greece (WTTC, 2016). Inbound tourists were slightly over 23 million in 2015, accounting for 15.6 billion US dollars in tourism receipts (UNWTO, 2016). On the contrary, domestic tourism decreased by 22.6% from 2008 to 2013 (RIT, 2014) due to the economic depression: illustratively, Greek GDP per capita decreased from 21,844 euros in 2008 to 16,181 euros in 2015 and the unemployment rate rose from 8.6% in 2008 to 23.1% in December 2016 (ELSTAT, 2017a). Moreover, the country’s gross public debt as a percentage of GDP rose from 109.4% in 2008 to 183.4% in 2016 (IMF, 2016). Consequently, and since domestic tourism struggles to recover from the severest recession in the last fifty years, increasing emphasis should currently be placed on inbound tourism, which is largely (i.e. about 75%) air transport dependent (Papatheodorou and Arvanitis, 2014)

Sustainable development requires the joint consideration of the economic, ecological and sociocultural environment (Ritchie and Crouch, 2003). Such an approach is of outmost importance in remoted and island destinations characterised by fragile environments. Moreover, a 2001 UNWTO report underlines the importance of exports including tourism for the population’s wellbeing in island destinations, but policymakers should also consider the impacts of tourism development in an insular periphery. Although islands have limited contribution to the planet’s climatological change due to lack of industries, they are more vulnerable landscape changes and other negative effects caused by the environmental change.

The high values of the Tourism Climate Index recorded in the Ionian and Aegean Sea islands proclaim the possibly negative footprint of tourism in the long-term viability of these popular destinations. According to the Institute for European Environmental Policy (2013), the cost of adequate water supplies for Greek islands is expected to cumulatively range from 0.9% to 1.3% of the Greek GDP in the period 2041-2050. Although many island economies rely on tourism in the short run, adverse environmental changes may cause a decrease in tourist flows in the longer term. Furthermore, the sociocultural environment of a country that already suffers from poverty - with the poverty rate estimated at 21.4% in 2015 and the number of emigrants to rise from 43,044 in 2008 to 109,351 in 2015 (ELSTAT, 2017b) - is more vulnerable to ecological changes. The number of 'environmental refugees' is expected to increase in the forthcoming years to the detriment of the Greek society (BoG, 2011). To avoid the aforementioned impacts of environmental and sociocultural change, consultation and coordination of destination stakeholders is urgently need; in fact, a co-creation process should be followed to highlight the importance of sustainable development.

In addition, Greece's position deterioration in the widely acknowledged Tourism Competitiveness Index (produced by the World Economic Forum (WEF)) during the years of the crisis is an issue of great concern. Greece ranked 24th in 2009, 31st in 2015 among 141 countries and returned to the 24th position among 139 countries in 2017 (WEF, 2017; 2015; 2009). Although there is a rise in the country's international tourism receipts (from 10.7 billion in 2005 to 14.1 billion euros in 2015), this is not in line with arrivals' growth (from 14,388,000 in 2005 to 26,114,000 in 2015), i.e. per capita tourism receipts decrease. Moreover, in terms of price competitiveness (which considers among others airport charges, ticket taxes and fuel price levels), Greece occupied the disappointing 90th position in 2017. Likewise, although the importance of tourism is undeniable and national spending in marketing campaigns aiming to enhance the destination brand image is high, the country's brand strategy ranked in the 67th position in 2017. In terms of overall air transport infrastructure, the drop from the 19th position in 2009 to the 26th in 2017 also causes concern especially for peripheral regions; moreover, in terms of air transport infrastructure quality Greece ranked 43th in 2017. Information Communication Technologies (ICTs) have not been exploited as the number of companies using them for business-to-business (98th position) and for business-to-customer (82nd position) transactions seems low. A matter of great importance is also environmental sustainability where Greece ranked 39th in 2017; when combined with the fact that the country's business environment ranked 103rd this casts doubts for the development of tourism and the Greek economy in general.

Having the above in mind, it is evident that tourism plays a very important role in the Greek economy, which is though largely dependent on developments in the air transport sector. A prerequisite for gaining deeper appreciation of the triangular relation that exists among airports, airlines and destination authorities in Greece is to examine the current situation and the role of each individual stakeholder in tourism growth; to understand the existing interrelations; and to reveal transaction costs that should be acknowledged and addressed.

3.1 Destination Management Organization

DMO's functions in Greece are implemented by the State, the Departments of the respective local authorities or organizations under the supervision of Local Government Organizations (LGO) in the legal form of municipal non-profit corporations. Destination management and marketing can generally be performed at national (by Greek National Tourism Organisation - GNTO), regional (by Regional Authorities and Prefecture Tourism Promotion Committees) and local level (by Municipalities and their subsidiary agencies). The Greek National Tourism Organisation (GNTO)'s structure and role changed many times throughout the years. Since 2014 (Law 4254/2014) GNTO's competences have been limited to market research and promotion of Destination Greece (RIT, 2013). The Ministry of Tourism is responsible for tourism planning and development. DMOs act and operate as intermediary bodies of management and implementation of funding activities (e.g. managing EU programmes in the context of the National Strategic Reference Framework, etc.); this is because the modern Greek legislation restricts the definition of entities or persons acting as intermediate operators of subsidized programmes only to a limited number: among them are the Developmental SA Companies of LGO (DevSALGO). A DMO can also be established under a different form, e.g. as a joint SALGO by one or more municipalities or communities, which operates in accordance with the provisions of Law 2190/1920. In this case, the majority of its share capital (at least 51%) is held by LGO or other bodies of local government or public entities or the State, while the remaining share capital may be held by other natural or legal persons of the private sector. Nonetheless, the disadvantage of joint SALGOs which can develop activity as DMOs is that they cannot act as intermediary managing bodies of EU programmes according to the current Greek legislation; thus, LGOs gradually prefer and choose the corporate formations of DevSALGO as DMOs. Illustratively, a DevSALGO DMO called "Athens Development and Destination Management Agency" was established in Athens in 2003 aiming to boost the city's sustainable development by increasing competiveness and entrepreneurship, improving quality of life, coping with poverty. There is another DMO currently in its infancy in Hersonissos, Crete and efforts to that direction can also be detected on the island of Santorini. The low number of DMOs operating in Greece today confirms the absence of leadership and coordination that can enhance destination's competitiveness and ensure long-term prosperity.

3.2 Airlines

UNWTO (2012) argues that tourism growth is strongly interlinked with air transport liberalization. In fact, in Europe, civil aviation policymakers adopted a step-wise approach to air transport liberalisation, also known as 'the three packages' way to the formation of the European Common Aviation Area (ECAA). The Third and most important Package came into full effect in April 1997 giving carriers complete freedom in terms of market entry and exit, determination of seat capacity and setting of fares within the ECAA (Papatheodorou and Liasidou, 2006). Greece implemented the Third Package in July 2008 having been granted an extension by the European Commission to deal with issues directly related to the country's multi-island geographical structure. Back in the 1990s a number of carriers such as SEEA, Apollo, Cretan, Venus and Axon entered the Greek market. In the early 2000s the market consisted of two major groups, i.e.: a) Olympic Airlines (which incorporated Olympic Aviation and Macedonian Airlines), the ex-flag carrier, privatised by the government in 2008-09 (and at that point acquired by MIG Group) to imminently resolve a multitude of financial and other problems; and b) Aegean Airlines (which incorporated Air Greece and Cronus), a privately owned airline and member of Star Alliance, i.e. the global airline alliance led by Lufthansa and United Airlines. The European Commission accepted the acquisition of Olympic by Aegean Airlines in 2013 and today only one major Greek carrier operates in Greece. Small companies also exist in niche passenger markets (e.g. Astra Airlines, Sky Express, Ellinair), air taxi and cargo segments. Furthermore, LCCs started operating in Athens International Airport and in Thessaloniki since the late 1990s but their operations did not expand to include other regional airports until 2012 (Arvanitis and Papatheodorou, 2015). Ryanair, the Irish carrier placed in the top ten airlines with the largest number of passengers worldwide (IATA, 2016), has established three (3) bases in Greece, i.e. Athens, Chania, Thessaloniki, and operates in a multitude of international and domestic routes. There are also other LCC operating services on a seasonal base connecting tourism origin countries with Greek sunlust destinations such as Heraklion, Corfu, Zante etc.

3.3 Airports

The third stakeholder to consider in the triangular relationship relates to airports. Due to its mountainous geomorphology and the 6000 islands (only 227 are inhabited) Greece requires many airports to face peripherality. 39 airports operate currently in Greece (+7 closed): 11 are located on the mainland and 28 on the islands; 34 state-owned, 4 are municipal and one (that is Athens International Airport) operates as a joint venture owned 55% by the Greek state, 40% by the German company AviAlliance and 5% by members of Kopelouzos family. 15 airports are authorised to receive international traffic, 13 are of hybrid status whereas 11 receive domestic flights only. In terms of traffic activity in Greek airports, about 444,249 aircraft movements (42.2% domestic and 57.8% international flights) were recorded in 2015 related to 48.8 million passengers in total; these can be further classified into 14.5 million domestic and 34.3 million international passengers (Hellenic Civil Aviation Authority, 2017). It is also important to mention that a high degree of concentration and asymmetry related to the fragmented geographical relief of the country is depicted in the air traffic pattern (Papatheodorou and Arvanitis, 2015). Greece has 1 “A” class airport (>10 m pax) - that is Athens International Airport - which accounts for 39.97%% of total traffic; 2 “B” class airport (5<.<10 m pax), i.e. Heraclion International Airport in Crete and Thessaloniki International Airport in Central Macedonia with 23.35% of total traffic; 6 “C” class airports (1<.<5 m pax) with 29.96% of total traffic; and finally, 30 “D” class airports (< 1 m pax) with 9.72% of total traffic (Hellenic Civil Aviation Authority, 2015). Many among the D class airports rely on Public Service Obligation (PSO) routes; there are currently 28 such routes connecting remote islands and isolated areas in Greece. A PSO regime is actually imposed by the state and determined by the operation of scheduled air services between an airport in the Community and an airport serving only a peripheral or development region in the territory of a Member State, or an air service with low traffic, if it is considered vital for the economic and social development of the region that the airport serves. There are thirteen routes connecting Athens with islands of the Aegean and the Ionian Sea; one connecting Athens with Kastoria and Kozani; five connecting Thessaloniki with islands of the Aegean and the Ionian Sea; one connecting Thessaloniki with Kalamata; five connecting islands of the Aegean and the Ionian Sea; one connecting Alexandroupoli with Sitia; and one last connecting Aktio with Sitia (Hellenic Civil Aviation Authority, 2017).

As also evidenced by WEF (2015) many airports in Greece require direct investment for redevelopment or reconstruction purposes – lack of public transport intermodality to seemingly connect the airports with the major metropolitan centres is also identified as a problem in many cases (Efthymiou and Papatheodorou, 2015). In business practice, such investment is usually undertaken either by the private sector with funds derived from developmental - operational programmes, usually co-financed by the European Structural and Investment Funds or by a private entity in partnership with a public body, after public tender (PPP contributory public works, see the European Commission Green Paper on PPPs - Community law on public contracts and concessions, 2004). In fact, the high importance of airports for the country's prosperity convinced the Greek government to welcome the idea of a concession in 2013 and to invite private investors to manage, maintain and operate 14 of the remaining 38 airports given that Athens International Airport was already operating as a private entity (HRADF, 2013). The Greek parliament sealed the concession to Fraport Greece, a joint venture of Fraport AG Frankfurt Airport Services Worldwide and Slentel Limited (unit of Kopelouzos Group) in 2015 (HRADF, 2015). The process was completed in April 2017. In this case, the development and exclusive exploitation of the fourteen (14) regional airports is exclusively assigned to Fraport Greece under contract of work or service concession and not under public works contract (see on Kitsos, I, the Directive 2014/23 / EC on the award of concession contracts, Athens, 2016). In an airport concession agreement, the right to exclusive use of the project (airport) is given in exchange for the construction or reconstruction - redevelopment, which is performed through the financing by the project concessionaire - contractor (private investment - private funds). The contractor, i.e. Fraport Greece, is the one who undertakes the business risk of the financing repayment and subsequently the project management (airport). This funding may be provided directly to the concessionaire - contractor by private investment of third parties (e.g. financial institutions). However, none of these ways actually negates the other, as blurring boundaries have been observed between public works contracts and works concessions, leading to confusion in applying the most appropriate legal regulatory framework per case.

Irrespectively of the above, Greek airports display considerable heterogeneity and face different challenges (Papatheodorou and Arvanitis, 2009). Many of them are located on islands receiving a bulk of traffic during the high summer season, which causes severe congestion while remaining underutilized for the rest of the year. Likewise, there are several airports located in the mainland (such as Kalamata, Araxos and Ioannina) that receive very low traffic flows despite their high growth potential. At the same time, the Hellenic Civil Aviation Authority (HCAA) is undergoing a radical restructuring process, waiving its role as operator of airports and air navigation service provision and focusing solely on market regulation. Having the above in mind, the 'one size fits all' pricing scheme - the single charging scheme implemented for all Greek airports operated by the state entities- is inadequate to deal with the improved efficiency goals: according to the new regional airports concession agreement, the charges in the fourteen (14) airports will be set by Fraport Greece and monitored by the HCAA. Given that the level of airport charges may raise conflicts between airlines and airports to the possible detriment of a tourism destination too, an optimal pricing scheme should be designed to meet the objectives of all involved parties.

4. Conclusion

This chapter discusses the air transport and tourism dynamics in Greece focusing on the evolving relationship among airports, airlines and the local region/tourism destination authorities as represented by a DMO. Profit or welfare maximization of the three involved stakeholders from an individual perspective will inevitably lead to a conflict of interests as a result of the existing revenue/cost structure and the emerging transaction costs. Risk sharing is always a major issue to consider but constructive negotiations, which will lead to an optimal relationship subjected to stakeholders bargaining power and mutual dependencies, can lead to optimal relationships.

In spite of the increased emphasis placed on tourism as the growth pole to exit the deep financial crisis in Greece, the 2017 WEF competitiveness report shows that in terms of air transport infrastructure Greece is ranked in the 29th position among 139 countries and in terms of quality of air transport infrastructure in the 43rd position. Consequently Greek air transport sector needs to experience radical changes in its structure and performance. This should be seriously taken under consideration as tourism is difficult to thrive without reliable aviation services since both inbound and outbound travel flows and tourism mobility are sometimes severely constrained by surface or water transport services. In this context, the Greek government welcomed in 2013 the idea of a concession and invited private investors to manage, maintain and operate 14 airports, a process that was completed in April 2017. Such institutional changes and policies concerning the smooth co-operation of tourism and aviation can make a big difference in the prosperity of tourism destinations; it is to be validated of course whether this will also prove the case in Greece.

5. References

Allroggen, F., Malina, R., & Lenz, A. K. (2013). Which factors impact on the presence of incentives for route and traffic development? Econometric evidence from European airports. Transportation Research Part E: Logistics and Transportation Review, 60, 49-61.

Arvanitis, P., & Papatheodorou, A. (2015). Greek airports in transition: From public ownership to PPP concessions. *Journal of Airport Management*, *9*(3), 284-295.

ATAG (2016), Facts and Figures, http://www.atag.org/facts-and-figures.html. Accessed at 7 Jul 2017

Bieger, T., & Wittmer, A. (2006). Air transport and tourism—Perspectives and challenges for destinations, airlines and governments. Journal of Air Transport Management, 12(1), 40-46

Bank of Greece, (2011), The environmental economic and social impacts of climate change in Greece, Climate Change Impacts Study Committee. Available at: http://www.bankofgreece.gr/BogEkdoseis/ClimateChange_FullReport_bm.pdf. Accessed at 7 Jul 2017

Borenstein, S., & Rose, N. L. (2014). How airline markets work… or do they? Regulatory reform in the airline industry. In *Economic Regulation and Its Reform: What Have We Learned?* (pp. 63-135). University of Chicago Press.

Brueckner, J. (2002). Airport congestion when carriers have market power. American Economic Review, 92(5), 1357–1375.

Brueckner, J.K. (2005). Internalization of airport congestion: A network analysis. International Journal of Industrial Organization 23 (7–8),599–614.

Buhalis D., 2000, Marketing: The competitive destination of future, Tourism Management, Vol. 21 (1), 97-116

Civil Aviation Authority (2017), Public Service Obligations In Respect Of Scheduled Air Sevices, http://www.ypa.gr. Accessed at 7 Jul 2017

Dabphet, S. (2012, February). The key stakeholders in the implementation of sustainable tourism development in two rural towns of Thailand. In *The International Conference on Tourism, Transport and Logistics Challenges and Opportunities of Increasing Global Connectivity, Paris. Retrieved from http://www. ijbts-journal. com/images/main_1366796758/0029-Siripen. pdf*.. Accessed at 7 Jul 2017

Debbage, K. G., & Delk, D. (2001). The geography of air passenger volume and local employment patterns by US metropolitan core area: 1973–1996. *Journal of Air Transport Management*, *7*(3), 159-167.

Efthymiou, M., Arvanitis, P., & Papatheodorou, A. (2016). Institutional Changes and Dynamics in the European Aviation Sector: Implications for Tourism. In *Global Dynamics in Travel, Tourism, and Hospitality* (pp. 41-57). IGI Global.

Efthymiou, M. and Papatheodorou, A. (2015) Intermodal Passenger Transportation and Destination Competitiveness in Greece, Anatolia – An International Journal of Tourism and Hospitality Research, 26(3): 459-471.

ELSTAT (2017a), Employment status and unemployment rate (January 2004 - December 2016). Available at: http://www.statistics.gr/en/statistics/-/publication/SJO02/- Accessed at 7 Jul 2017

ELSTAT (2017b), Living Conditions In Greece. Available at: http://www.statistics.gr/documents/20181/2810519/LivingConditionsInGreece_0317.pdf/4965ade8-5194-47c3-8cc4-8805595226cf

Farmaki, A., & Papatheodorou, A. (2015). Stakeholder perceptions of the role of low-cost carriers in insular tourism destinations: The case of Cyprus. *Tourism Planning & Development*, *12*(4), 412-432.

Gillen, D., & Hinsch, H. (2001). Measuring the economic impact of liberalization of international aviation on Hamburg airport. *Journal of Air Transport Management*, *7*(1), 25-34.

Gillen, D., & Niemeier, H. M. (2008). The European Union: Evolution of privatization, regulation, and slot reform. In C. Winston & G. Rusde (Eds.), Aviation infrastructure performance. A study in comparative political economy (pp. 36–63). Washington, DC: Brookings Institution Press.

Goetz, A. R. (1992). Air passenger transportation and growth in the US urban system, 1950–1987. *Growth and Change*, *23*(2), 217-238.

Governmental Gazette 85/07-04, 2014 Governmental Gazette 85/07-04-2014. Law 4254 Measures to support and develop the Greek economy in the context of implementation of Law

4046/2012 and other provisions (in Greek). 〈 http://www.ypeka.gr/LinkClick.aspx?Fileticket=hL%2FXuG%2B4%2Bho%3D&tabid=37&language=el-GR. Accessed at 7 Jul 2017

Greek Government Gazette, FEK (A-37), Law 2190/1920, Available online:http://www.et.gr. Accessed at 7 Jul 2017

Graham, A. (2013). Managing Airports 4th Edition: An International Perspective. Routledge.

Halpern, N., & Graham, A. (2013). Airport marketing. Routledge.

HRADF (2013), Πρόσκληση για την υποβολή εκδήλωσης ενδιαφέροντος για την παροχή υπηρεσιών σε σχέση με την λειτουργία και συντήρηση των περιφερειακών αεροδρομίων του Ελληνικού Δημοσίου (Ομάδα Β)http://www.hradf.com/procurement/view/201/prosklhsh-gia-thn-ypobolh-ekdhlwshs-endiaferontos-gia-thn-paroxh-yphresiwn-se-sxesh-me-thn-leitoyrgia-kai-synthrhsh-twn-perifereiakwn-aerodromiwn-toy-ellhnikoy-dhmosioy-omada-b, http://www.hradf.com/procurement/view/201/prosklhsh-gia-thn-ypobolh-ekdhlwshs-endiaferontos-gia-thn-paroxh-yphresiwn-se-sxesh-me-thn-leitoyrgia-kai-synthrhsh-twn-perifereiakwn-aerodromiwn-toy-ellhnikoy-dhmosioy-omada-b. Accessed at 7 Jul 2017

HRADF (2015), Δελτίο Τύπου: Υπογράφηκε η Σύμβαση Παραχώρησης των Περιφερειακών Αεροδρομίων, http://www.hradf.com/post/374/nea. Accessed at 7 Jul 2017

IATA (2016), World Air Transport Statistics. Available at: http://www.iata.org/docx/WATS_2016-infographic.pdf . Accessed at 7 Jul 2017

Institute for European Environmental Policy (2013), Impacts Of Climate Change On All European Islands.
Available at: http://www.ieep.eu/assets/1292/Final_report_EP_CC_impacts_on_islands_FINAL_clean.pdf. Accessed at 7 Jul 2017

International Monetary Fund (2016), World Economic Outlook October 2016. Available at: http://www.imf.org/external/pubs/ft/weo/2016/02/. Accessed at 7 Jul 2017

Malina, R., Albers, S., & Kroll, N. (2012). Airport incentive programmes: a European perspective. Transport Reviews, 32(4), 435-453.

Milgrom, P. R., & Roberts, J. D. (1992). Economics, organization and management.

Nikolopoulos, A. (2013), Alone Against All: The negotiation strategy, Patakis

Papatheodorou, A. (2003) Do we need airport regulation, Aviation Regulation, The Utilities Journal

Papatheodorou, A. (2016). The Airline - Airport - Tourism Destination Authority Relationship: An Eternal Business Triangle? Presented at the 23rd annual Global Airport Development (GAD) conference, Lisbon, November 2016

Papatheodorou, A., & Liasidou, S. (2006). Aviation Deregulation and Tourism in Cyprus following EU Accession. In *Cutting Edge Research in Tourism Conference*, *organised by the*

University of Surrey in Guildford, United Kingdom. This is a refereed paper published in the electronic conference proceedings.

Papatheodorou, A., & Arvanitis, P. (2009). Spatial evolution of airport traffic and air transport liberalisation: the case of Greece. *Journal of Transport Geography*, *17*(5), 402-412.

Papatheodorou, A., & Arvanitis, P. (2014). Tourism and the economic crisis in Greece: Regional perspectives. *Region et Développement*, *39*, 183-203.

Perić, M., Đurkin, J., & Lamot, I. (2014). *Importance of stakeholder management in tourism project: case study of the Istra Inspirit project* (No. section4-6). University of Rijeka, Faculty of Tourism and Hospitality Management.

Research Institute for Tourism (2014), Εξελίξεις στον Ελληνικό Τουρισμό και στην Ελληνική Ξενοδοχεία. Available at: http://www.grhotels.gr/GR/xee/ITEP/DocLib2/Greek-tourism_Hotel-performance_2014_Nov2015-Final.pdf. Accessed at 7 Jul 2017

Ritchie, J. B., & Crouch, G. I. (2003). The competitive destination: A sustainable tourism perspective. Cabi.

Stabler, M. J., Papatheodorou, A. and Sinclair M. T. (2010) The Economics of Tourism, 2nd edition, London: Routledge

Starkie, D. (2002). Airport regulation and competition. Journal of Air Transport Management, 8(1), 63–72.

Sustainable Tourism Online (2015), Effective Destination Management Structures, www.sustainabletourismonline.com. Accessed at 7 Jul 2017

Tantalo, C., & Priem, R. L. (2016). Value creation through stakeholder synergy. *Strategic Management Journal*, *37*(2), 314-329.

Williamson, O. E. (1996). *The mechanisms of governance*. Oxford University Press.

World Economic Forum (2017), The Travel & Tourism Competitiveness Report. Available at: http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf. Accessed at 7 Jul 2017

World Economic Forum (2015), The Travel & Tourism Competitiveness Report 2015: Growth through shocks. Available at: http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf. Accessed at 7 Jul 2017

World Economic Forum (2009), The Travel & Tourism Competitiveness Report 2009. Available at: http://www3.weforum.org/docs/WEF_GCR_TravelTourism_Report_2009.pdf. Accessed at 7 Jul 2017

World Travel and Tourism Council (2016), The economic impact of travel and tourism March 2016. Available at: https://www.wttc.org/-/media/files/reports/economic%20impact%20research/regions%202016/world2016.pdf. Accessed at 7 Jul 2017

World Tourism Organization (2012a), Global Report on Aviation: Responding to the needs of new tourism markets and destinations. Available at: http://www.everis.com/global/WCLibraryRepository/References/tourism_study.pdf. Accessed at 7 Jul 2017

World Tourism Organization (2012b), Tourism Highlights 2012. Available at: http://www.e-unwto.org/doi/pdf/10.18111/9789284414666. Accessed at 7 Jul 2017

World Tourism Organization (2016), Tourism Highlights 2016. Available at: http://www.e-unwto.org/doi/pdf/10.18111/9789284418145. Accessed at 7 Jul 2017

Zhang, A., & Zhang, Y. (2001). Airport charges, economic growth, and cost recovery. Transportation Research Part E: Logistics and Transportation Review, 37(1), 25-33.