

Competition and Cooperation between European Airports and Airport Systems

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*European Center for
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Structure of the Presentation

- 1. Motivation**
- 2. Potential for Competition and Cooperation**
- 3. Case Studies LON and PAR**
- 4. Key Findings**

1. Motivation

- Our **research interest** includes the following issues
 - To understand when and why airports compete and cooperate
 - To gain an insight into the different forms of airport competition and cooperation
 - To assess the potential of airport competition
 - To derive potential competitive implications of airport cooperation
- Inquiry of the Competition Commission in **BAA airports** and the ongoing discussion about breaking-up BAA made us primarily focus on multi-airport systems (MAS)
- Research focus of one of our projects are airports as well as MAS from a **network perspective**
- Here, we focus on MAS from an **economic perspective** in order to supplement our knowledge on airport competition and cooperation

2. Potential for Competition and Cooperation

Gradual Liberalisation of Air Transportation in Europe

- Liberalisation packages mainly affected airlines and not so much airports
- Concerning airports the following issues are subject to EU legislation:
 - Slot allocation mechanisms (Council Regulation (EEC) No 95/93, Regulation (EC) No 1554/2003 and Regulation (EC) No 793/2004)
 - Ground handling (Council Directive 96/67/EC)
 - Recent proposal for a Directive on airport charges
- Airport regulation and ownership issues still limit airport competition and cooperation → Most airports are not free to apply all available 'action parameters'

2. Potential for Competition and Cooperation

Airport Competition

- Different segments of competition (airport activities)
 - Aviation services
 - Operational services (e.g., runway, apron and taxiway maintenance)
 - Handling (e.g., ground handling or provision of aircraft fuel)
 - Non-aviation services
- Competitive issues in aviation services
 - Capacity issues (quantitative dimension) → capacity constraints influence the level of competition
 - Qualitative dimension (e.g., infrastructure configuration determines which aircraft may operate from an airport)
 - Countervailing power of airlines vs. ‘mutual dependency’
 - Intermodal competition (surface transportation)
- Ultimately airports compete for origin and/or transfer passengers

2. Potential for Competition and Cooperation

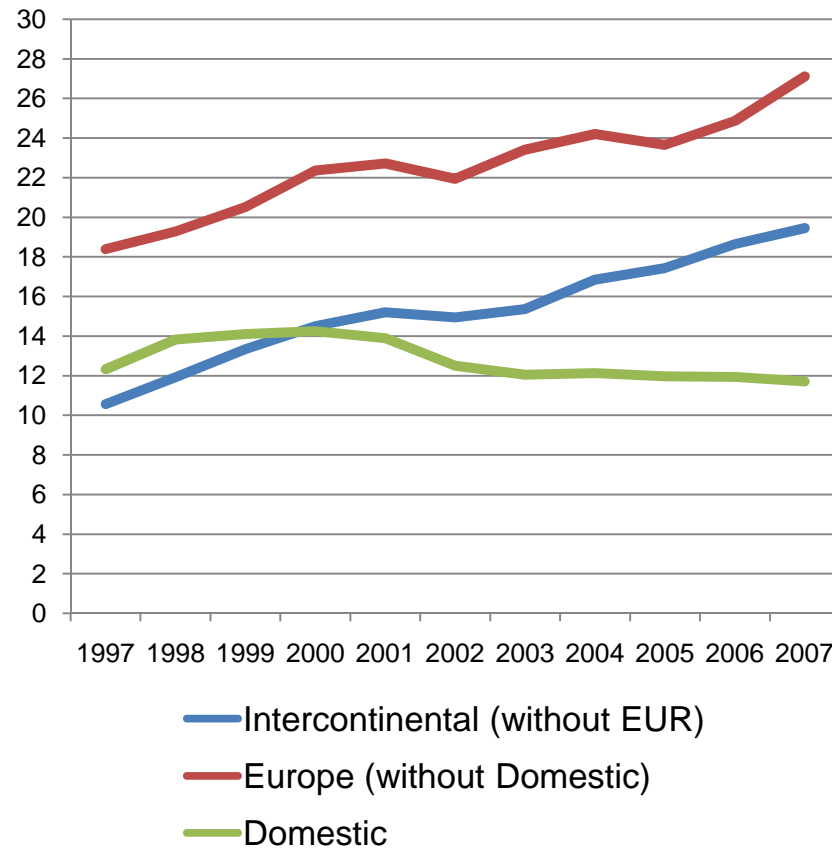
Airport Cooperation

- May occur in selected or all business segments (aviation and non-aviation services)
- Continuum of various forms of airport cooperation between market and hierarchy
- Some examples for airport cooperation:
 - ‘Simple’ cooperation agreements between airports
 - Strategic airport alliances, e.g., Pantares Alliance
 - Acquisition of potential competitors, e.g., Belfast International
 - Unity of ownership and control of various or even all relevant airports in a MAS → case studies PAR and LON

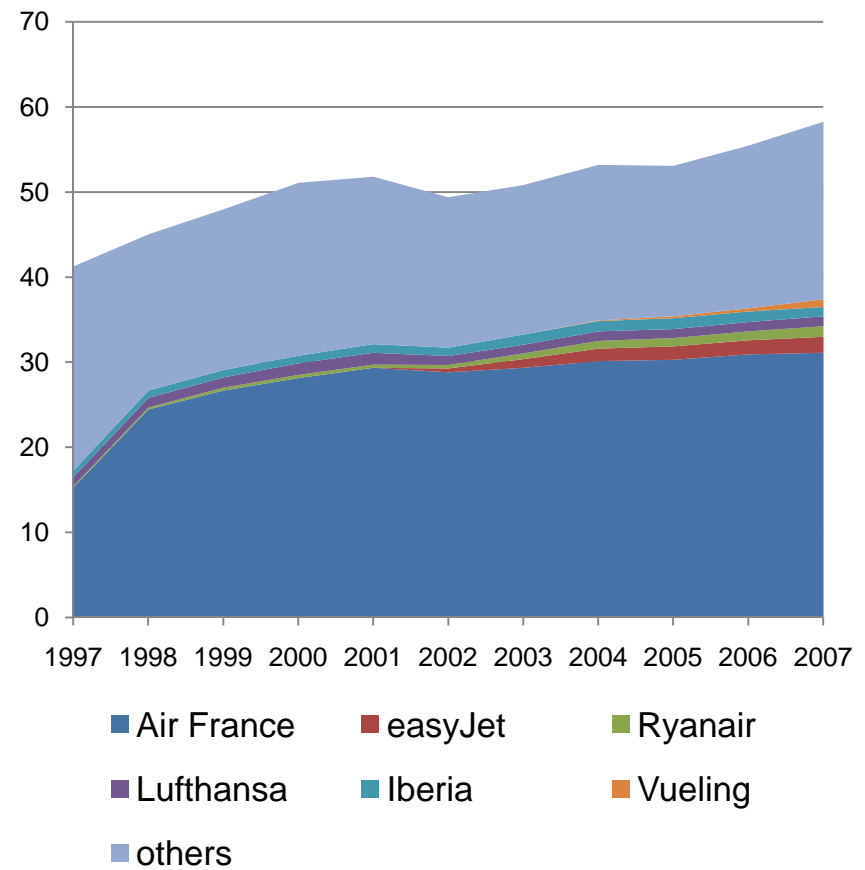
MAS Paris: Traffic in the Paris Area (PAR)

Departed Seat Capacity 1997-2007

traffic development (in m.)



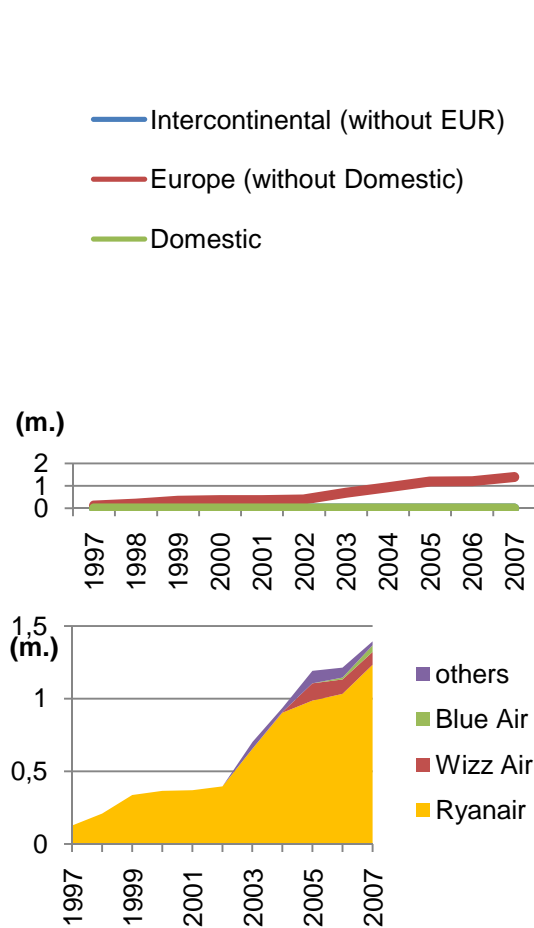
airlines' market shares (in m.)



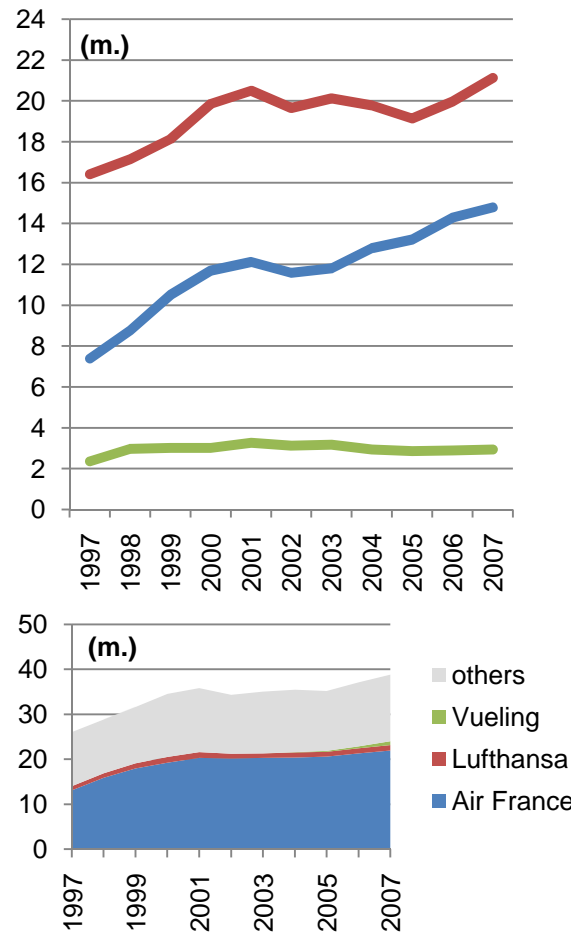
Database: OAG flight schedules.

3. MAS Paris: Airports Separately

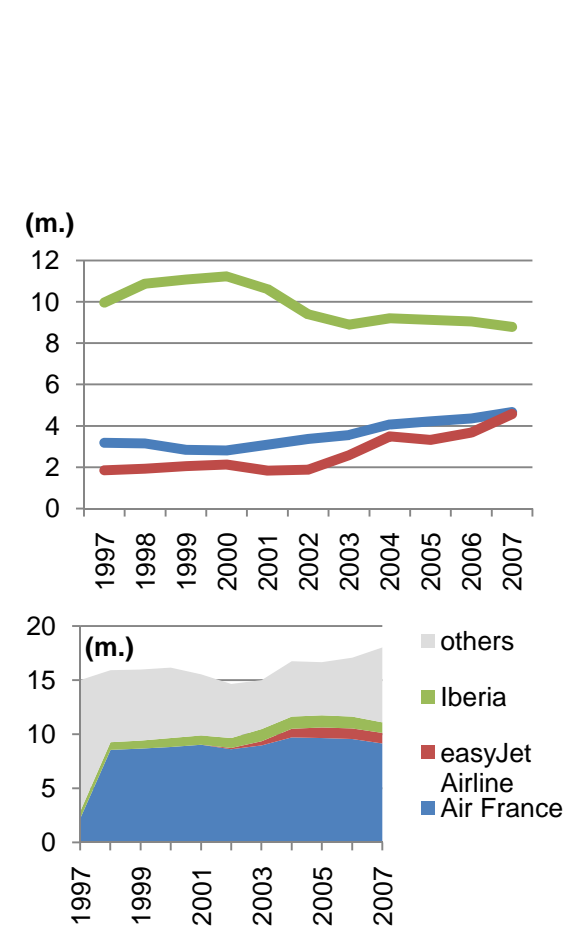
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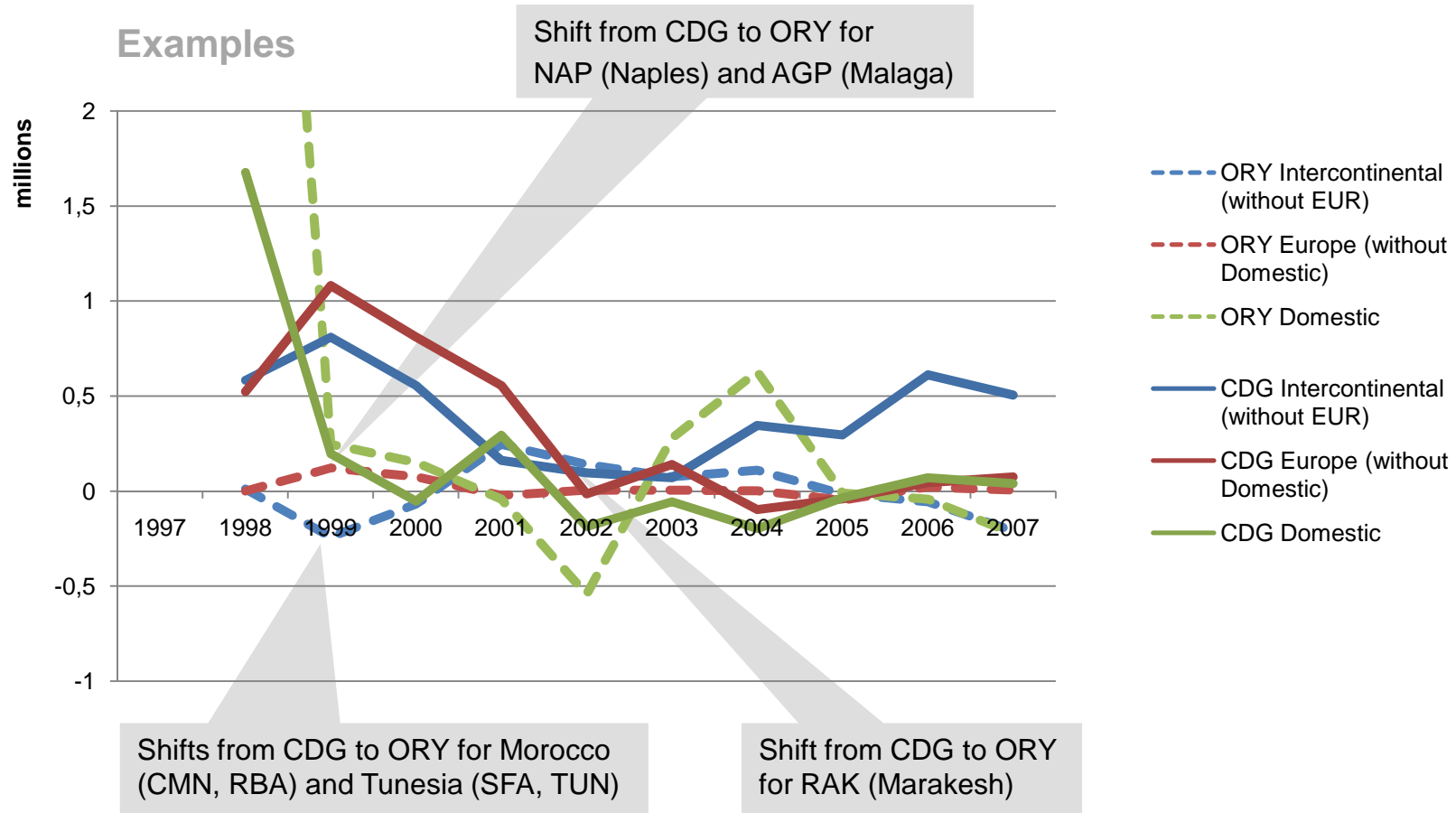
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Database: OAG flight schedules – departed seat capacity 1997-2007.

3. MAS Paris: Air France’s Multi Airport Strategy

Absolute Change in Departed Seat Capacity

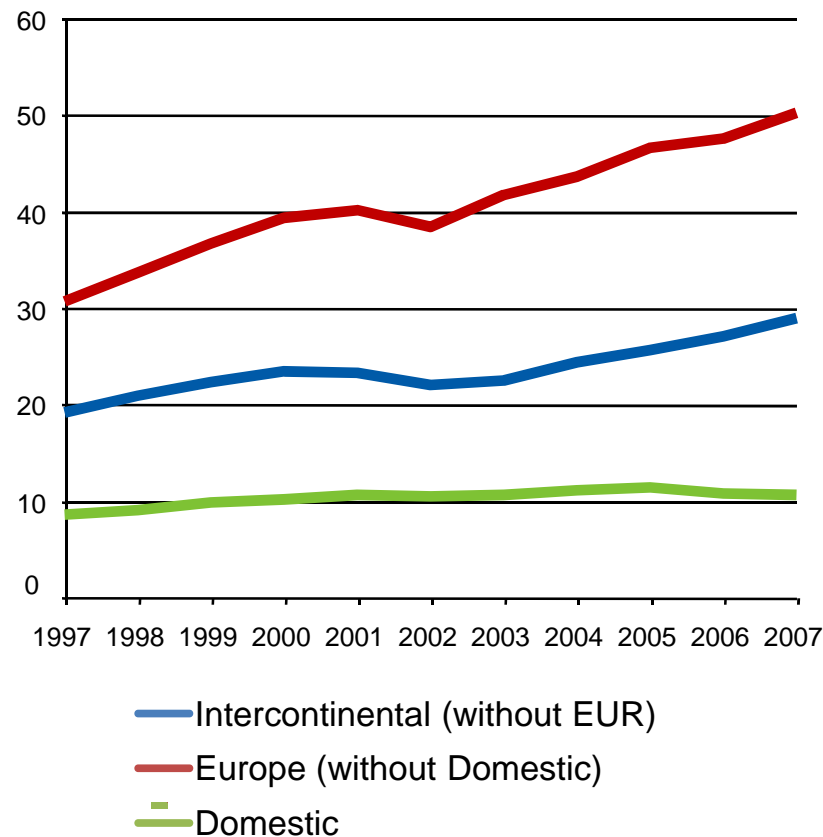


Database: OAG flight schedules.

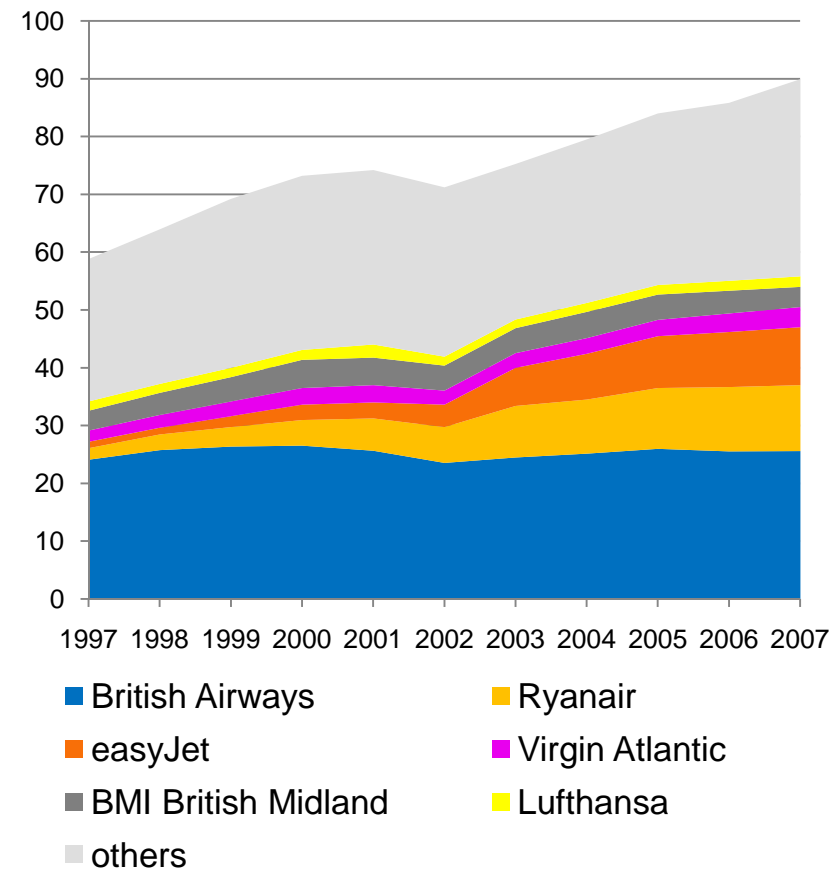
3. MAS London: Traffic in the London Area (LON)

Departed Seat Capacity 1997-2007

traffic development (in m.)



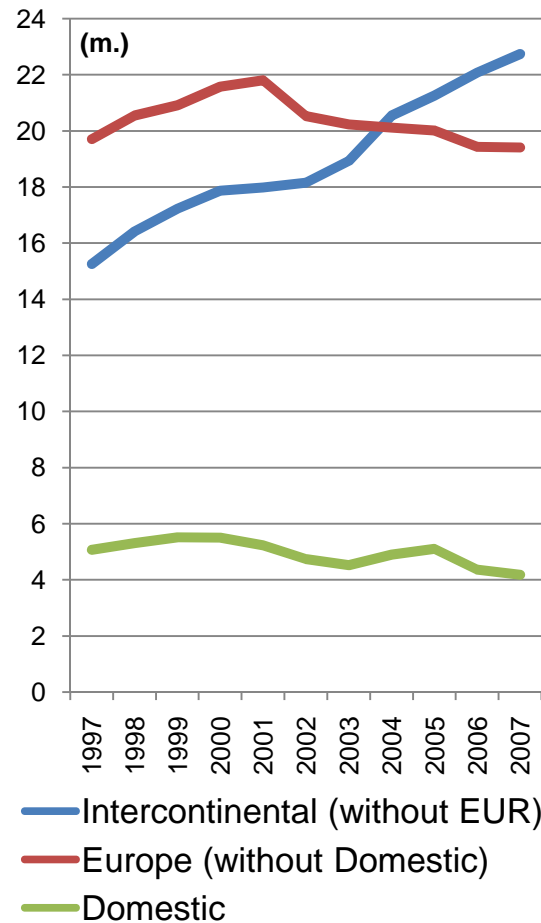
airlines' market shares (in m.)



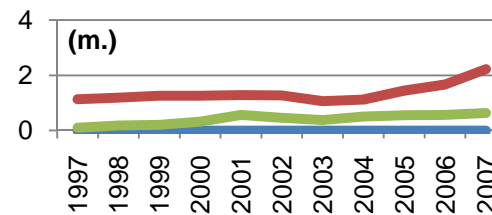
Database: OAG flight schedules.

3. MAS London: Airports Separately (1)

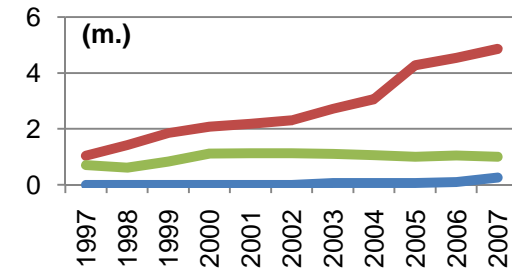
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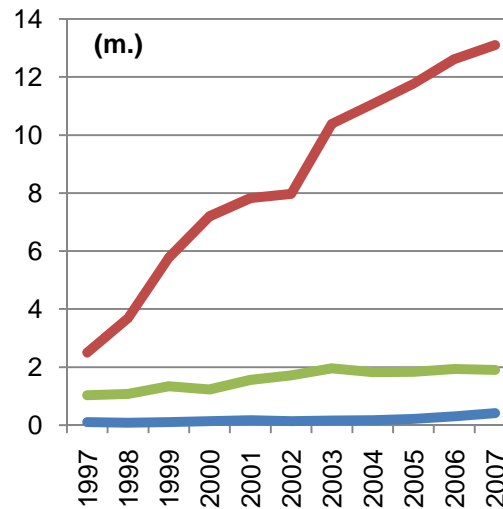
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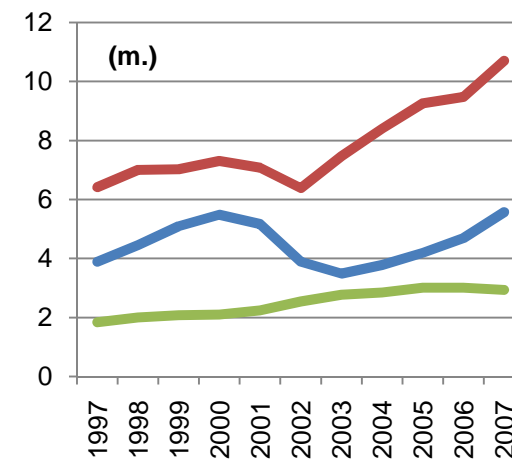
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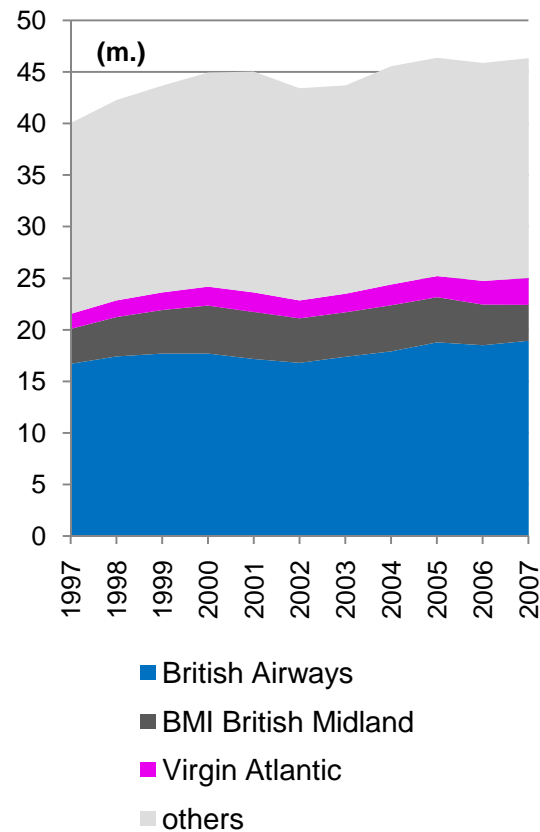
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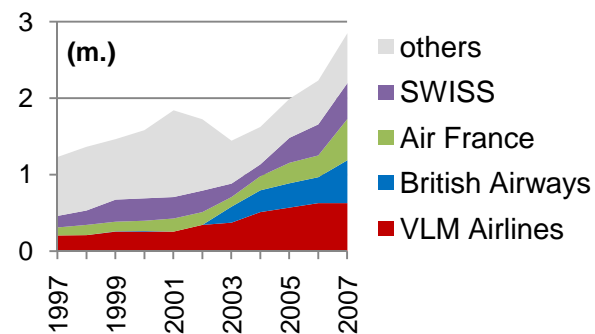
Database: OAG flight schedules – departed seat capacity 1997-2007.

3. MAS London: Airports Separately (1)

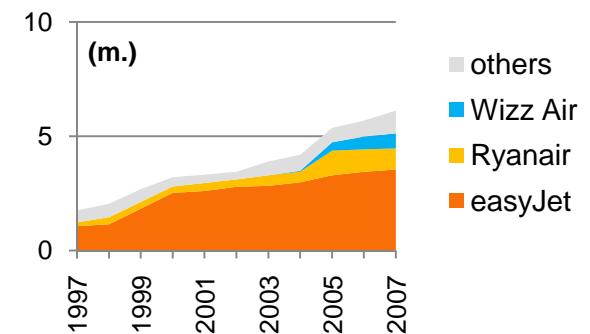
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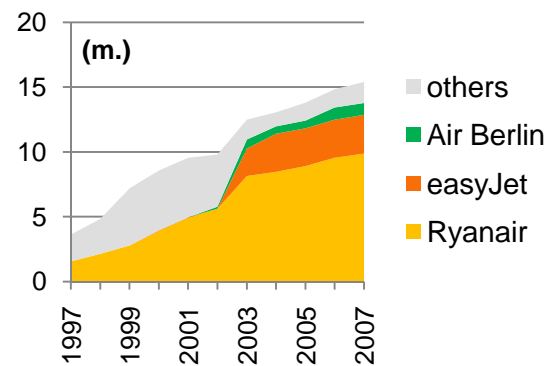
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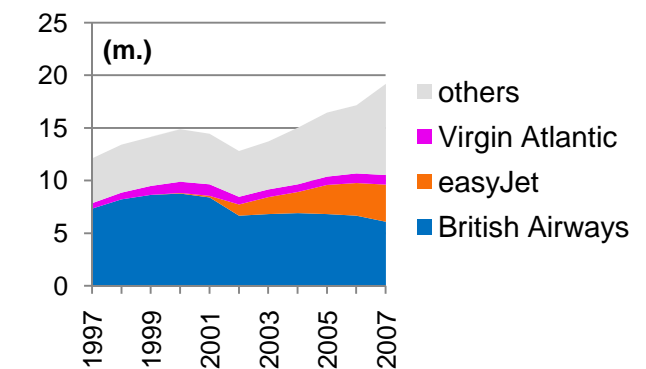
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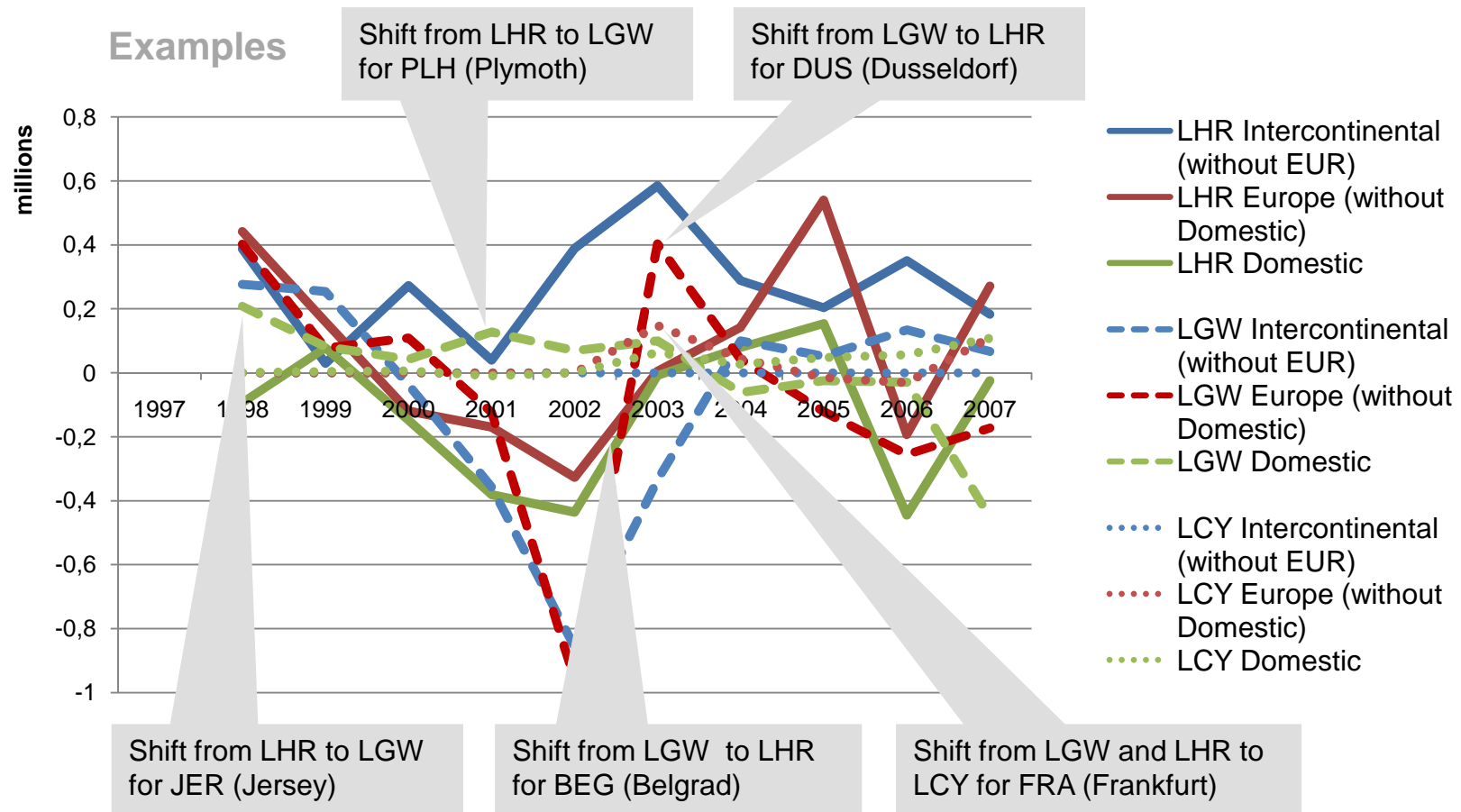
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Database: OAG flight schedules – departed seat capacity 1997-2007.

3. MAS London: British Airways' Strategy

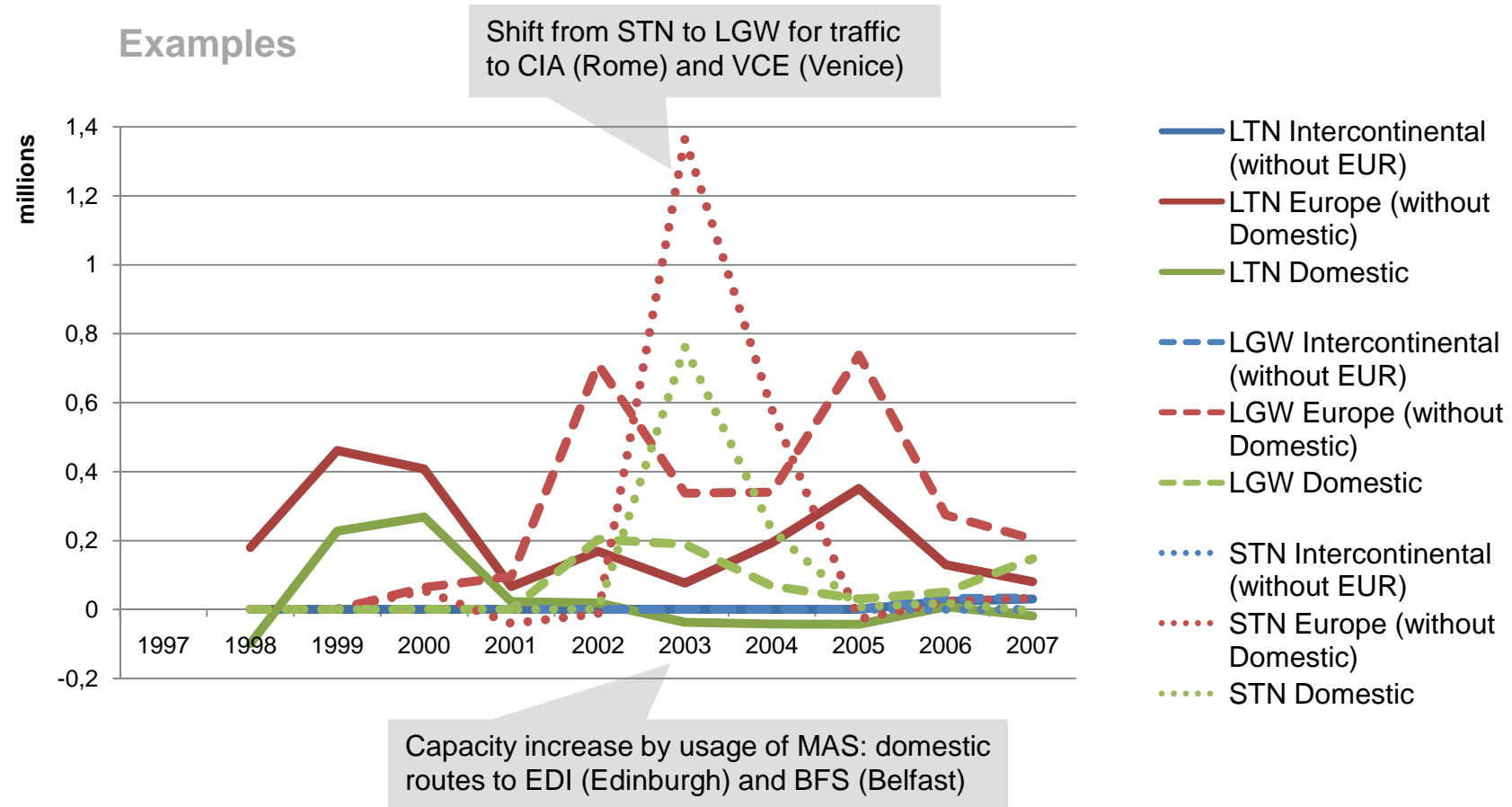
Absolute Change in Departed Seat Capacity



Database: OAG flight schedules.

3. MAS London: easyJet’s Strategy

Absolute Change in Departed Seat Capacity



Database: OAG flight schedules.

4. Key Findings

- Case studies show that different airports in MAS are dominated by different airlines, by different airline business models and/or by different traffic segments (domestic, continental and intercontinental traffic)
- In general, potential for competition between different airports in a MAS exists → breaking-up single owner MAS could help to exploit this potential

BUT competition is unlikely in the short-term

- Airlines switching airports is doubtful due to switching costs and specific investments
- Airport capacity and infrastructure constraints often inhibit airport competition
- Long-term contracts between airlines and airports may incentivise airports to increase capacity and may lead to increased competition but make switching of an airline to other airports unlikely

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2. Airports and Airport Systems

- **Airports** are the nodes in an airline network
- **Hubs** are airports where an airline concentrates its flights spatially as well as temporally and operates a wave-system structure to maximise connectivity and minimise passenger waiting time, Burghouwt (2007)
- **Multi-airport systems** are sets of airports that serve the airline traffic of a metropolitan area, deNeufville (1995)
- Unity of ownership or control generally does not define a multi-airport system for transport planning and management but...
- ...economically unity of ownership or control is highly relevant
- Several **multi-airport monopolies** currently exist within the EU (e.g., BAA's London airports and the two Parisian airports owned by Aéroports de Paris)