

The theory of *contestable markets*
in the European civil aviation market
and its application to the low cost sector

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Agenda

1	Introduction/ research questions
2	Approach and questionnaire
3	Results of the questionnaire
4	Answers to the research questions
5	New classification

Research Questions:

Is the European civil aviation market contestable?

(c.f. theory of contestable market, Baumol 1982)

- **Do we still have market entry barriers in the European airline market after its liberalization?**
- **Is a *hit and run* possible – and if so for which airline?**

Status of research so far: there are mobility barriers and the market isn't contestable

Do we have market entry barriers in the European airline market?

Analysis of exogenous and endogenous mobility barriers

exogenous

e.g.

- slot problems,
- ground facility bottlenecks
- merger control

→ Above mentioned problems occur mainly at primary airports

endogenous

e.g.

- alliances,
- hub and spoke system,
- frequent flyer programs,
- code sharing

→ These barriers are perceived differently

investigation

2 Procedure and questionnaire

Investigation of the mobility barriers

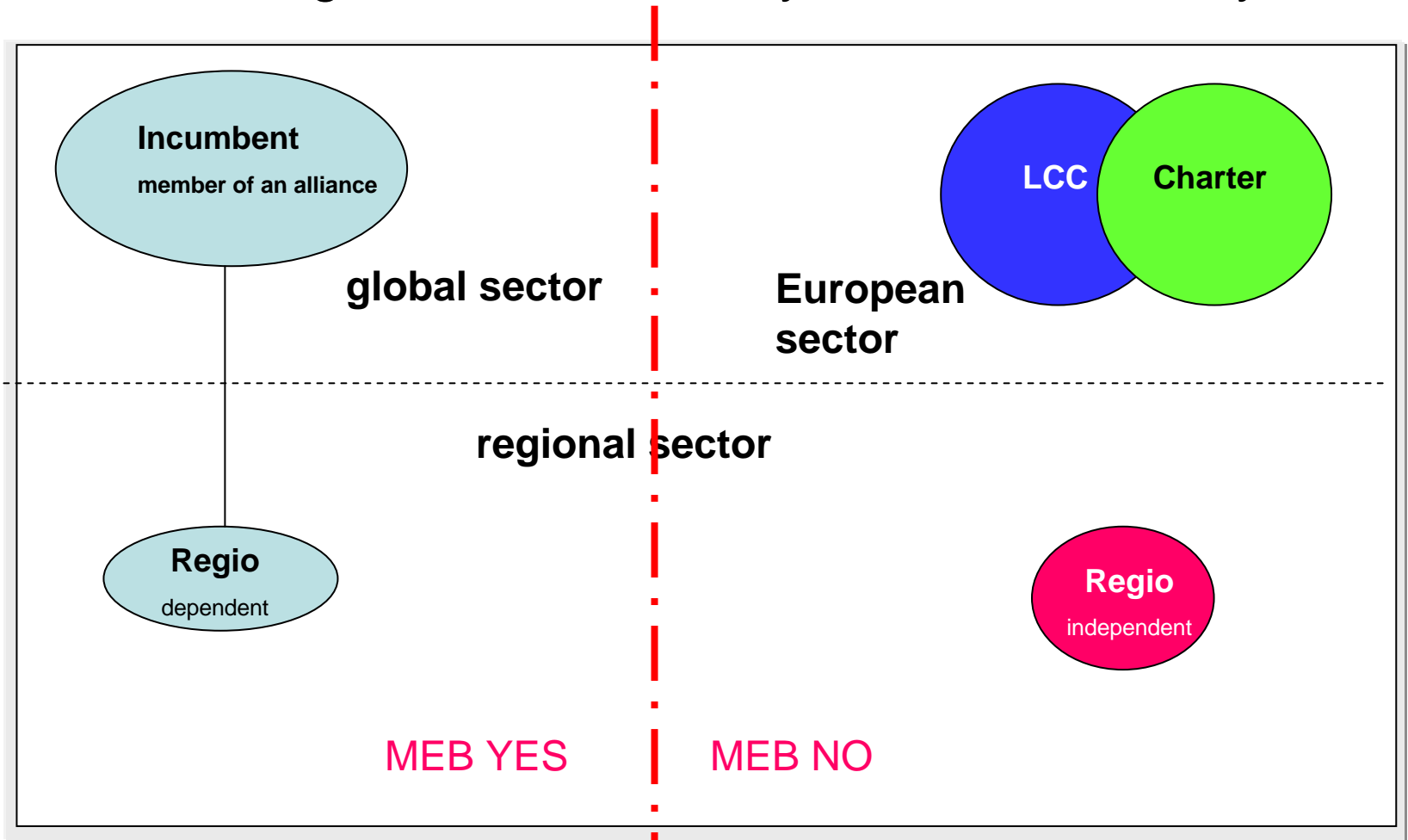
Procedure:

- 40 questionnaires were sent to European airline managers (CEOs only or strategic managers were interviewed)
- Rate of return: 77,5%
- Period of questioning: november 2004 till may 2005
- The questionnaire described 20 situations referring to mobility barriers (based on barriers already detected in the USA)
- The airline managers were questioned whether they consider these barriers as a difficulty and whether they regarded them as “absolutely effective”, “effective” or “ineffective”

3

Results of the questionnaire

Airline managers assess mobility barriers differently



4

Answers to the research questions

Research questions:

Are there any market entry barriers?

Yes, but these have to be evaluated separately for each airline type.

Is a *hit and run* possible?

Yes, but only for regional airlines which are independent and low cost carriers which follow the “no frill”-concept very strictly.

5

New classification

New classification

International Hub Carrier

- traditional airlines which have their own hub
 - are organised in an alliance-system,
 - offer full service on all routes,
 - and are global players.
- LUFTHANSA, BRITISH AIRWAYS, AIR FRANCE

European Gap Carrier

- low cost carrier and airlines serving point-to-point connections;
 - carriers offering one way tickets and fly short haul routes.
- LTU, CONDOR, HAPAG FLY

Ad-Hoc Charter Carrier

- private airlines or airlines which are working for tour operators.
- HAMBURG INTERNATIONAL

Small Hub Shuttle:

- airlines connecting the hubs of the flag carriers.
- CITY LINE, AIR DOLOMITI

Regional Airlines

- independent airlines connecting small airports.
- INTER SKY



THANK YOU

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Example: Evaluation of exogenous market entry barriers

