

Development of airports in Central and Eastern Europe. Entry and exit of airports, 1995-2007



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“German Airport Performance”

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Outline



- I. Introduction
- II. Brief overview of the CEE airport landscape
- III. Theoretical background
- IV. Airport entry and exit patterns in the CEE
- V. Conclusions

Introduction



- Many changes have occurred in recent years in both the airline and airport industry in Europe
- De-regulation and liberalization of airline markets

The airport industry has also been undergoing changes albeit at a slower pace than the airline industry

- Privatization of once state-owned airports
- New regulatory structures



Changes in the competitive structure of the airport industry

Research questions



What do we aim to analyse?

- Have there been market entries and exits in the airport industry in Central and Eastern Europe?
- If yes, can we observe specific patterns and characteristics of these entries and exits?
- How do entries and exits in the airport industry compare to similar developments in other industries?
- Have incumbents reacted to the new threat? If yes, to which extent?

Coverage



→ 15 European countries

Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Macedonia (FYROM), Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia and Slovenia.

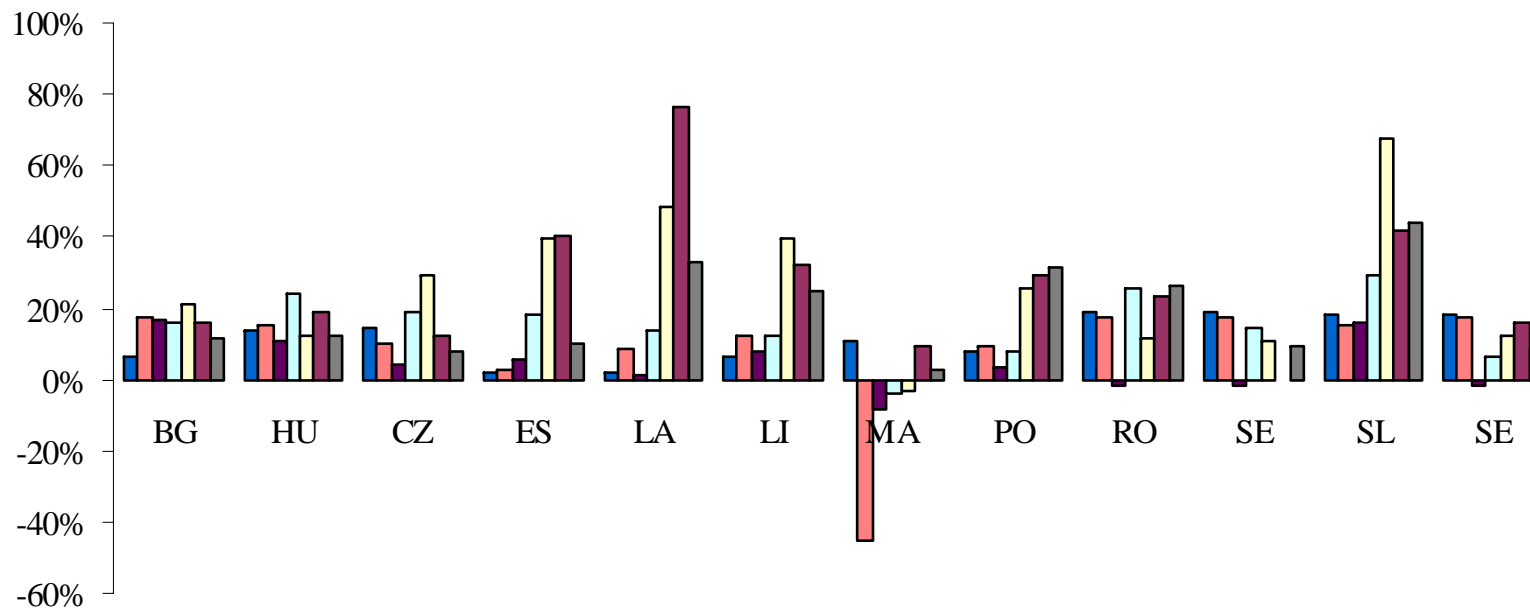
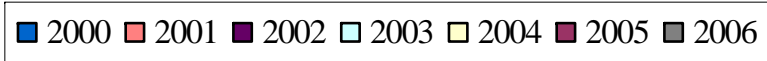
→ Timeframe 1995-2007

Airport landscape



- historical background
- political factors
- geographical characteristics
- traffic patterns
- GDP level
- competition level
- other factors

CEE traffic evolution lately



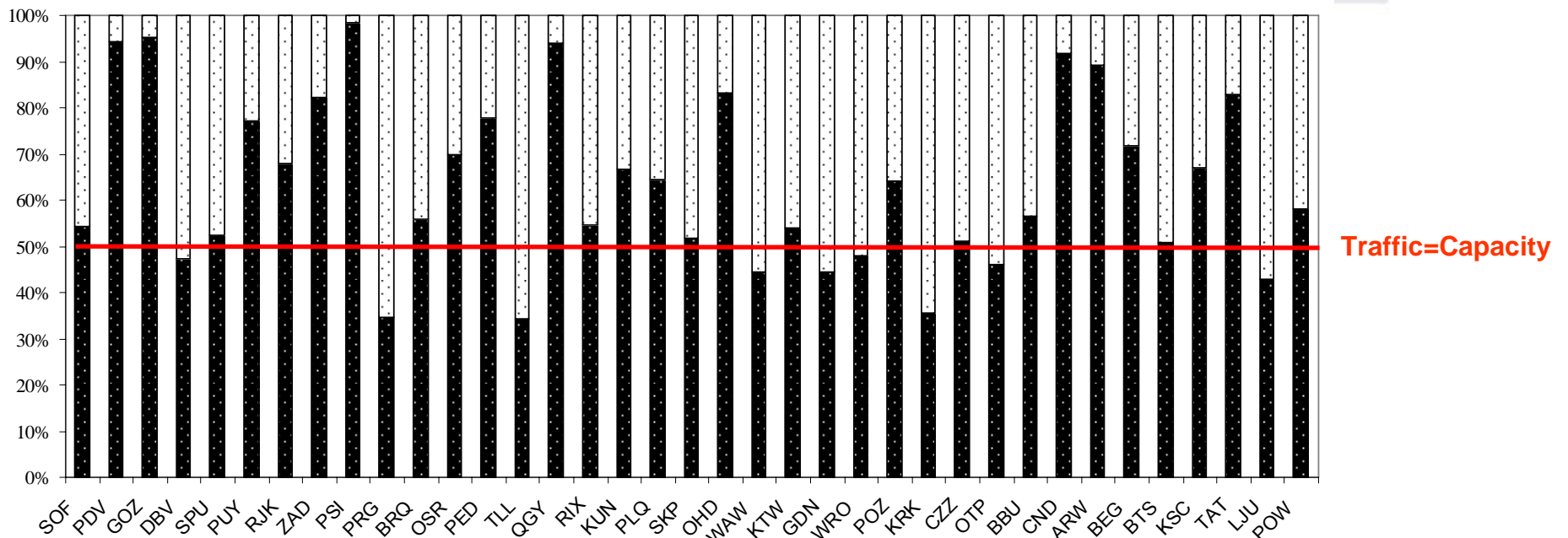
Air passenger traffic evolution 2000-2006

Capacity (vs. demand)



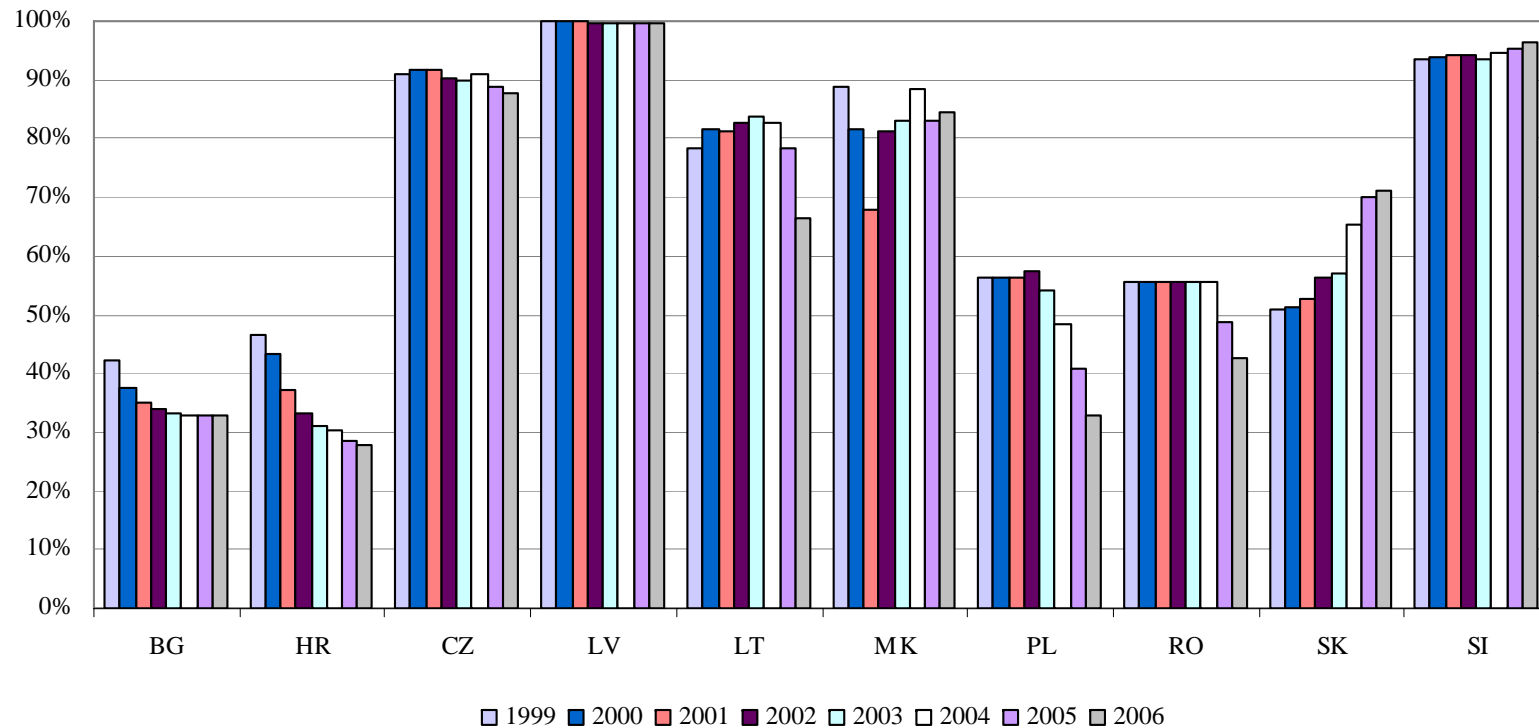
- external growth
- internal growth

■ Annual declared capacity □ PAX 2006



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Market concentration



Herfindahl – Hirschman Index

Theoretical foundations



- What importance do entry and exit have for competition?
 - *Entry and exit are “driving forces in the neoclassical theory of competitive markets”* Curtis Eaton (1987)
- Industrial organization has developed a tool to analyze how a rational (airport) firm would act, how to classify these phenomena and how to assess the effects.

Theoretical foundations



- Entry and exit can take different forms
(from scratch, closed and re-opened after some while,
former military airfield conversion, etc.)

- Barriers to entry
(structural: economies of scale/scope, sunk costs...
strategic: limit pricing, predatory pricing, excess capacity
legal: monopoly; planning & envir. restrictions)

Evidence on entry and exit in other industries



Review of entry and exit in the airline industry:

- Airline market is not a contestable market; potential competition has only limited effects
- Market entry drives down prices and increases output
- Market entry leads to cost cutting by the incumbents



Entry and exit in the airport industry



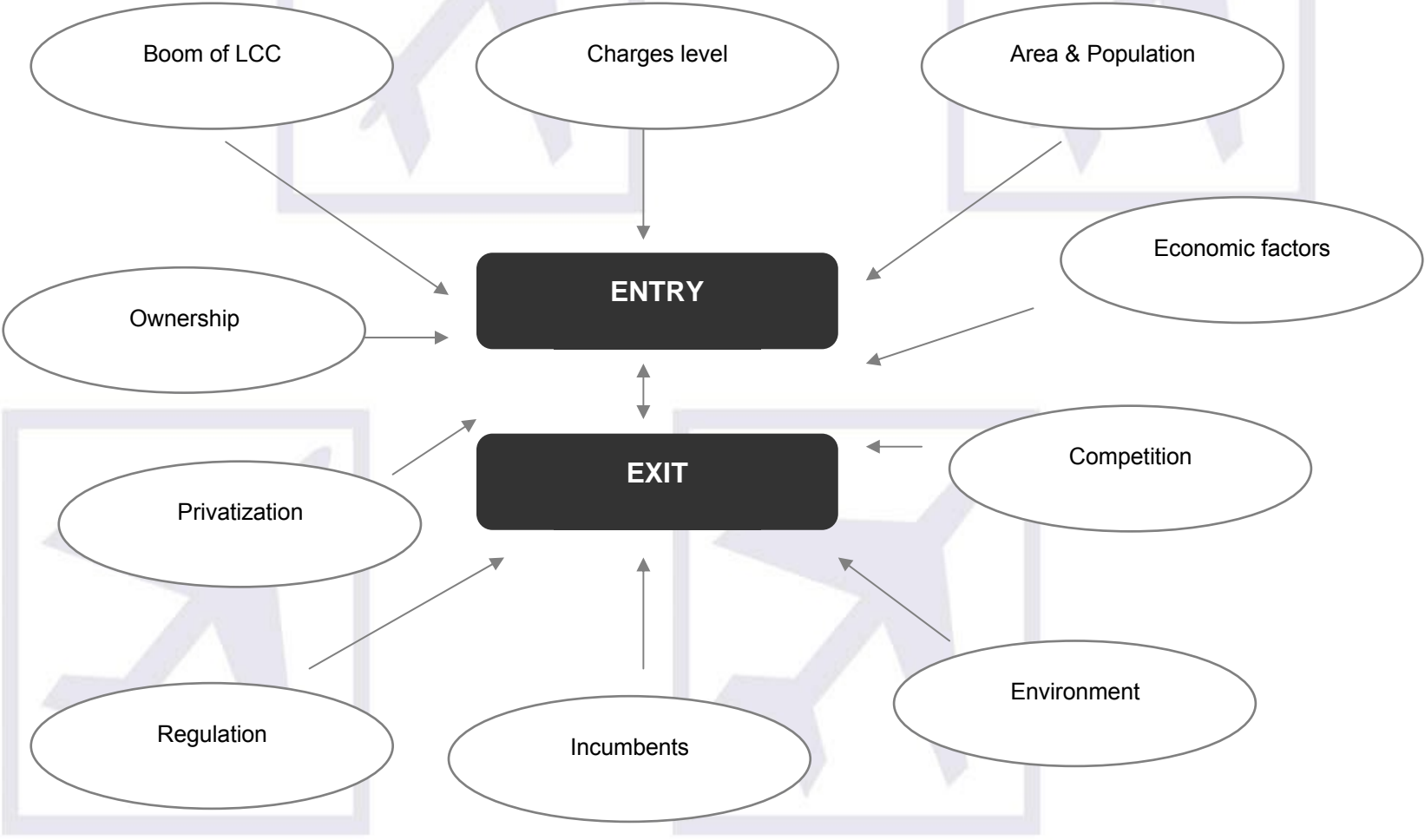
Definition of an airport entry (exit):

- Entry = start of commercial civil aviation activities

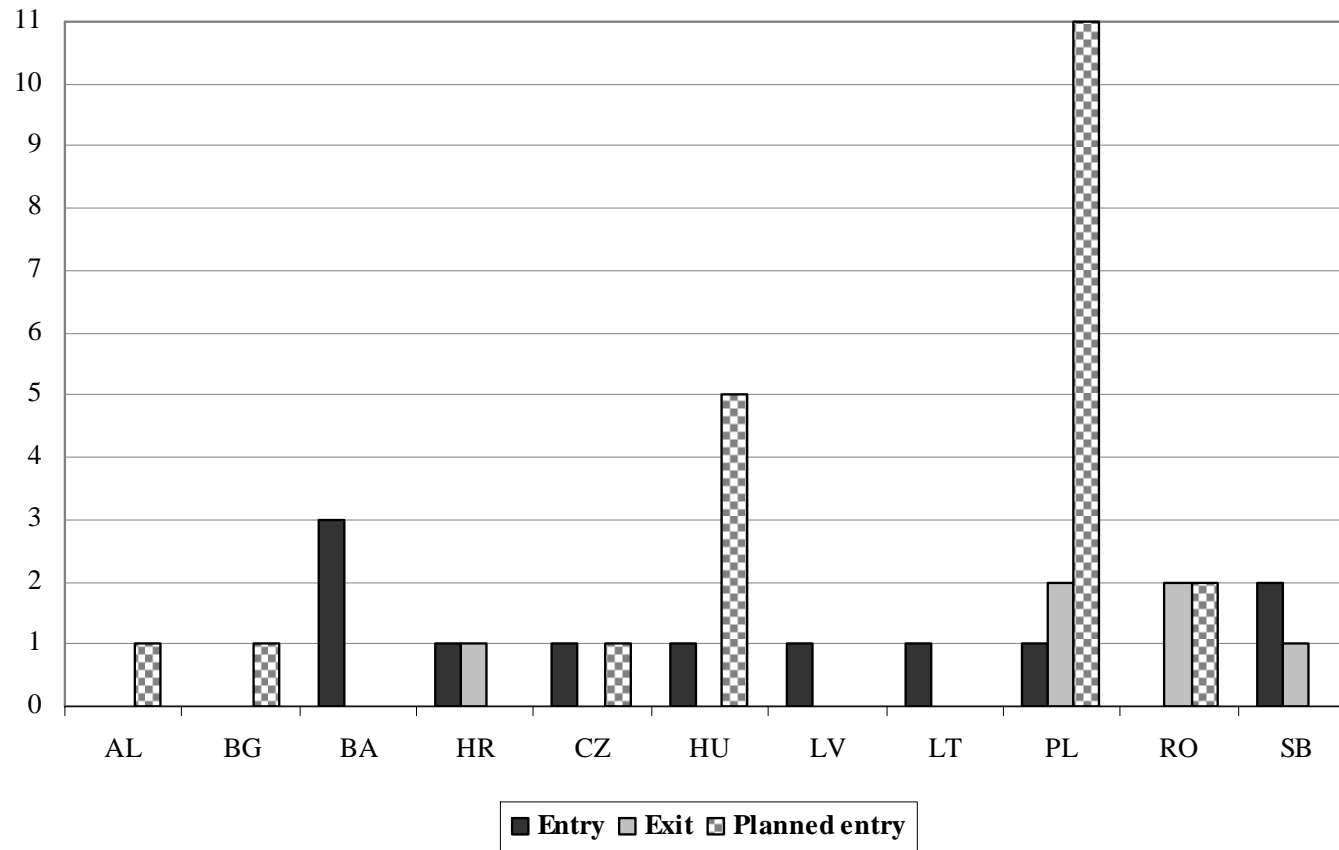
- Exit = cessation of commercial civil aviation activities

- Commercial activities include scheduled and charter passenger flights
 - Cargo and General Aviation activities are not included within this analysis

Influential factors



Airport Market Entries and Exits in Central and Eastern Europe (1995-2007)



Entries



Country	Airport	Year	Features/Reasons for opening
Bosnia and Herzegovina	Banja Luka Airport	1997	Political and territory transformation of the Socialist Federal Republic of Yugoslavia and Bosnia and Herzegovina, Serbia.
Bosnia and Herzegovina	Mostar Airport	1998	
Bosnia and Herzegovina	Tuzla Airport	1998	
Croatia	Osijek Airport	2001	it was a civil airport before; occupied and devastated; built again due to increase in the traffic
Czech Republic	Pardubice Airport	1995	military airport before; political conditions forbid the civil aviation at the airport; serving the niche market segment of holiday charter flights
Hungary	Debrecen Airport	2001	military airport before
Latvia	Ventspils Airport	2000	opened to foster economic activity in the region and due to demand for traffic
Lithuania	Siauliai Airport	1997	a military base before, then taken by the Soviet Union
Poland	Zielona Gora Airport		
Serbia	Nis Airport	2003	used as an alternative airport for Pristina, Belgrade, Podgorica, Tivat, Sofia, Skopje and Ohrid

Correlation matrix – area, population and number of airports



	<i>Area</i>	<i>Population</i>	<i>No. of airports</i>	<i>Entries</i>	<i>Planned entries</i>
<i>Area</i>	1,0000				
<i>Population</i>	0,9691	1,0000			
<i>Number of airports</i>	0,8339	0,7824	1,0000		
<i>Entries</i>	0,0276	0,0403	-0,0611	1,0000	
<i>Planned entries</i>	0,8114	0,8916	0,5227	0,0435	1,0000

Conclusions



- Very few entries and exits compared to other industries
- The level of entries is not as high as in Western Europe
- Main reasons are: low level of GDP, low LCC presence, ownership structure, political background
- New entrants are often old military fields converted into airports – very few airports are **actually** being built
- New entrants are often mainly used by LCCs and charter carriers (except when providing a public service)

It remains to be seen whether all new entrants will survive



**Thank you for your
attention!**