



PEAK LOAD PRICING AND USER REACTIONS AT EUROPEAN AIRPORTS

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GARS Student's Workshop:
Bremen

July, 6-7th, 2009.



- Airport Capacity is scarce
- Peak-Load Pricing could be an adequate Measure to ration Demand in Peak Period

But

- Airlines oppose Peak-Load Pricing
- Reasons in Literature
 - Privatization
 - Regulation
 - Latest: Research whether Airlines can shift additional Burden to Passengers

- Degree of SLOT Scarcity
 - Different Airports/ different Degrees of Scarcity at Peak
 - Different Charges
 - Additional Burden for Home Carrier
 - Different Cost Efficiencies of Airports
- Cost Shares of Airport Charges
 - Around 8 – 10 percent
 - Cost share Increase for Short Haul Operations
 - Very high Increase for LCCs
 - Predominantly low Cost Shares for US Carriers
 - Higher at certain Airports

Airport	Charge in US \$		Total Charge	Ratio of the Components
	Weight based	Passenger based		
Vienna	4,176	4,502	8,678	48 : 52
Frankfurt	3,366	4,909	8,276	41 : 59
Amsterdam	3,523	4,166	7,689	46 : 54
Manchester	2,891	4,549	7,439	39 : 61
Paris CDG	3,591	2,404	5,995	60 : 40
London LHR	1,797	3,583	5,380	33 : 67
Rom FCO	2,250	2,763	5,013	45 : 55
Madrid	2,644	1,929	4,574	58 : 42
London LGW	1,410	3,050	4,461	32 : 68

For a Boeing 747-400 with 395t MTOW, 335 passengers and 3h parking time for October 2000. Source: Doganis, 2002, p.111.

- Extend of Application of Peak Load Pricing
 - Application to total Charge hurts all Carriers
 - Application to the fixed component hurts FSC
 - Increase of fixed charge counters high Service Frequency
 - But FSC commit themselves credible to passengers for a high Frequency

- Larger Aircraft/ Lower Frequency
 - Larger Aircraft: Decrease of Average Cost

 - But Loss of Time sensitive Passengers
 - Routes with high share of Business Passengers (commuting Flights)
 - Loss of Revenues
 - Point-to-Point Routes: Larger Aircraft/ Lower Frequencies possible

 - Limitations: Schedules, Aircraft Availability

- Temporal and spatial reactions
 - Move to Off-Peak Period?
 - Regulatory Issues (Night Flight Restrictions)
 - Commercial Disadvantages
 - Rescheduling of Aircraft Size (Costs)
 - SLOT Problems

 - Move to other (secondary) Airports?
 - Possibility to serve at Peak-Times
 - But: Commercial Disadvantages again
 - Real Option only for LCCs and Charter Carriers

 - Limited Possibilities

- Pricing Issues (Will Carriers pass on Financial Burden/Savings to Passengers?)
 - Demand Characteristics
 - Differences between short and long Haul Passengers
 - Significance of Share of Business Passengers
 - Market Structure
 - Mainly oligopolistic Market Structure
 - Question Mark at the Moment (Cournot, Bertrand, Leader-Follower, Collusion)
 - Existing Possibilities,
 - but limiting Factors exist: (Importance of Route and Intensity of Competition)
 - SLOT Allocation System

– Pass on of Savings in the Off-Peak?

- Low Motivation of Carriers if high Load-Factors
- But: Market Entries can reverse this
- Eventually only partial Cost Shifting

– Additional Factors affecting Pricing Issues

- Number of Entries and Exits due to Peak-Load Pricing
- Possible Reluctance of Carriers
- Spread of additional Costs also to other City-Pairs

- Is Peak-Load Pricing at Airports a “good” pricing Measure?
 - Airline Cost Considerations
 - Differentiated Impact of Peak-Load Pricing
 - Airline Reactions
 - Larger Aircraft/Lower Frequency
 - Temporal and Spatial Reactions
 - Pricing Reactions
 - Reaction Potential is still existing but
 - Reluctance of Airlines to change Strategies
 - Additional Possibilities to counter Peak-Load Pricing
 - Accompanying Measures are necessary



THANK YOU FOR YOUR ATTENTION!

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