

German Aviation Research Seminar

Airport Competition or Network Access ?

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Presentation outline

- ❑ The airport as an inter-modal hub
- ❑ Airport competition: perceived and effective
- ❑ Government as owners and regulators of airports
- ❑ Government support for airports
- ❑ Government-owned airport support for airlines
- ❑ Conclusions

The airport as an inter-modal hub

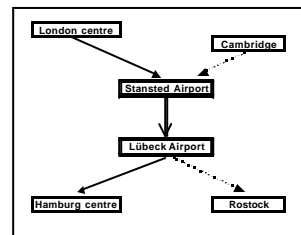
- ❑ Air to car/taxi/truck and vice versa
- ❑ Air to bus/rail and vv
- ❑ Air to air and vv

Surface to surface also possible

Airports need both air and surface operators to become part of a network of origin-destination journeys, or door-to-door shipment

Unlike voice messages over telephone networks, passengers dislike too many transfers (never seamless!)

Low cost carrier to secondary airport



Ryanair compete in London to Hamburg market (but arrange connecting bus)

Ryanair can also compete in many other o/d markets, depending on passenger use of surface transport

All transfers of passengers and baggage, apart from on specific flight, at own risk and expense

Airport competition: perceived

- ❑ Competition to attract new air services
- ❑ Competition between airports with overlapping hinterlands
- ❑ Competition for role as a hub airport
- ❑ Competition between airports within urban areas
- ❑ Competition for the provision of services at airports
- ❑ Competition between airport terminals

Source: ACI Europe Policy Paper, October 1999

What is a hinterland or catchment area?

- ❑ Percent of current airport *traffic* having origins or final destinations of trip within specified surface distance (eg Copenhagen, Frankfurt, Luton)
- ❑ Percent of current airport *traffic* having origins or final destinations of trip within specified surface time (eg Cologne-Bonn, Lisbon, Rome)
- ❑ *Populations* within a certain journey driving time (eg Brussels, Dublin, Milan)

Source: Study on competition between airports, Air Transport Group et al, Cranfield, June 2002

Who do airports perceive to be their main competitors?

- ❑ Brussels cited Charleroi as their main competitor
- ❑ Charleroi cited Brussels
- ❑ Amsterdam cited Brussels
- ❑ Lisbon cited Madrid
- ❑ Malmö cited Copenhagen
- ❑ Zurich cited Geneva
- ❑ Belfast City cited Belfast International
- ❑ Stansted cited Luton

Source: Study on competition between airports, Air Transport Group et al, Cranfield, June 2002

Airport competition: the reality

- ❑ Liège / Cologne-Bonn for express parcels and air cargo
- ❑ Frankfurt Hahn / Stockholm Skavsta for low cost aircraft base (also Luton / Stansted)
- ❑ Munich / other large German airports for Lufthansa second hub
- ❑ Hanover / Hamburg for charter aircraft base?

Government as owners and regulators of airports

- ❑ Government still own majority of EU airports:
 - Central government (France, Spain, Sweden, Ireland and Greece)
 - Central and local government (many of larger German airports)
 - Local government (most major Italian airports, and Manchester in UK)
 - Central government concession to Chamber of Commerce (French regional airports)

Government support for airports

- ❑ Governments support airports in a number of ways, which may or may not be construed as 'state aids':
 - Tax exemption or rebates*
 - Restructuring aid*
 - Privatisation through trade sale*
 - Operating subsidies (unless PSO)*
 - Regional aid*
 - Exclusive right concession*

State aid to airports?

- ❑ **Capital subsidies**
 - No problem if 'access to air transport is of basic importance for the economic and social development of the region'
- ❑ **Operating subsidies**
 - Amsterdam Schiphol tax exemption case
 - Cross-subsidies from profitable airports in group (Aena, BAA Stansted, Frankfurt Hahn?)
 - No intention to compete unfairly

Government-owned airport support for airlines

- ❑ To Air Belgium/Sunair via Ostend International Airport
- ❑ To Ryanair via Charleroi Airport
- ❑ To Ryanair via Strasbourg Airport
- ❑ To Ryanair from Aarhus
- ❑ To Ryanair from Stansted, Birmingham and Dublin?

And government support via privately owned airport

- ❑ Ryanair from Stockholm Skavsta

Ryanair support at Strasbourg

From Chamber of Commerce:

One-off €150,000 for launch of each daily route
Annual subsidy of €216,000 to €224,000 per daily service

From three local authorities:

Annual sum of €492,000 per daily service

Annual support estimated at €1.4 million, or €6.34 per one-way passenger, or 14% of average fare

Source: Aviation Strategy, No.71, September 2003

Conclusions

- Airports increasingly treated as any other supplier to the airlines
- Airports are no exception to other suppliers in competing to attract airlines and surface transport operators to:
add new services or destinations
better still, base a number of aircraft at their airport
- EU rules lenient on capital subsidies, but stricter on operating subsidies
- Government-owned airports need to make airline support more transparent
- Privately-owned airports can make private deals with airlines, but not regional authorities (who have more money to invest)
- Airport support deals examined as distorting 'airline' rather than 'airport' competition