

# **Airport competition or network access? A European perspective**

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## **1 Introduction**

The purpose of this paper is to examine the nature of competition between airports, focusing on the present situation in the EU. Airports are nodes in the physical infrastructure of networks, and enable transport operators to compete in origin-destination travel and freight markets. This role of airports as enabling competition to take place between airlines and other transport operators will first be discussed. This will be followed by a network approach to looking at airport competition, and how airports themselves perceive competition. Government involvement in airport service provision will then be examined, as well as government regulation of airports, concluding with some examples of airport and regional incentives given to low cost airlines.

## **2 The airport as intermodal hub**

An airport is a transport interchange facility, allowing the transfer of passengers and cargo between flights and various modes of surface transport. For passengers, these are principally:

- Air to car or taxi (and vice versa)
- Air to bus or rail (and vice versa)
- Air to air (and vice versa)

A transfer to and from boat is also possible, and the only way to access the international airport of the Maldives. For cargo, air to truck is required for terminating and originating shipments (some of these trucks operate as feeder 'flights'). Although airports are built for air connections, surface-to-surface transfers are also possible. One coach company built a network of feeder services into Heathrow that allowed convenient bus-to-bus transfers, not altogether to the liking of the airport operator, BAA. Air France has an air cargo truck hub at Frankfurt Hahn Airport, where it has no flights, and British Airways did the same at Maastricht Airport.

Airports need to attract both airlines and surface operators to use them as one of the nodes in their networks. They provide the physical infrastructure to make that possible, and usually the management to operate the airport. Remote military airfields can and do handle commercial flights, but for these to be attractive to passengers, there needs to be some way for them to reach their final destination. Ryanair uses a number of these airfields in Europe, and often needs to make sure bus services are operated to the nearest city or towns. For example, their London Stansted flight to Lübeck competes in the London/Hamburg market by means of a bus service from

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<sup>1</sup> This paper is based partly on a study undertaken in 2002 for the European Commission (DG TREN) by a team headed by the author (ATG et al, 2002), and partly on the author's own analysis and views.

Lübeck Airport to the centre of Hamburg, and a rail service from Stansted Airport to central London.

The European Commission's policy of encouraging airports to be intermodal hubs only emphasises something that airports and airlines have known for many years. Better access to the airport's hinterland expands the airport's catchment area and enables airlines to compete in more origin-destination markets. High Speed Rail is good at that for large city centres, but expensive and inflexible, requiring another interchange point before the passenger can travel on the first or final stage of the trip. The Commission's policy aims to move EU traffic from air to surface modes, with alleged benefits of time savings and reduced congestion and environmental damage.

The origin point of each trip involving air transport is usually the home or the place of work. Ideally and other things being equal, private car or taxi would be preferred with one non-stop link to the airport terminal (or close by). Some passengers will trade a longer non-stop car journey for changes at intermediate points. The originating passengers usually have much greater information of surface travel options than visitors.

Passengers arriving at a foreign airport might be collected by friends or colleagues, but more usually take public transport to city centres or local conurbations. They sometimes have little knowledge of either schedules or fares of local transport operators, and can make sub-optimal choices.

An airline can compete in more origin-destination markets if its services are part of a larger network, including good surface access links. It often has little control over these links, but does have the option to operate them itself. Integrated carriers such as FedEx offer door-to-door transport by operating its own fleet of delivery trucks (see also Gillen & Morrison, 2003). This differentiates it from traditional air cargo airlines. Few airlines have done the same for passengers, one exception being Virgin Atlantic, which included limousine door-to-door pick-up and set-down services for premium class passengers.

The so-called low cost carriers (LCCs) provide part of the network needed for price sensitive passengers to travel from their trip origin to final destination. They let passengers make their own connections between flights, sometimes arranging for feeder services to be provided (by bus). But they do not take any responsibility for making sure their customers connect with other flights which they or other airlines operate, or with other modes of transport.<sup>2</sup> They do not schedule their flights to provide quick connections, nor do they provide through ticketing or baggage transfer services. Generally, the surface transport operators adapt their schedules to fit in with the LCC flights. In 2001, around 17% of Ryanair's passengers transferred from one Ryanair flight to another, but did so at their own risk, and on two separate tickets.<sup>3</sup>

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<sup>2</sup> Only charter flights are sold together with surface transport connections included in the price of the tour, but usually only at the destination airport.

<sup>3</sup> According to Tim Jeans, then Sales & Marketing Director Europe for Ryanair, in a lecture at the Air Transport Group, Cranfield University on 14 May 2002. It should be added that those passengers connecting from one Ryanair flight to another at Stansted airport would avoid paying the Airport Passenger Departure tax twice if they could be through ticketed (Ibarra, 2003).

In contrast, the so-called 'network carriers' encourage the transfer of passengers from one flight to another, especially between their own flights (on-line connections), and between theirs and alliance partner flights (interline connections). They adapt their schedules to make this as seamless as possible.<sup>4</sup> Airports that attract this type of airline, and for whom a large percentage of traffic is thus transfer traffic, will have more activity on the airside rather than the landside of their facilities (eg Dallas/Fort Worth or Amsterdam Schiphol).

### 3 Airport competition

Airports compete with other airports to attract airlines. Once the airlines decide to serve the airport, other service providers will also be attracted. These would include aircraft, passenger and cargo handlers, fuel suppliers, shops and car park operators, as well as taxis and bus companies.

Airports compete on service and price. Service will cover such elements as location, accessibility, and the quality and size of its aeronautical and related facilities. Airport management can influence all these variables except location, but even this can be improved by better surface access. Slot constraints will severely restrict an airport's ability to compete, as will environmental restrictions. Price will be reflected in various charges, the two major aeronautical ones being for aircraft landings and passenger departures. However, airport revenues can also be generated from the other service providers, and they may prefer to offer low charges to airlines, and earn more from non-aeronautical revenues. These airport specific variables are important, especially for short-haul trips by air, but not the only ones that determine travel demand and the passenger's choice of airport (see Mandel [1997] for a fuller discussion).

ACI Europe (1999) identified different forms of competition or 'perceptions of competition' between airports:

1. Competition to attract new services
2. Competition between airports with overlapping hinterlands
3. Competition for a role as a hub airport and for transfer traffic between hubs
4. Competition between airports within urban areas
5. Competition for the provision of services at airports
6. Competition between airport terminals

The last two are not competition between airports, but between service providers *within* one airport. The second and fourth bullet point above could effectively be combined as one, and only then with the proviso that the competition is actually amongst airlines and surface transport operators for the same origin-destination markets. The third point is essentially the same, with the reach of the network extending considerably by means of air connections. This leaves the first form of competition as the only one that is strictly between airports: to attract new services, to which one could add 'from both airlines and other transport operators'.

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<sup>4</sup> But, like the LCCs, they do not normally include surface connections in through baggage arrangements. There are one or two exceptions to this, notable Swiss for connections by bus and rail within Switzerland, and Lufthansa with the rail services that they operate.

An airport that has a large local market might still compete with airports adjacent to other conurbations for new airline services. For example, an Asian airline might have some extra capacity that might be applied to new European services. It might have a ranking of attractiveness of various new points, and the airports might try to influence this ranking. The new point (airport) will offer the potential for local traffic and also other markets using the connecting flights of other airlines (often alliance partners). Thus the airline decision is about the best airport to serve as a new node in its existing network of flights. Competing airports will obviously offer different local traffic potential, but also access to many of the same additional markets.

Airports have limited influence on the establishment of major airline hubs, at least in Europe. The hub airports of British Airways, Air France and KLM are all at their respective capital cities. Lufthansa had some choice, with Frankfurt winning in terms of location and facilities<sup>5</sup>, and Munich the second choice. The airport does need to invest in sufficient runway and passenger terminal capacity to accommodate the successive waves of arrivals and departures.

Competition through overlapping hinterlands or catchment areas is usually expressed in terms of numbers of people living within a certain time's journey in a car from the airport. Various definitions are used by European airports (ATG et al, 2002, p.4-8):

- Percentage of current traffic having origins or final destinations within a specified surface journey *distance* (eg Copenhagen, Frankfurt, London Luton)
- Percentage of current traffic having origins or final destinations within a specified surface journey *time* (eg Cologne-Bonn, Lisbon, Malmö, Rome and Turin)
- Populations within a certain journey driving time (eg Basel, Brussels, Dublin and Milan)

The first two definitions describe the locations of the beginning and end of the journeys of probably the majority of their existing passengers who do not transfer to other flights. The third expresses the potential number of passengers within a certain driving time, which varied according to the type of traffic considered (eg 30 minutes for domestic and two hours for charter services). This definition totally disregards other modes of transport (ie rail and air), and excludes key factors in airport choice: cost and frequency of connections (both surface and air). The cost of the surface trip may well be closely correlated with distance or time, but certain airports may exert a disproportionate pull through having airlines that offer a good choice of high frequency and/or low fare services. This would give airports such as London Heathrow (as a major network carrier hub), Charleroi (with its growing number of very low fare flights) and Hanover (with its choice of charter or leisure flights) much larger catchment areas than predicted from driving time contours.

The size of catchment area thus depends on the type of airline that the airport attracts: one offering only short-haul domestic flights might have a relatively small area, while

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<sup>5</sup> This decision was made at a time when the German capital was Bonn, a relatively small city at which to base their hub.

one offering very low fare or long-haul flights may have a much wider one. This is because consumers evaluate the time taken to access the airport in relation to total origin-destination trip time. They would also evaluate the access cost in relation to total cost. Thus a long-haul flight might be accessed from a wider range of airports, some further afield. The same might be true of charter flights, where the use of private cars allows a wider choice of holidays to be accessed from further afield because of a low value of time and low perceived incremental surface travel costs.

The potential in Europe for competition for local traffic using alternative airports is considerable: it was found that there were 32, 34 and 28 airports within one hour of each other by surface transport in France, the UK and Germany respectively (Fewings, 1999).

The Cranfield study (ATG et al, 2002) asked airports whom they considered their main competitors to be. The responses suggested that they were reporting the airports that passengers thought of as close substitutes to their own.

Examples from the survey of competitors for low cost airline passengers were:

- Brussels citing Charleroi as their main competitor
- Charleroi citing Brussels
- Amsterdam citing Brussels
- Lisbon citing Madrid
- Malmo citing Copenhagen
- Zurich citing Geneva
- Belfast City citing Belfast International
- Stansted citing Luton

While some were reciprocal, Luton Airport did not mention Stansted as their main competitor, indicating Heathrow for short-haul scheduled services.

Another question that was not put to airports was ‘which airports do you consider as competitors in attracting airlines to start new services’? This was identified above as true competition between airports, rather than between airports or other transport operators. The following are examples of such competition of a more substantial nature, since the intention is to attract a base operator, and a large number of new services:

- Liège/Cologne (competition for express parcels carrier hub)
- Frankfurt Hahn/Stockholm Skavsta (competition for aircraft base for low cost carrier)
- Liverpool/Manchester (competition for aircraft base for low cost carrier)
- Munich/other larger German airports (competition for second hub for Lufthansa)

The above list identifies alternatives open to the airline, whether or not any formal competition by the airports in question took place. In fact, Manchester Airport did not have the margin of unused capacity that might have motivated them to seek low cost airline services. The same would have applied to Düsseldorf Airport in relation to Lufthansa’s second hub.

Airports have become more proactive in seeking new airlines and new services from their existing airlines. As will be seen below, they increasingly offer promotional packages that contribute start-up funds, discounts, advertising and market research support. This is not just the case in Europe, but also in North America. Airports such as Rickenbacker, Fort Myers and Melbourne all offer free or reduced cost landings and marketing support to new airlines (Schwartz, 2003, pp52-55).

#### **4 Government as owners and regulators of airports**

An airport can bring considerable benefits to its surrounding area, and for this reason many airports in Europe are still owned by central or local government:

- Owned by central government (eg Spain, Sweden, Ireland and Greece)
- Owned by central and local government (eg many of the larger German airports)
- Owned by local government (eg most major Italian airports)
- Mostly privately owned (eg UK airports, with the notable exception of Manchester)

The Paris airports are owned by the central government, as are regional airports, but these are operated by the local *Chambre de Commerce* under a long-term concession agreement.

Those airports that are not government owned in some form are either fully privatised (eg BAA) and quoted on a stock market, or owned by a specialist airport operator. The latter more often has a long-term concession to manage the airport for a government owner (eg London Luton). Even in cases where governments own the majority of an airport, they often corporatise the airport and bring in private sector management.

Where the airport is majority owned by private interests, one would expect a more formal and transparent approach to economic regulation of airport services. That is certainly the case for the BAA in the UK, but less so for Copenhagen Airport. Even where the state owns the airport, economic regulation is carried out at either central or regional level by the appropriate arm of government. However, this may take the form of the approval (or rejection) of a revised scale of airport charges. The response may be given after reference to the inflation of prices in general, rather than supported by complex financial models and rate of return evaluation.

#### **5 Government support for airports**

##### *5.1 EU rules on government support for airports*

Article 87 of the EC Treaty provides that any aid granted by a member state that ‘... distorts or threatens to distort competition by favouring certain undertakings ...’ is incompatible with the common market.

A measure thus constitutes state aid if the following are shown to exist (ATG et al, 2002, p.2-1):

- i An advantage
- ii Granted by a member state or through state resources
- iii Favouring certain undertakings or the production of certain goods
- iv Distorting competition; and
- v Affecting inter-state trade

From the above discussion on airport competition, such aids could potentially give one airport an unfair advantage over another in attracting airlines, whether they be low cost, air cargo or hub carriers. Furthermore, such aids could be applied in such a way that a particular operator was favoured over others. For example if a special rebate or landing fee holiday were granted to one airline for operating new routes, it should be available to all airlines starting such new services.

Governments can support airports economically or financially in a variety of ways. Support is described in EU legislation as 'state aids'. These can take the form of:

- Tax exemptions or rebates
- Restructuring aid
- Privatisation through a trade sale
- Operating subsidies (eg Public Service Obligations or PSOs)
- Regional aid
- Exclusive right concessions

There are rules on the above that apply to both airports and airlines, with the market investor principle applied where there is doubt as to whether state aid applies (in the case of public capital injections and loan financing and guarantees). Restructuring aid has tended to apply to airlines, while the exclusive concessions have been more airport related.

The EU makes a distinction between capital and operating subsidies. The European Commission has made considerable progress on removing operating subsidies from state owned airlines, and these can only be applied on designated city pairs after an open public tender (Public Service Obligation rules). However, little progress has been made on removing such operating subsidies received by state owned railways. These are sometimes operated in direct competition to airlines, and they provide many of the surface links that increase the attraction of airports and airline networks (ERA, 2003).

## 5.2 *Operating subsidies*

Many airports are still state owned, and thus operating subsidies are provided where these airports lose money. Sometimes loss making airports are combined with profitable ones in a state-owned airport holding company (eg Aena Spanish Airports). Cross-subsidies in such cases are usually applied so as not to favour any particular operator at the loss-making airport. However, they may distort competition between the latter and another in attracting airlines. An example of this was the low airport charges that London Stansted Airport was able to offer to new services in direct

competition to London Luton Airport. Stansted at that time was cross-subsidised from the two profitable London airports in the BAA group, Heathrow and Gatwick. In response to a complaint, the UK CAA ruled that the BAA were not abusing their dominant position, because it was reasonable to offer very low airport charges at an airport with a substantial margin of unused capacity. Furthermore, BAA's policy of low charges (for a limited period) was not intended to damage Luton Airport (ATG et al, 2002, p.2-7).

Another example was the dispensation given to Amsterdam Schiphol Airport on the payment of corporation tax. The Dutch government agreed to change this after the investigation of a complaint by the European Commission and the subsequent ruling against them. The ruling was based both on the fact that Amsterdam competed with other airports, given its location and type and volume of traffic handled, and the unfair advantage that it had in competing for the acquisition of other airports.

Airports can also confer state aids on transport providers if they themselves are owned by the state. Thus a state-owned airport could offer one airline an unfair advantage if it offered special discounts or subsidies to an airline that was not open to other airlines that offered similar services. This is the argument being brought by the complainants in both the Charleroi and Strasbourg airports cases. Stockholm Skavsta Airport, on the other hand, is privately owned, but a similar issue applies to them insofar as the regional government provided financial support.

### 5.3 *Capital subsidies*

The EU is less strict on capital support for airports. This have often made use of EU funds at concessionary rates of interest or repayment terms, and grants have also been available. Rail and High Speed Rail have also benefited from such funds in the context of the Trans-European Networks. Access roads up to the airport perimeter are generally paid for by central government, and reduced congestion on these roads can considerably enhance an airport's competitiveness.

Manchester Airport has received loans from its local government owners on terms that might not have been available to a private company (for example over a 35 year term). These were applied to expanding the airport infrastructure to the benefit of all airport users. A complaint was made to the European Commission in 1998 alleged that this was illegal state aid, but this was rejected on the basis that state owners of airports are entitled to expand them, given that '*access to air transport services is of basic importance for the economic and social development of the region*' (European Commission, 1999). The Commission is unable to intervene where national transport policies are being applied, and can only control such support where particular operators are placed at an advantage compared to others.

Capital subsidies can also distort competition between airports in attracting airlines. Paris CDG Airport has a High Speed Rail station, but less good connections to the city centre. Amsterdam, on the other hand, has excellent surface access, but no HSR station (at least not yet).

In 1999, the European Commission confirmed that a grant of Lire 1,000 million by the Tuscan regional authority for the modernisation of Marina di Campo Airport on

the Island of Elba did not amount to state aid.<sup>6</sup> Reasons for this decision were the fact that the capital investment was part of the Italian governments regional economic development strategy, and that, in any case, the airport when completed would be open to all operators on an equal basis. A year later, the Commission's competition authorities took the same view with regard to the Piedmont airports case. That case concerned the public investment in the Italian airports of Turin, Cuneo and Biella. The Commission's decision included a view that these airports did not compete with other airports, either for origin-destination traffic (no other airport having the same catchment area) or for hub interchange traffic (since the airports did not have a major hub carrier), and thus the subsidy did not result in a distortion of competition (ATG at al, 2002, Annex A28).

## **6 Government owned airport support for airlines**

### *6.1 Air Belgium and Sunair new route support: Ostend International Airport*

The European Commission investigated in 1997 a complaint from the Belgium Tour Operators' Association concerning the support provided by the Flemish Region (owner of Ostend Airport) and Air Belgium and its associated tour operator, Sunair. This involved an advertising programme paid for by the Flemish Region that promoted both Ostend and Antwerp airports, and the flights in question. Second, a subsidy was also provide so that each passenger buying packages using these flights would obtain a discount relative packages to the same destinations from Brussels Airport. Third, a subsidy was provided in 1994 for the additional cost of Air Belgium as a result of using Ostend Airport.<sup>7</sup>

The European Commission overruled the first complaint, in that the advertising was benefiting the airports in general, more than the specific flights. But the two other practices were found to constitute state aids, and the Flemish Region was ordered to withdraw them.

### *6.2 Ryanair new route support: Charleroi*

According to the European Commission's Official Journal, Ryanair were offered the following by the Walloon Region (European Commission, 2003):

- Cheap landing charge of €1 per passenger, rising to €1.13 in 2006 and €1.30 in 2010

Brussels South Charleroi Airport (BSCA) offered the following, in addition to the above:

- €160,000 for each of the first 12 routes that Ryanair opens from Charleroi
- €768,000 to subsidise recruitment and training of pilots and cabin crew
- Free offices and €1,000 for office equipment

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<sup>6</sup> European Commission, N 638/98 Aeriiba - Italy

<sup>7</sup> Commission Decision of 21 January 1998 in Air Transport Group (2002)

- Up to €250,000 towards Ryanair's hotel and subsistence costs while it sets up its Charleroi operation; and
- Joint venture marketing company to which BSCA contributes €2,000 plus €4 per passenger

The above total benefits have been estimated to be worth €1.57 in 2001 and €8.29 in 2002 (Lobbenberg, 2003). The same source contrasted the reduced landing fee payable by Ryanair for a B737-800 aircraft with an 80% load factor of €151 with the full published fee of €1,448. Ryanair's average fare paid per passenger was €46.51 in the financial year ending March 2003. This meant that the second year benefit per passenger at Charleroi was almost 18% of the average system-wide fare paid. On the other hand, Ryanair consistently produces operating margins that are well over 20%.

The above case is still being considered by the European Commission, with a decision expected before the end of 2003. Past decisions have ruled against agreements that discriminate in favour of one airline, and are not available to others for similar services. They should also be of a shorter term nature to support an airline's start-up costs, but not be a more permanent subsidy. Deals that are not transparent are also likely to be objected to. This would result in a requirement to reverse and revise a large part of the Walloon regional government agreement, but perhaps leave BSCA's package largely in place.

Ryanair estimate that the European Commission's decision on the Charleroi case will at worst cost them around €4.8 million annually since April 2001, and they would be required to re-pay the one-off launch aid of €2.5 million.<sup>8</sup>

### 6.3 *Ryanair new route support: Strasbourg*

Ryanair also received support from various public authorities to start new flights from Strasbourg Airport. An Air France subsidiary, Brit Air, filed a complaint in December 2002 to a French court (rather than the European Commission). The details of the deal that Ryanair obtained from the Chamber of Commerce have not been officially published but Aviation Strategy revealed the major elements of the complex package:<sup>9</sup>

- One-off €150,000 for the launch of each new daily service from Strasbourg
- Annual subsidy of between €16,000 and €24,000 for each daily service operated; and
- An annual sum of €492,000 from the Strasbourg Urban Community, the Alsace Region and the Department of the Lower Rhine for each daily service operated

According to Aviation Strategy, a French government commissioner had earlier dropped the case against the Chamber of Commerce. However, the Strasbourg administrative court ruled that the contracts with Ryanair were illegal. Ryanair are appealing against the decision, but the final outcome may depend on the European Commission's decision on Charleroi.

<sup>8</sup> Ryanair Holdings plc (2003), p.84

<sup>9</sup> Aviation Strategy, No.71, September 2003

The total annual support amounted to around €1.4 million, or €6.34 per passenger based on 220,000 passengers per annum carried on two daily services at an 80% load factor. The structure of the support was similar to the Charleroi case. Proponents of these types of support argue that Ryanair promotes the City of Strasbourg and the Alsace region on its web site and brings new tourists and spending to the area. The European Commission may argue that this should have been done through a PSO, and in any case should have been through a public tender. However, the PSO is more targeted on a particular route, and does not support the general start-up costs that a carrier incurs when adding a new point to its network, nor operating a number of new services with aircraft based there. These costs help establish an airport's role in a network of air services, and are more akin to investment in intangible assets. The Scottish Executive has a route development fund that supports new business routes without the need for a PSO. This has been tapped by Ryanair, as well as by other airlines such as Continental (ATI, 2003).

#### 6.4 *Ryanair new route support: other airports*

Lobbenberg (2003) also identified a number of other airports and/or regional authorities that had supported new routes operated by Ryanair:

- Pau
- Stockholm Skavsta
- Klagenfurt
- Girona
- Birmingham
- London Stansted
- Aarhus

The last three were discounts on airport charges available to any airline starting new services (Dublin also has such discounts), with the proviso in the case of Aarhus that they should offer air fares that were 50% below the published fare for the route. None were likely to be as generous as the Charleroi and Strasbourg packages.

The Danish government have ordered Aarhus Airport to end the 50% passenger charge subsidy paid to Ryanair.<sup>10</sup> This is being contested by the airport, on the basis that the concession was available to any airline meeting their conditions.

A Swedish court has ruled against a 10 year SEK55 million marketing support package provided by the Nykoping regional government to Ryanair (Lobbenberg, 2003, p.14). This suggests that financial support given to private airlines to establish services at a privately owned airport (Skavsta) can also be outlawed, as well as illustrating that the affected parties are seeking redress both in local courts and with the European Commission.

#### 6.5 *New route support by airports: other airlines*

It is becoming increasingly common for airports to try to attract new services by means of incentives. These usually take the form of published discounts on the

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<sup>10</sup> Travel Trade Gazette, 22 September 2003, p.80

aircraft landing fee element of airports charges and/or the passenger departure fee. They might also include money for promoting the new service together with the new destination city and region. The published discounts vary considerably in the way they can be earned, as the following examples of Manchester and Birmingham in the UK show.

Manchester Airport publishes discounts on its runway charges to encourage new destinations to be served, and additional frequency or capacity on existing routes. New destinations receive a 100% reduction in the first year and 50% in the second, with the full charge payable in year 3.<sup>11</sup> The incentive for existing direct services is based on an increase in seats offered on the route in question, providing there is a net increase in the seats offered by that airline on all their routes from the airport (and chapter 3 aircraft are used). The airline would then qualify for a 75% rebate in the first year and a 30% rebate in the second. Manchester also offers discounts for the operation of quieter aircraft.

Birmingham Airport grants discounts to any airline achieving growth in passenger numbers and flights compared to the previous year. The number of years that these can be applied could be much longer than Manchester, but the method of calculation and duration are based on rather complex formulae.

## **7 Conclusions**

Airports, particularly in Europe, have come a long way from being treated as government public services to the commercial corporations of today. It is thus not surprising that airlines such as Ryanair treat them as just another supplier: they negotiate aggressively on airport charges, just as they do with their ground handling suppliers. However, the ground handler is usually one of a number of others providing very similar services at an airport, whereas an airport has a quasi-monopoly position in controlling access to a network.

Investigation into the degree to which airports compete is often confused by the examination of competition between airlines and other transport operators for end-to-end markets. The airport is never an end (or beginning) of any trip, and so cannot totally control any of the myriads of origin-destination markets that operators are able to tap using its facilities. The airport does have certain spatial advantages, especially when it is close to a large local market.

Heathrow Airport has long enjoyed such an advantage, so the extent that airlines operating there were supposed to enjoy a significant yield advantage over Gatwick Airport. That advantage has eroded over time with lack of investment and congestion and delays both in the air and on the surrounding road network. It has also lost out to other London airports offering low cost carrier service: Heathrow's share of the London-Dublin market has fallen from 100% in 1985 to only 46% in 1998 (Barrett, 2000).

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<sup>11</sup> Hong Kong International Airport also offers new destination incentives, with a reduction of 50% off the landing fee in the first year and 25% in the second (Civil Aviation Department, 2001).

Airports clearly compete with each other to attract airlines to add them to their networks. They do this either for the start-up of new routes, or for basing aircraft at their airport and adding quite a number of new routes and services. They also offer incentives for those airlines that increase traffic on their existing services.

The European Commission and the courts in some EU countries are investigating or have investigated such support made to airlines either by airports or the regional authorities in which they are situated. These have usually been in response to complaints from airlines that have not had access to such funding.

The way that the European Commission has tended to view this is as state aid to one airline that gives them an unfair advantage and is not available to all on a non-discriminatory basis. The provider of the support thus has to be a government authority, either local or national. It is of no consequence that the recipient of aid is a privately owned airline such as Ryanair, since it is the distortion of competition that is the point. The European Commission's decision on the Ryanair Charleroi case has not yet been made, but it is likely that they will want to see more transparency, shorter term support and a less discriminatory approach to support of this kind.

Some airports construct their published charges in such a way that only one particular airline or aircraft type operator can benefit. Frankfurt Hahn waive landing fees for aircraft of up to 90 tonnes, and Ryanair's largest aircraft weigh 75 tonnes (Lobbenberg, 2003, p.11). Volume discounts can be offered which effectively restrict them to larger carriers, as in the case of Ryanair at Klagenfurt and the former Sabena at Brussels Airport.

It is inevitable that airports with a large amount of unused capacity will wish to make attractive offers to airlines, since their marginal costs are very low. Furthermore, the passengers they bring spend money in shops and car parks.<sup>12</sup> Where both parties to the offer are private companies (eg BAA Stansted and Ryanair), it will always be difficult to discover the nature of the deal, but public authorities are obliged to inform their taxpayers and voters as to how their money is spent.

The European Commission has in the past tended to allow public support for airports, both on capital and operating account. It is often impossible for small regional airports to cover operating costs, especially immediately after the opening of new facilities. These could be covered by the state or other profitable airports until the airport reached a viable throughput. The airport would be open to any operator, and support regional economic policy. The same argument is applied to capital support, say for rail or road access to the airport. However, it is difficult to argue that state support for a high speed rail interchange at a major airport such as Amsterdam is part of regional economic policy. It may distort competition for attracting new airlines, but it is part of EU policy and the facilities will benefit both existing and new operators at the airport. The consistency of this with the European Commission's decision to force Amsterdam to pay corporation tax is questionable, and the economic basis for its rail policy is beyond the scope of this paper.

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<sup>12</sup> Although adequate retail facilities need to be in place in order to capitalise on the increased traffic flowing through the terminal (Francis et al, 2003).

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