

## Airport Alliances and Mergers – Will there be a few dominant airport operators in the long run?

Hans-Martin Niemeier, University of  
Applied Sciences, Bremen

Hartmut Wolf, The Kiel Institute of World  
Economics, Kiel

GARS-Leipzig, 13<sup>h</sup>/14<sup>h</sup> November 2003

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## Airport Alliances

- “The Liberalisation...will accelerate the process of industrial concentration within global airline alliances. After some early instability, the alliances will become increasingly integrated and dominant.” (Doganis, 2001)
- “Within the next 10-12 years we will see the emergence of 5 or 6 very large airport companies each owning ten or more airports in several countries. ... Certainly such multinationals will dominate the European airport industry.” (Doganis, 1999)

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## Airport Alliances

- Will there be a tendency towards alliances in the airport industry as strong as in the airline industry?
- What are the challenges for competition policy & airport regulation?

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## Airport Alliances

- I. Characteristics of Airports & Potentials for Alliances
- II. Analysis ApA
- III. Comparison of ApA & AA
- IV. Countervailing power of ApA ?
- V. Benefits & costs of ApA
- VI. Airport Policy

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## I. Characteristics

### What is a „strategic alliance“?

- Long term co-operation
- between independent partners
- on some or all markets on which the partners co-operate.

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## I. Characteristics

### Motives to form a strategic alliance?

- Enabling „one stop shopping“ for customers
- Creating market power.
- Overcoming market imperfections.
- Realizing cost synergies.
- Transferring know how.

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## I. Characteristics

### Characteristics of the airport sector

- Network effects
  - horizontal / vertical
- Multi-service centres
  - Non Aviation /Ground Handling / Infrastructure Services
- Infrastructure services of almost all airports are subject to regulation

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## I. Characteristics

### Motives to form strategic alliances (I): Non Aviation

- Characteristics:
  - Airports sell directly to passengers.
    - predominately local markets
  - No regulation.



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## I. Characteristics

- One stop shopping? - no
- Creating Market Power? - no
- Overcoming market imperfections - no
- Realizing cost synergies? - could be
- Transferring know how? - yes

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## I. Characteristics

### Motives to form strategic alliances (I): Ground handling services

- Characteristics:
  - Airports sell to airlines.
    - Network effects might occur.
  - No regulation.



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## I. Characteristics

- One stop shopping? - no
- Creating Market Power? - no
- Overcoming market imperfections - no
- Realizing cost synergies? - could be
- Transferring know how? - yes

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## I. Characteristics

### Motives to form strategic alliances (I): Infrastructure services

- Characteristics:
  - Airports sell to airlines.
    - Network effects might occur.
  - Almost all airports are subject to regulation.




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## I. Characteristics

### If no economic regulation of infrastructure services

- One stop shopping? - no
  - Creating Market Power? - yes
  - Overcoming market imperfections - yes
  - Realizing cost synergies? - no
  - Transferring know how? - yes
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## I. Characteristics

### If economic regulation of infrastructure services:

- One stop shopping? - no
- Creating Market Power? - limited
- Overcoming market imperfections - limited
- Realizing cost synergies? - no
- Transferring know how? - yes

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## II. Analysis of ApA

### Galaxi International Cargo Alliance (1999)

- **Members:** Washington Dulles International Airport (USA) & Chateauroux-Doels Airport (France) plus 15 members (e.g. Cologne-Bonn)
- **Goals:** Global brand to air cargo users, joint marketing, operating standards, internet side
- **Performance:** „No significant value“ Mike Tretheway (2001)

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## II. Analysis of ApA

### AHS Aviation Handling Services GmbH (2000)

- **Members:** HAM (35 %), HAJ (40%), BRE (20%), MUO (14%), NUE 1%) open for members like MUE, CGN, DUS.
- **Goals:** Ticketing & sales, ground handling
- **Performance:**
  - Marketing alliance & know how transfer
  - **Low margin market segment**

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## II. Analysis of ApA

### Panteras (1999, Nov. 2000)

- **Members:** FRAPORT & Schiphol Group, open for members like Aeroporti di Roma, SEA ....
- **Goals:** Co-operation in
  - Terminal & retail management
  - Aircraft handling & Cargo
  - Facility management
  - Information Technology
  - International joint ventures (Logistics Center at Hong Kong International Airport, Febr. 2001)

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## II. Analysis of ApA

### • Panteras - Performance:

- „Complementary skills set“ in ground handling & retail (Morgan Stanley), but
  - „Re-monopolization“ of ground handling (Klenk, 2001) but
  - Risks of „margin pressure in ground handling services“ (Morgan Stanley, 2001)
- More competitive in international projects, but
  - Risks of „large increase in lower-returning external activities“ (Morgan Stanley, 2001)

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### III. Comparison of AA & ApA

Supply Side	AA	ApA
Know how transfer	Minor importance	Potentially state-owned & 3rd World airports
Marketing	Development of local markets	No success, but some potential
Cost savings	Economies of scale at route level	Local costs dominate
Network effects	Economies of scale scope & density	State-owned systems with X-inefficiency & inefficient pricing

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### III. Analysis of AA & ApA

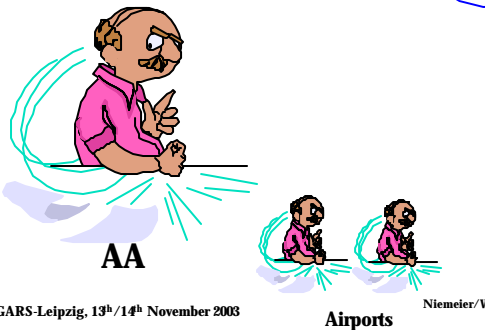
	AA	ApA
Demand Side	Consumer preference for networks & quality	Mild preference
Double marginalization	High yield routes	Win-Win-situation
Competition	Strong incentives in oligopoly	Extend regional monopoly
Regulation	Restrictive ASA with foreign ownership restrictions	Relatively open airport industry

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### IV. Countervailing power ?

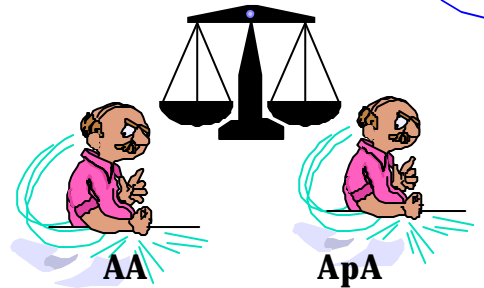


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### IV. Countervailing power ?

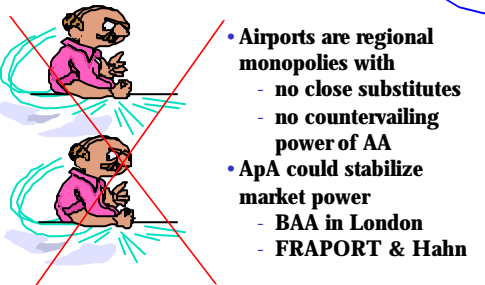


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### IV. Countervailing power ?



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### V. Benefits & Costs of ApA

- Benefits & Costs**
- Know how transfer in ground handling, retail, foreign investment & Consulting
  - **Fortress regional ApA monopolies**
  - **Double Marginalization**
  - Limited cost savings, but potentially negative effects on competition

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## **IV. Airport Policy**

### **Effective incentives for airports to reap the benefits of ApA & competition**

- **Price cap regulation: Incentives**
  - Cost efficiency & efficient price structure
- **Enhance Competition**
  - Privatisation, open skies & slot trading
  - Cross ownership restrictions versus case by case approach

Thank you! Comments welcomed!