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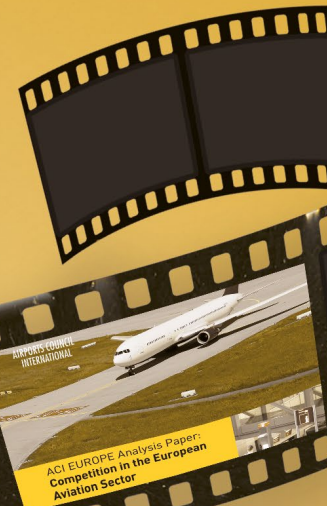
## ACI EUROPE Analysis Paper: **Competition in the European Aviation Sector**





**'ACI EUROPE Analysis Paper: Competition in the European Aviation Sector' – March 2014, London**

A response to the IATA paper, with thoughts on how policy could be shaped to better reflect the new age of airport competition



**'IATA Briefing Paper – Airport Competition' – November 2013, Geneva**

A counter-study by IATA challenging some elements of the 'Airport Competition in Europe' study

**'Airport Competition: Myth or the Sunset of Regulation?' Debate – November 2013, St. Gallens**

A conference of aviation and economic experts gathered to debate the nature of airport competition in Europe

**'How Airports Compete' – January 2013, Brussels**

An accessible & widely disseminated summary of the 'Airport Competition in Europe' study

**'Airport Competition in Europe' – June 2012, Madrid**

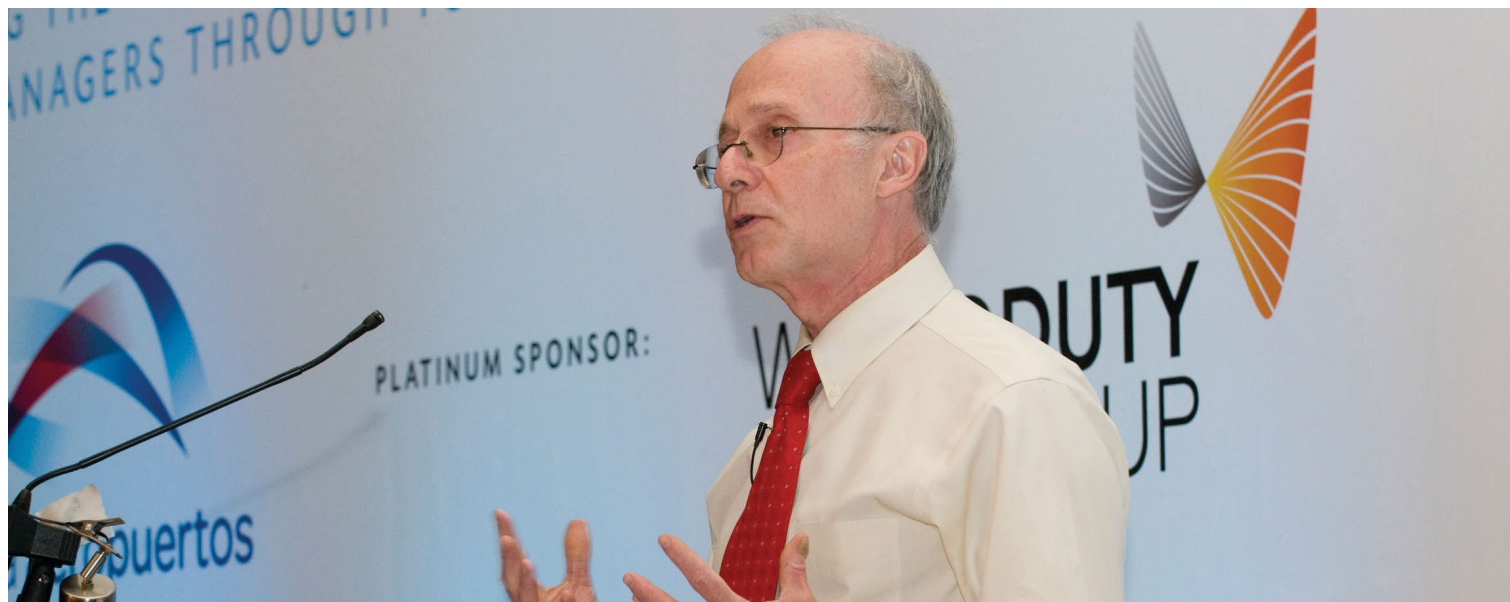
A quantitative analysis of the level of competitive pressures in the European airport industry



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# FOREWORD

By Dr. Harry Bush

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When ACI EUROPE commissioned its study into airport competition, in which I acted as Steering Director, a key objective was to stimulate debate and discussion on the issue while at the same time bringing more evidence to bear on the extent of market power held by airports.

That objective has been achieved. In the 18 months since the study was published there have been numerous conference discussions of the issue and IATA has now published its contribution. Debate and discussion does not, of course, imply agreement. And that is true here. There clearly remain some important differences over interpretation of the evidence and the best analytical techniques to use. But there also appears to be some emerging common ground, at least at a high level, concerning the policy responses and solutions that this debate and discussion demands.

It is, of course, important to continue discussing and refining how market power should be assessed. In particular, we need to be clear that not all passengers and airlines need to have the same degree of choice to make the market competitive. Those passengers nearest an airport will tend to have a stronger preference for it than their counterparts who are

further away. But it is the choices between airports exercised by those more distant passengers which effectively discipline the airport – ensuring that it offers a competitive price and service to its passenger base as a whole. Similar dynamics apply to airline relationships with airports.

It is also important that analysis of market power takes account of all the competitive constraints on an airport arising from its interactions with airlines and passengers. It is the cumulative effect of these constraints – and often the interaction between them – that determines the degree of market power that an airport holds.

We need therefore to continue broadening evidence and analysis around these issues, not least (as this ACI EUROPE document argues) because airlines themselves, operating in segmented markets and as sole service providers on many routes, have market power across some of their operations. There is a common interest in developing a better understanding of the interplay between the respective economic strength of airports and airlines, and in particular in furthering the analytical approaches needed to reach this better understanding.

But, turning to the common ground rather than the continuing differences, it is heartening to see an emerging consensus that economic regulation should not be automatically applied to airports; that they are not 'natural monopolies' but rather that the degree of market power they hold will vary and depend on individual circumstances. In short, that it is the evidence that counts. That also has implications for forms of regulation because it implies that market power is not an absolute but a matter of degree, and in turn that regulation needs to be proportionate to market power. That opens the field to forms of regulation which are both less intrusive and more commercially oriented, enabling the growth of commercial relationships between airports and airlines rather than cutting across them as so much cost-based, standard price regulation is prone to do.

This plays into the second area of developing common ground, the emphasis that both IATA and ACI EUROPE are now placing on greater partnership between airports and airlines. This can take a number of forms but a natural evolution should be towards the development of contracts between airports and airlines. Airports as fixed asset businesses can benefit from the greater assurance on traffic levels that contracts provide, while airlines operating in price competitive markets can benefit from greater certainty on costs. Contracts can be of mutual benefit. They also provide a means of better tailoring the services that airports provide to the individual

circumstances of different airlines and to realising – and sharing – the gains that can be made from working together to improve efficiency and increase commercial income.

This is the path to the more productive relationships that both ACI and IATA wish to promote. Indeed, I participated in a session at IATA's 2013 annual meeting on this very theme.

It is a world away from the one-size-fits-all approach of so much current regulation and the confrontational approach that it engenders, as each side focusses on lobbying regulators and policymakers for advantage at the expense of the other, rather than on the business that can be done together. The challenge for aviation regulators now is to shift the current framework and associated mindsets away from this zero sum game approach, and instead to facilitate the potential for genuine industry cooperation which exists today. While this is by no means an easy task, regulatory experience in certain jurisdictions has provided us with a roadmap to follow. In addition, and perhaps crucially, the debate between IATA and ACI EUROPE has demonstrated that within the aviation sector there is both a genuine appetite for change as well as a basic understanding of the direction that needs to be taken. It is now incumbent upon regulators to seize the opportunity that this represents, and to deliver a fit-for-purpose framework for today's increasingly competitive air transport market.





# INTRODUCTION & EXECUTIVE SUMMARY

In June 2012 a study entitled 'Airport Competition in Europe' was released. Commissioned by ACI EUROPE, it demonstrated that European airports are subject to a range of significant competitive pressures, and, on the principle that regulation should be proportionate to the degree of market power identified at individual airports, argued that a major roll-back of the economic regulation of airports in Europe was required.

In November 2013, IATA released 'Airport Competition' – a Briefing Paper which was in effect a response to the original ACI EUROPE study. The Briefing Paper offered an alternative perspective on several elements of the study, and articulated some possible implications for policy, which according to IATA followed from their analysis.

This paper is a response to the IATA Briefing Paper.

Firstly, IATA's constructive engagement on this topic is to be both welcomed and respected. While ACI EUROPE takes issue with certain elements of IATA's analysis, this paper aims to continue this constructive engagement, and to focus as much as possible on areas of common ground, with a view to moving beyond existing areas of conflict and furthering the debate on airport competition. In this spirit, the document contains sections on:

**TRIGGER REGULATION:** There is agreement amongst airports and airlines on the principle that economic regulation should be proportionate. ACI EUROPE articulates an alternative form of regulation which is more appropriate to the new competitive European airport industry, and which has the

potential to significantly improve the day-to-day interaction between airports and airlines in Europe.

**COMMERCIAL CONTRACTS:** Experience has demonstrated that proportionate regulation offers the opportunity for airports and airlines to increasingly negotiate individual contracts, with specific terms and conditions reflecting individual circumstances. This transformation of the airport-airline relationship to a more commercial and responsive one has the potential to benefit all players in the European aviation sector, including the travelling public.

The debate cannot be progressed, however, without addressing those areas where ACI EUROPE and IATA do

disagree. More dialogue may be necessary, concerning the methodologies and assumptions underlying assessments of potential airport market power, to secure further areas of common ground. In this context, ACI EUROPE's Analysis Paper also considers:

**PASSENGER SWITCHING:** IATA's Briefing Paper argues that passengers strongly prefer to use their closest airport, rather than to exercise the choice available to them, thus limiting the extent of airport competition for origin-destination passengers. ACI EUROPE examines the analytical work underpinning this statement, and concludes that passenger switching remains a valid and significant component of airport competition.

**AIRLINE SWITCHING:** IATA's Briefing Paper claims that network airlines have limited switching ability compared to their point-to-point counterparts, and that this gives airports substantial market power. ACI EUROPE demonstrates that the impact of network carrier inflexibility on airport competition should not be overstated, and points to a range of indicators which suggest that airports will continue to

increasingly rely upon point-to-point services for much future growth.

**AIRLINE ECONOMIC POWER:** IATA's Briefing Paper implicitly accepts that airlines have some degree of local market power themselves. As well as giving insight into the relative negotiating strengths of airports and airlines, this also demonstrates a broader point – there must be a consistent approach towards both airports and airlines, when approaching cases of potential local market power.

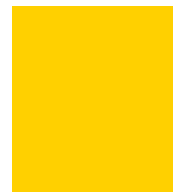
Doubtlessly there will continue to be areas of disagreement between airports and airlines concerning the nature of airport competition in Europe – particularly given the topic's connection with the politically-charged issue of airport charges. Nevertheless the continuation of a constructive debate on this topic may ultimately offer a means of breaking the cycle of accusation and counter-accusation which too often characterizes the airport-airline relationship. ACI EUROPE therefore looks forward to engaging further, not just with supporters, but in particular with more sceptical readers of this paper, as the debate on airport competition continues to mature.



# 1. POTENTIAL AREAS OF COOPERATION

## 1.1 TRIGGER REGULATION

Both ACI EUROPE and IATA agree that economic regulation of airports should only occur on a case-by-case basis. IATA's briefing paper (the 'Briefing Paper') also states<sup>1</sup> that any economic regulation should be proportionate. It is worth considering what the practical policy implications could be, of this agreement on high-level principles. Fortunately, there are successful precedents to guide such consideration.



The ACI EUROPE-commissioned study on airport competition ('the Airport Competition Study') found that economic regulation of airports should only be imposed where necessary, and in a manner proportionate to the degree of market power at the airport in question. IATA in its Briefing Paper supported these conclusions. What practical policy steps could therefore follow, from this agreement in principle?

Airports will probably never be able to differentiate between passengers, nor consequentially misuse potential market power when dealing with those passengers who do not have as much of an ability to switch as others. However it is conceivable that airports could theoretically misuse any potential market power when dealing with specific weaker individual carriers. Given this, some form of oversight of some airports in Europe may be perceived necessary, even if the airport operator as a whole is subject to sufficient competitive pressures.

However, given the strong degree of competitive pressures experienced by many European airports, it is clear that a much lighter-handed approach to regulation is required than is currently the case in many jurisdictions. In most instances, normal competition law will be sufficient to protect users. However, for those larger airports in Europe where there is a political requirement for additional precautions, so-called 'trigger regulation' would offer a far more proportionate approach to dealing with any prospective airport market power issues, compared to the current heavy-handed approach in many Member States.

'Trigger regulation' also known as 'price monitoring' is an approach which restrains the potential market power of a firm through the threat of regulation. A government or government agency has the power to regulate the charges of a firm. However these powers are not exercised, unless the firm has clearly been shown to have abused its market power. This can be sufficient to discipline the airport's behaviour,



without the associated distortions and politicisation of charges which accompanies more invasive regulation.

There are two key components of trigger regulation which must be in place to ensure that such an approach operates effectively:

- The threat of re-regulation must be credible: Therefore the power to reintroduce the regulation of charges must be readily available;
- The consequences of any introduction of regulation must remain unknown: it is essential that parties are not incentivised to start political lobbying for the re-introduction of economic regulation. The only way this can be achieved is if neither party is certain whether the introduction of regulation will be of benefit to them.

To articulate the benefits of this approach, it is perhaps easiest to cite key findings from the recent report of the Australian Productivity Commission, the Australian government's principal advisory body on microeconomic policy and regulation. The report covered an in-depth review<sup>2</sup> of the experience in Australia, where the main airports have been subject to trigger regulation for the last 10 years, replacing a more traditional 'price cap' regime. The report found:

**Airport Charges:** Aeronautical revenues per passenger were found to be relatively low, with no indication of systematic misuse of market power;

**Costs:** Staff and operating costs, as well as overall airport costs, were found to be relatively low;

**Productivity:** Productivity has improved, with this increased efficiency allowing airports to return profits, despite having below average revenues per passenger, compared to a sample of international airports;

**Service Quality:** Service quality outcomes are 'satisfactory' to 'good', with passenger survey results not suggesting any misuse of market power;

**Investment & Returns:** Capital expenditure per passenger and returns on capital were above average relative to the international sample, with significant investment in aeronautical facilities since trigger regulation was introduced;

**Long-Term Airport-Airline Contracts:** Commercial agreements between airlines and airports have advanced since light-handed regulation was introduced, with almost all parties (airports and airlines) agreeing that commercial outcomes are preferable to the regulatory intervention model of the past. These commercial agreements have profound implications for the future of the aviation sector – see section on 'Commercial Contracts'.

It is worth noting that Australian airports, unlike their European counterparts, largely do not have overlapping catchment areas, and so passengers have far more limited opportunities to switch airports. Clearly this means that airports in Australia are likely to have greater degrees of market power than in Europe.

Trigger regulation has demonstrably been proven to be a low-cost and effective manner of allowing the industry to develop and innovate, without undermining the welfare of airport users. Even the airlines themselves do not want a return to the previous regulatory price setting<sup>3</sup>. And this in Australia, where geography alone means that airports are unlikely to be subject to the same competitive pressures as their European counterparts. There is no reason why the benefits of this approach should not be also enjoyed by the European aviation sector and the travelling public.

New Zealand has adopted a similar approach, in an environment where airports also have limited overlapping catchment areas. In New Zealand's case, there is also an additional 'information disclosure' principle, which directs

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airports to disclose specific financial information at specific times<sup>4</sup>. A recent review by the New Zealand Commerce Commission concluded that Auckland International Airport (largest airport in New Zealand) had earned a reasonable rate of return, had improved how it set prices, was sufficiently innovative and was providing a level of service which met the demands of both airlines and passengers.<sup>5</sup>

A move towards this form of regulation will not only result in a reduction in regulatory costs and political disputes over airport charges, it also offers the opportunity to radically change the nature of airport-airline relations from the current status quo, and in doing so, to return the aviation sector to more normal commercial interaction.

## 1.2 COMMERCIAL CONTRACTS

A recognised oddity of the aviation sector in Europe is that there are limited examples of negotiated commercial contracts between individual airlines and airports. A recent study<sup>6</sup> found that only 17% of the largest 200 European airports had such arrangements in place. Instead airports typically offer a set 'menu' of airport charges, often in part dictated by regulatory constraints, to all airlines. While there is some flexibility to tailor the menu to the business model of specific larger airline clients, this approach offers no scope for arrangements to suit the different needs of individual airlines, either in terms of the airport charges or the associated terms and conditions.

This goes against economic theory and common sense. The services and infrastructure access provided to airlines by airports can have a value of multiple millions of euro annually. It would seem logical that, just like any other commercial relationship, time and effort would be devoted by both parties to making sure the arrangements best suited each other's specific circumstances – not least given the close daily operational relationship between airlines and airports, and the significant inter-dependence in terms of risks to the business.

IATA is an advocate of such commercial contracts, recognising the associated improvement in both the level of service quality and cost efficiency that they can deliver<sup>7</sup>.

Long-term agreements do not just satisfy economic theory – they also have the potential to deliver tangible advantages which benefit both airlines and the travelling public. While they may not be appropriate for all circumstances, some of the benefits include:

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**Competition:** The practice of concluding contracts with airlines further reinforces airport competition. It has been observed how the practice of negotiating contracts led to a step-change in the nature of airport competition in the UK, with airports increasingly competing not just for additional traffic, but for airlines to base aircraft and form route networks at their airports. This has greatly increased the bargaining power of airlines<sup>8</sup>;

**Risk:** Deals allow a better distribution of risk between airport and airline, with those best placed to manage specific risks taking ownership. An example of this would be agreed price paths, which could vary according to specific outcomes (individual airline's traffic growth, economic circumstances, etc.) depending on which risks individual parties wanted to focus upon;

**Quality of Service:** Long-term contracts can contain mutual commitments to meet specific levels of service quality (e.g. equipment availability, security queue times, passenger satisfaction). In Australia it was found that 93% of such deals specified a quality level for at least one service, with provisions whereby airports had



to pay penalties if they failed to meet specific standards an increasingly common element<sup>9</sup>;

**Dispute Resolution:** Instead of the current politicised process of regulation, contracts are standard legal tools which are enforceable in court and which are subject to competition law. In addition, contracts can include specific means of resolving disputes, such as arbitration or mediation;

**Incentives:** While incentive schemes are already commonplace, these are generally open to all and not tailored to specific airlines' needs and business plans. This customisation allows the realisation of traffic growth which would not otherwise have been delivered;

**Airline-Airport Relations:** The absence of a regulatory 'prize' to be fought for would depoliticise the issue of airport charges, allowing airlines and airports to improve their working relationship – for example to cooperate in areas where passenger services could be improved, or higher commercial revenues earned.

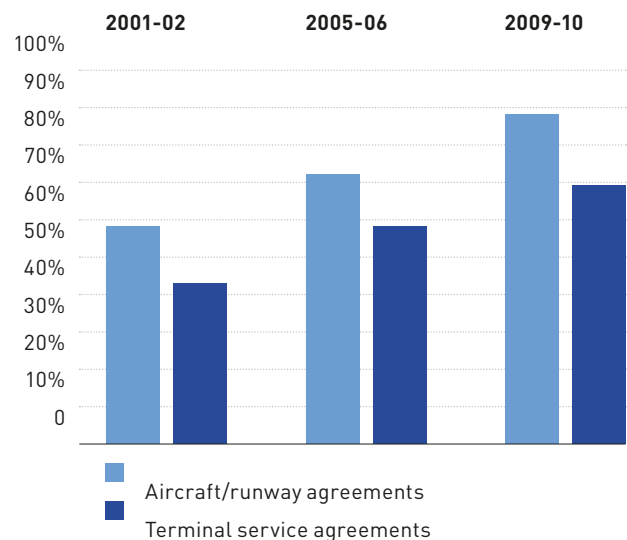
**Long-term agreements do not just satisfy economic theory – they also have the potential to deliver tangible advantages which benefit both airlines and the travelling public.**

Such bilateral contracts are a characteristic of a normally-functioning industry, driven by competitive forces rather than the distortions associated with unnecessary regulatory intervention. They deliver stability and growth to a volatile industry which has experienced weak trading conditions in recent times. They facilitate innovation and are part of the continuing modernisation of the airport industry. However, the evidence strongly suggests that parties are only really free to reach these mutually beneficial arrangements once economic regulation is rolled back:

- A study by the Australian Airports Association (AAA) showed a significant increase in the coverage of such agreements, following the introduction of light-handed regulation in 2002.

See below. Almost all parties (airports and airlines) agreed that commercial outcomes are the optimal means of setting terms and conditions for airlines' use of airports, and no airline favoured a return to regulatory price setting<sup>10</sup>.

**Figure 1: Passenger Coverage of Airport-Airline Commercial Agreements in Australia – Trends**



- On 30 April, 2013, the UK CAA published its initial proposals for the future regulation of the 3 designated London airports. This proposed a more flexible regulatory approach at Stansted Airport, and identified the potential for a more flexible approach at Gatwick. The proposals reflected the CAA's (then) view of the degree of market power at each airport. Within a matter of weeks, the first of a series of major airline-airport long-term bilateral contracts was signed at Stansted, as the airport and airlines responded to the signal sent by the CAA, that the gaming of the regulatory system would be less beneficial than had previously been the case.
- CAA's subsequent final proposals for the regulation of Gatwick Airport in October 2013 were that a more flexible (*continued on page 14*)

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## MISCONCEPTIONS

### “We need to talk about Airport Charges”

- IATA's Briefing Paper cites the level and development of airport charges as evidence that there is an absence of competitive pressure on airports. ACI EUROPE figures are cited, concerning the percentage of airports which have increased, decreased or left unchanged the level of charges. However it is important to take inflation into account, as a declared increase in charges could actually be a price freeze or even decrease in real terms. For example, average aeronautical revenue per passenger—an indicator of the average level of charges – increased by only +2.2% in 2011. Taking inflationary pressures into account, such an increase was likely to be static or negative in real terms<sup>11</sup>.
- Methodological concerns aside, there must be a recognition that airports are businesses with a very high percentage of fixed costs, and this inherently limits their ability to decrease charges. Much of the costs incurred by airports concern the expansion, replacement, maintenance and operation of extensive infrastructure with very specific regulatory & technical requirements. These activities must be continued in good times and bad, and for the most part irrespective of short-term variations in the level of traffic. Airlines can lease, ground and sell aircraft, and more readily tailor their capacity to meet prevailing demand – airports do not have this same freedom with their assets. Given this, the avoidance of price increases may indicate the presence of competitive pressures, as much as actual decreases in charges. It must also be remembered that increased charges in times of weak demand and lower charges during times of strong demand are a much criticised outcome of regulatory intervention, such as price cap models.
- In recent years European airports have concentrated cost savings in those areas where savings are possible. However they remain very exposed to fixed costs. Personnel costs represent one area where costs can be reduced. On a per passenger basis these have decreased by -18% between 2009 and 2011<sup>12</sup>, as airport staff face contract terminations and pay freezes and cuts. However in the same timeframe, interest costs—which are largely uncontrollable by airports – increased by 45%<sup>13</sup>, which in absolute terms was a cost increase of almost twice the savings made in personnel cuts. Any potential reduction in airport charges or increase in profitability was completely wiped out.
- It must also be remembered that charges paid by airlines do not come close to covering the cost of the services they consume. The airport industry subsidises the cost of using their facilities with revenues from retail, car parking and other non-aeronautical services. Competitive forces mean that no airport in Europe can expect to directly recoup the full costs of serving the needs of airlines. In 2011 aeronautical revenues were almost €4 billion less than airport operating costs<sup>14</sup>. While the costs specifically associated with non-aeronautical activities must also be factored in, this remains a massive subsidisation of the airline industry by the airport industry every year. While distorted by airport-specific regulatory regimes, some degree of cross subsidisation is driven by the competitive market. Nevertheless, when the argument is made that airport charges are too high, it must be remembered that they are not even covering the actual costs of the services and facilities used by the airlines, let alone generating any return to the airport for this usage.
- Finally, high level comparisons of airport charges do not take into account the extensive



## MISCONCEPTIONS

### “We need to talk about Airport Charges” (continued)





incentive schemes which many airports in Europe now offer to airlines. These schemes differ, but essentially consist of discounts to airport charges, if certain traffic conditions are met by the airlines.

- While traditionally concerned with supporting the launching of new routes and services, increasingly discounts are available to airlines which deliver traffic growth in general, and more recently have been made available to airlines which manage to maintain existing traffic levels, or in some cases even airlines which manage to limit the reduction in traffic levels.
- Interestingly, it can be seen that official incentive programmes are more predominant at larger airports with more than 10mppa, despite these being the airports which are generally considered to be in a stronger negotiating position vis-à-vis the airlines.
- The extent of discounts available to airlines differs, but one study of German airports found that such schemes typically delivered a discount of greater than 10% to airlines, with a maximum payout of 44%.<sup>15</sup> At Dublin Airport, a total of €8.6m<sup>16</sup> of discounts were voluntarily provided to airlines which achieved certain levels of traffic growth between 2009 and 2011. Although introduced in response to the economic crisis, in late 2013 it was decided to extend the initiative until 2016, in spite of the airport enjoying 3 years of successive growth, and in spite of the fact that the majority of the discount (€5.6m) were incurred in what was meant to be the programme’s final year. The programme is in addition to the pre-existing route support scheme. Athens International Airport has also been increasing the scale and scope of its own range of incentive schemes, and now offers

discounts which range between 30% and 77% of published airport charges<sup>17</sup>. The discounts are structured to benefit home-based carriers, LCCs and visiting carriers.

- These incentive schemes illustrate a fundamental truth of airport economics – the fixed nature of airport costs means that airports are in a better position to offer lower charges when airlines can either provide or guarantee traffic growth. Maintaining and capturing new volumes is highly important for airports. Additional units of output means that the fixed costs are spread more widely and per-unit costs (and charges) can decrease accordingly. It is for this reason that the airlines which are best placed to benefit from lower airport charges are those which have delivered significant traffic growth in Europe in recent years. This is neither discriminatory nor unfair, but simply a reflection of the cost efficiencies they deliver in their use of airport infrastructure.

**Figure 2: Extent of Official Incentive Schemes at Largest 200 European airports**

Largest 200 European airports		Official Incentive Programme	
Airport group	Airports	Absolute	Relative
According to passenger through put p.a.			
> 10 mppa		16	59%
5 mppa ≤ airport ≤ 10 mppa		13	48%
2 mppa ≤ airport ≤ 5 mppa		14	30%
< 2 mppa		23	23%
mppa = million passengers per anum			

(continued from page 11) approach to regulation should be implemented. This again led, within a matter of weeks, to a number of bilateral contracts being agreed between Gatwick and airlines. This sudden development came in spite of Gatwick Airport very publically spending 2/3 years pursuing these contracts prior to the CAA's final proposal.

→ Stansted and Gatwick deals included:



13 June 2013<sup>18</sup>



9 August 2013<sup>19</sup>



16 September 2013<sup>20</sup>



28 November 2013<sup>21</sup>






18 December 2013<sup>22</sup>

- By January 2014, the CAA's decision on regulation at Gatwick stated that Gatwick had agreed contracts, or was within the late stages of negotiations with airlines representing 56% of passenger traffic<sup>23</sup>. The equivalent figure for Stansted was 90%<sup>24</sup>.
- It is generally accepted that these deals were also a consequence of the approach adopted by Stansted Airport's new owners – Manchester Airport Group plc (MAG). MAG had been actively seeking these deals since taking ownership of Stansted in early 2013. MAG considers its pursuit of these deals to be key business strength<sup>25</sup>. Such an approach is a direct consequence of the approach taken since the decision to deregulate Manchester Airport in 2008.
- A study of the largest 200 airports in Europe<sup>26</sup> demonstrates that there is a reduced incidence of such deals at larger airports with more elaborate regulatory regimes. Care must be taken

interpreting the results<sup>27</sup>, but it is no coincidence that airports with more than 5 million passengers per annum (the threshold at which the EU Airport Charges Directive comes into force) are 3.5 times less likely to conclude deals than their non-regulated counterparts.

**Figure 3: Extent of Airport-Airline Bilateral Agreements**

Airport group	Airports	Airport-airline bilateral agreements	
		Absolute	Relative
According to passenger through put p.a.			
		0	0%
10 mpaa			
5 mpaa ≤ airport ≤ 10 mpaa.		3	11%
2 mpaa ≤airport ≤ 5 mpaa		13	28%
< 2 mpaa		17	17%

mpaa = million passengers per annum

- In the US there is limited economic regulatory intervention in the airport industry. Indeed the Federal Aviation Administration (FAA) in its 'Policy Regarding Airport Rates & Charges' states that 'It is the fundamental position of the Department (of Transport, of which the FAA is an agency) that the issue of rates and charges is best addressed at the local level by agreement between users and airports'<sup>28</sup> and that 'the FAA proceeding is not intended to provide a mechanism for adjudicating the respective rights of the parties to a fee dispute'<sup>29</sup>. This hands-off approach has allowed 90% of US commercial service airports to conclude voluntary agreements with their airline clients<sup>30</sup>. And for the remaining 10%, an FAA-sponsored report found that 'Over the past 15 years, there have been only a few complaints brought to the US D.O.T (Department of Transport) challenging airport rates and charges that were set without an Agreement'<sup>31</sup>.





## 2. MORE DIALOGUE NEEDED

### 2.1 PASSENGER SWITCHING

IATA's briefing paper proposes alternative analytical approaches to further understand the ability of passengers to switch between airports in the same geographic areas. Additional techniques which shed additional light on this phenomenon are to be welcomed; however, as with all economic modelling approaches, these too will have their limitations. Taken as the whole, the evidence produced to date does indeed show that the ability and willingness of passengers to switch between airports cannot be dismissed as a significant competitive disciplining force upon airport behaviour.

As one element of its consideration of the ability of passengers to switch, the Airport Competition Study made use of 'isochrone maps' to gauge the catchment areas of all airports in Europe with more than 1 million departure seats annually. An 'isochrone' essentially draws a circle around an airport, defining the area within which inhabitants can reach the airport within a specific period of time. This defines the catchment area of the airport, and subsequently allows the identification of areas where competing airports have overlapping catchment areas. Inhabitants within this overlapping area have a choice of airports. This approach showed that 63% of European citizens have a choice of at least two (and in many cases more) airports<sup>32</sup>.

The IATA Briefing Paper contests the significance of this finding, on the grounds that it is not sufficiently sophisticated. It is argued that within a catchment

area, passengers which are closer to an airport will be more inclined to fly via that airport, and that this limits the significance of overlapping catchment areas – as although these passengers have a choice of airports, in practice they are less likely to exercise that choice. Instead IATA propose the use of an alternative 'passenger choice models' approach, and references a study of the London airport market. It is certainly true that some passengers are more likely to switch airports than others. It is also the case that there are a range of different approaches to considering the ability of passengers to switch, such as revealed preferences, passenger surveys, population densities in overlapping catchment areas and more.

The rationale for the use of an isochrone approach in the Airport Competition Study is clear – alongside its widespread use by competition authorities,<sup>33</sup> it is one of the few approaches which can credibly be applied

on a pan-European level, in line with the Study's scope. Isochrones also give some indication of the degree of passengers who benefit from competitive pressures. Airports do not have the ability to distinguish between passengers who are more or less likely to switch to a rival airport – all passengers typically pay the same to an airport, regardless of how close or far away they live. So all passengers within a catchment area will enjoy lower prices associated with switching passengers – and not just those who have the best choice of alternative airports. The impacts of airport competition benefit all potential passengers in the entire isochrones area – and not just within those overlapping sections.

Notwithstanding the strength of this approach, the Airport Competition Study did not rely exclusively upon it. The study also conducted extensive research into the degree of destination overlap at airports within similar catchment areas, not only in terms of direct routes but also reasonable alternatives. In addition, and where available, passenger survey data was examined, to better understand passengers' willingness to switch, as was historical data on switching between transport modes.

The main charge levelled by IATA – that isochrones maps are insufficiently sophisticated – is one which equally can and has been levied at IATA's proposed alternative methodology, and in fairness can probably be made about the majority of potential approaches employed. The widely recognised leading specialist in the field Professor Stephane Hess – who was in fact cited in IATA's Briefing Paper – warned that *'the majority of (passenger choice models) studies still rely upon stringent assumptions that unduly simplify the choice process'*.<sup>34</sup> This is a similar caution to that made by IATA concerning the use of isochrones. Other health warnings associated with this approach are that they

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*'tend systematically to understate the extent to which passengers might switch away from an airport'*<sup>35</sup> and that they may *'provide estimates that are subject to a degree of systematic bias'*<sup>36</sup>.

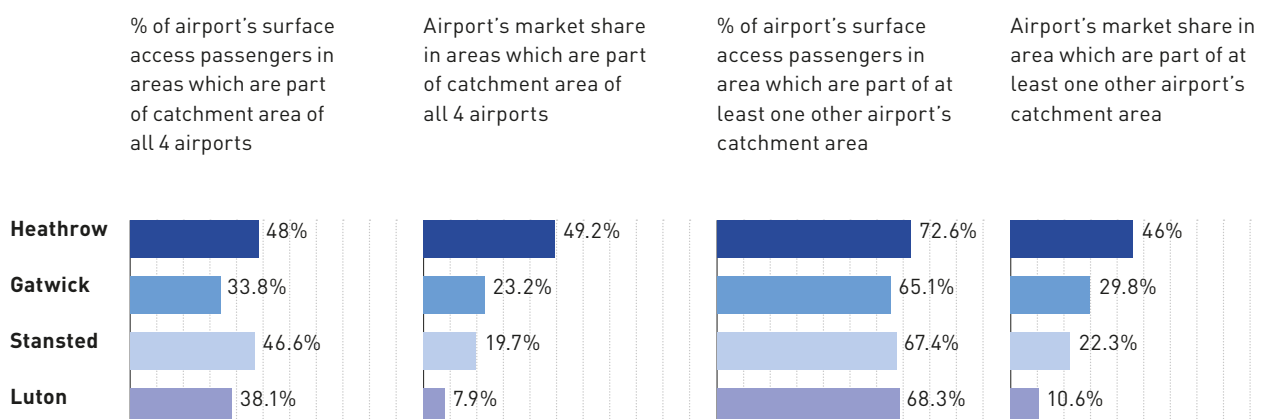
The work cited in the IATA Briefing Paper was commissioned by easyJet, and looked at passengers' propensity to use the various major airports in the London area. The results of the work were used as the primary basis to claim that passengers generally do not exercise the airport choice available to them, instead preferring to stick to their own local airport, irrespective of whether similar services are available elsewhere.

The work is of interest and adds to the debate surrounding passenger switching – however it is not appropriate to claim that the results of the analysis offer any definitive lessons. First and foremost one study of just one city, even if it had been without the methodological and data limitations detailed above and below, cannot be used to infer the preferences of all passengers across Europe. Even were the analysis perfect, the claim that 'passengers have a strong preference for using their local airport' would be based on a very narrow piece of evidence.

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Subsequent analysis of actual historical passenger behaviour<sup>37</sup> underlined the limits of the approach proposed by IATA. Defining catchment areas as those districts where 80% of each London airports' surface access passengers actually came from, it was found that each of the airports drew the largest percentage of actual passengers from the districts where there was a four-way airport catchment area overlap (i.e. from the districts which Heathrow, Gatwick, Stansted and Luton all depended on for significant volumes of

**Figure 4: London Airport Surface Passengers – Catchment Area Overlap & Market Share**



passengers). Within this intensive zone of competition between the 4 airports, individual market shares for each airport were low.

More generally, considering catchment areas where there was overlap with the catchment area of at least one of the other four airport (but excluding overlaps from other airports beyond the 4 identified) even starker results were found.

There were various considerations of passenger switching in the London market, with findings and conclusions varying according to the perspective and methodologies employed, as well as the parties performing the analysis in question. While the debate about the nature, extent and impact of passenger switching is set to continue, it remains a central component of airport competition, and absolutely cannot be simply dismissed.

## Limitations of easyJet Analysis Cited by IATA

- The UK CAA, when considering the easyJet work, expressed concern with the data chosen in the analysis, and in particular stated '*that there is a risk that this analysis might have focused on the characteristics of airline services and/or passengers that are likely to be ... less willing to accept longer journeys to reach an airport than the 'average' or 'marginal' passengers*<sup>38</sup>.
- Professor Stephane Hess cautions that such practical work can easily lead to biased results. To illustrate this problem, the point is made that studies must 'account for the fact that passengers choose an airline in addition to a departure airport'<sup>39</sup>. The easyJet analysis does

not do this, only considering passengers from one airline.

- The analysis only considers distance to the various airport in terms of driving time – i.e. it assumes that all passengers are travelling by car. However at Stansted and Gatwick only a weighted average of just over 60% of passengers took private transport<sup>40</sup> at the time of the analysis.
- The easyJet work was completed in October 2007, prior to the break-up of BAA's London airport network, and therefore it is not appropriate to infer lessons about the current competitive dynamic within the London airport market, nor indeed within the wider European airport industry.



## MISCONCEPTIONS

### Profitability – the Robin Hood Myth

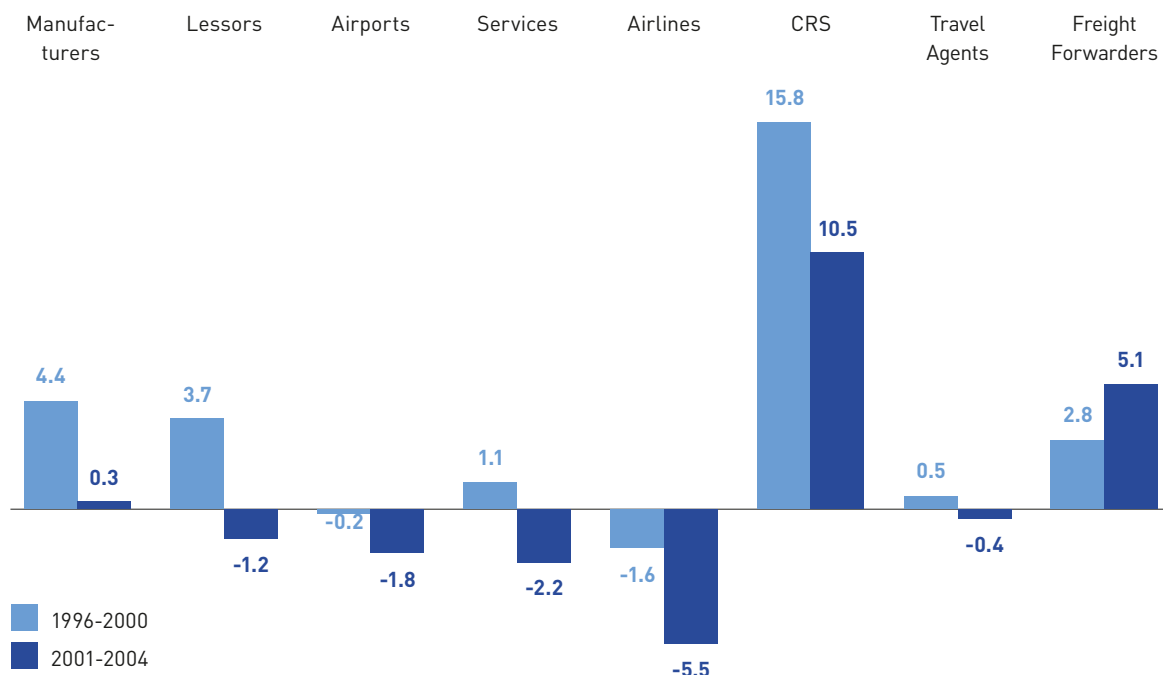
→ Industry profitability is a good indicator of the overall level of competition present in any given market. There is an often-quoted misconception that airports make all the money and airlines make very little – however the first half of this assertion at least is not backed up by the evidence. While EBITDA figures may seem significant, these must be considered within the context of the highly capital investment nature of the airport business, and in particular taking into account the necessary investment which must be made to generate EBITDA in the first place. Funds for this capital expenditure are generally secured via financial markets, where the key profitability figures are not margins but Return on Capital Employed/Return on Invested Capital (ROCE/ROIC).

→ This confirms studies by IATA, which shows that for almost 2 decades the global airport industry has consistently been making an economic loss.<sup>41</sup> This reflects a combination of both strongly increasing competitive forces and overly-restrictive or unnecessary economic regulation. If not corrected, this situation threaten the provision of necessary airport capacity necessary to meet current and future demand for air transport, with all the associated negative consequences for wider economic growth. Indeed European airport planned capital expenditure has decreased considerably in recent years, with this trend accelerates<sup>42</sup>.

→ Airports are not only making an economic loss, but were also found to have the second lowest

**Figure 5: Average Annual Investor Returns in the Aviation Industry, 1996-2004**

Weighted RoIC minus Cost of Capital (%)



## MISCONCEPTIONS

### Profitability – the Robin Hood Myth (continued)

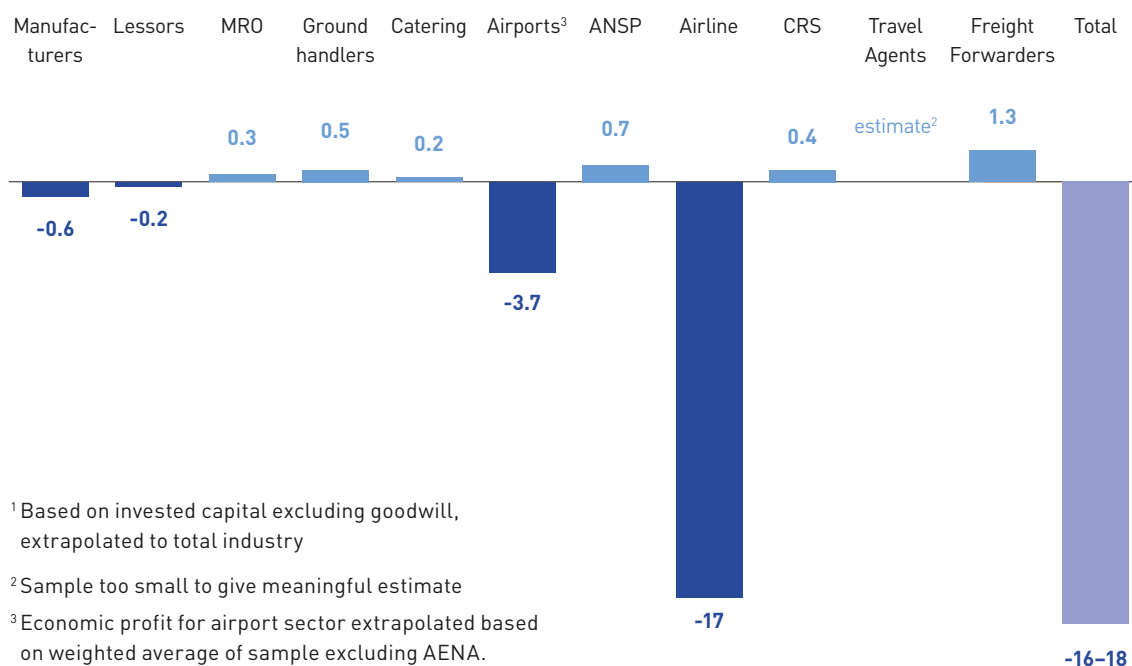
ROIC amongst all players in the aviation value chain<sup>43</sup>. Airports are also amongst the most poorly rewarded players in the aviation sector, relative to the business risks they carry<sup>44</sup>.

- At a specifically European-level<sup>45</sup>, IATA found that airports make an economic loss of circa €1 billion per annum – funds which would otherwise be recovered from airlines and passengers.
- It is clear from both airport and airline analysis that airports are a net contributor to the finances of airlines. Airports have an incentive to support airlines, which are first and foremost key customers, but in the longer term, this may not be sustainable.

→ Often discussions concerning airline profitability focus on airports. This is a reflection of the politicised nature of airport charges, and does not offer any long-term solutions to the problems facing the sector. Instead of coming into conflict on issues such as airport charges, industry partnership offers the best means to ensure the viability of the aviation sector as a whole. Airports are incentivised and ready to support their airline customers in these efforts, and indeed are already doing so. However wealth transfers, to cover the endemic unprofitability of certain segments of the airline industry, are not a long-term solution.

**Figure 6: Economic Profits In The Air Transport Value Chain (Excluding fuel and labor), 2004 – 2011**

Average economic profit<sup>1</sup>, (ROIC-WACC) × invested capital, USD billion, 2004-2011



## 2.2 AIRLINE SWITCHING

IATA's briefing paper argues that the ability of airlines to switch capacity between airports is limited, and therefore cannot impose a sufficiently strong competitive pressure upon larger airports in particular. Various factors are cited, however the acknowledgement that it is 'point-to-point' carriers (primarily Low Cost Carriers) which are doing the majority of the switching, suggests that the business model adopted is a fundamental driver of an airline's ability to switch airports. While it is correct that network airlines tend to exhibit less flexibility than their LCC-counterparts, this does not mean that switching, nor credible threats to switch, are precluded. In addition current and future developments within the wider aviation sector suggest that such cases of limited airline flexibility will become less of an industry feature over time. Finally, the logic of IATA's position suggests that individual airlines and airline alliances may also enjoy similar local market power as is attributed to airports.

The Airport Competition Study contains extensive analysis of the degree of route switching by airlines in Europe over the last decade. A key finding was that circa 15-20% of routes are opened and closed each year, as airlines deploy their fleets to maximise their profitability, factoring in variables such as airport price and service quality offering. IATA's Briefing Paper draws attention to the fact that network airlines adopt business models which do not have the same degree of route flexibility as their LCC counterparts. At least in part as a result of this, they also enjoy lower profitability (European LCCs have been more than twice as profitable as their network carrier counterparts for close to two decades<sup>46</sup>).

In fact, the Competition Study itself references IATA's concerns, and specifically considers the switching behaviour of hub carriers<sup>47</sup>. That there are limitations relative to LCCs is recognised but the impact of this in reducing competitive pressures on airports should not be overstated, not least as the aviation market continues to evolve:

→ As in the case of passengers switching, effective competition does not require that all of an airports' airlines are able to either switch or threaten to switch all routes. The withdrawal of even a very limited number of services can have a major impact on an airport's profitability, due to a combination of fixed costs and a double loss of revenue streams (non-aeronautical and commercial such as from retail or car parking facilities).

→ Looking at market practices, the UK Competition Commission (CC) noted that based airlines in fact tended to benefit from lower airport charges than their non-based counterparts, in spite of supposed limited switching ability. The CC concluded that *The evidence we have seen... suggests that, in general, **switching costs as such are not likely to be a barrier to (airport) competition***<sup>48</sup>. This was due to the significant buyer power enjoyed by these based airlines, which is derived from their ability to threaten to deny an airport passengers.

→ While network carriers may adopt business models which limit their flexibility, this limitation only applies to routes with based aircraft and at those specific airports where these aircraft are based. Inbound carriers are likely to have a range of redeployment options for their aircraft, without unduly impacting their wider route network.

→ The IATA Briefing Paper refers to the lower yields associated with new routes as being a barrier to route switching. It is stated that these lower yields potentially take up to 2-3 years to reach

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previous levels. It is precisely in response to this effect that airports offer incentive schemes to airlines. These schemes compensate for initial losses, to encourage and support traffic development. They are a competitive effort by airports to reduce the switching costs of airlines coming from rival airports, and should not be dismissed as 'discriminatory'<sup>49</sup>. 59% of the larger European airports (>10mppa) offer official incentive programmes to airlines<sup>50</sup>. Interestingly, this was greater than the equivalent figure for European airports as a whole (33%), in spite of these larger airports typically being considered as enjoying significantly greater market power, relative to the wider industry.

- While network carriers limit their flexibility to capture the benefits associated with transfer passengers, it remains the case that these transfer passengers themselves remain extremely flexible, and that this has a strong competitive discipline on airports. 62% of passengers traveling through European hub airports have a choice of at least one realistic alternative airport, with a significant portion having a choice of multiple hubs. An analysis of passenger stated preference data showed that a significant percentage of Heathrow transfer passengers would consider transferring through alternative European hub airports to transfer through, and that 34% of passengers would switch to an alternative hub if the air fare increased by approximately 10%<sup>51</sup>.
- The network airline sector in particular has been marked by mergers and acquisitions in recent years, as well as closer alliance collaboration. With the continuation of this trend those network airlines in the market will increasingly be able to follow the strategy of LCCs, and work on a multi-hub basis. This will allow them increasing flexibility to switch aircraft between hubs, as was illustrated by the case study of Lufthansa's four European bases in the Airport Competition Study<sup>52</sup>.

Furthermore, the significance of based network carriers' inflexibility has reduced in recent years, and this trend looks likely to continue:

**The significance of based network carriers' inflexibility has reduced in recent years, and this trend looks likely to continue.**

- Growth in the last decade within the European aviation sector has mainly come from low cost carriers and inbound non-European based airlines, rather than European network carriers. This was illustrated in the Airport Competition Study which showed that the significant increase in point-to-point share of traffic across all categories of airport sizes between 2002 and 2011. In particular it showed that even at the largest airports (>25mppa) point-to-point traffic services now account for more than 25% of traffic<sup>53</sup>.
- Commenting on the European market, Boeing notes that *'Large network airlines are tending to shift away from short-haul traffic, which is targeted by LCCs... LCCs have continued to add service in short-haul markets.'* The report also observes that *'Large Middle East carriers have captured significant long-haul share from European network carriers by providing one-stop service from Europe to markets such as India, Australia, and Southeast Asia.'*<sup>54</sup>
- This was echoed by the European Commission, which noted that LCCs exceeded the market share of incumbent air carriers for the first time in 2012<sup>55</sup>, with LCCs accounting for 46% of the market in 2013<sup>56</sup>.
- The announcements by Ryanair that it would be establishing new bases at Brussel-Zaventem<sup>57</sup>, Rome Fiumicino<sup>58</sup>, Athens<sup>59</sup> and Lisbon airports, provide a clear indication as to how the European market continues to develop, with larger airports also becoming increasingly dependent upon point-to-point carriers for growth.
- Recent trends have shown that LCCs are not only achieving larger market shares – they are also increasingly capturing lucrative business travellers, which were once the remit of network carriers<sup>60</sup>.

→ 2013 was also hailed as the year when long-haul service by a European LCC became a reality<sup>61</sup>. In the UK, the debate over future airport capacity has in large part revolved around what role ever-expanding point-to-point traffic, both long and short-haul, should play in the country's future connectivity<sup>62</sup>.

Finally, it must be noted that IATA's briefing paper makes some claims which suggest airlines may well enjoy their own local market power. The implications of this on airport-airline relations are discussed in the 'Airline Economic Power' section below.

## 2.3 AIRLINE ECONOMIC POWER

IATA's Briefing Paper contains implicit acknowledgement that airlines themselves enjoy positions of local market power on individual routes and/or individual airports. This is in line with airline pricing behavior, and has been recognized by academics and policy makers regulating airline mergers in particular. While this has implications for their degree of countervailing power in negotiations with airports, it also speaks to a more fundamental point – a more nuanced understanding of the role of market power within aviation is necessary. In spite of similar local characteristics, airports are subject to extensive economic regulation, while airlines have complete freedom and are the self-declared 'poster-child of competition'. Clearly any remaining airport market power should be held to the same standards and subject to the same policy responses as airline market power.

IATA's Briefing Paper makes statements which suggest airlines may well enjoy their own local market power. Firstly, when referring to instances of airlines exiting routes which are subsequently not served, IATA's briefing paper cites these as examples of where 'airline exit from an airport market is driven by a fundamental lack of sustainable demand'. The assumption here is that the number of airlines serving a route is a consequence of the level of demand inherent to that route. In 2011, 74% of intra-European routes were in fact operated by a single airline<sup>63</sup>. If it is structurally the case that the majority of routes in Europe can only be served by a single supplier, then does this not give rise to the same sort of localised market power that IATA is concerned about arising in the case of airports? Secondly, the IATA briefing paper states that a considerable percentage of airline customers are either business or VFR (Visiting Friends & Relatives) passengers, and that these passengers do not have a real choice of destinations. Clearly, if such passengers do not have a choice of destination, and if their destination is at the end of one of the 74% of single-carrier routes, then the airline operating the service is in a very strong position. Thirdly, the IATA Briefing Paper argues that network carriers face significant switching costs. If this is the case, then such high switching costs should equally curb market entry, and

hence limit the level of competition being faced by these airlines. This issue of airline market power is only exacerbated by the control over airport access which possession of airport slots allows airlines at congested hubs in particular.

### Analysis of Airline Dominance & Associated Pricing Strategies

→ A study<sup>64</sup> of over 10 million fares offered by 18 airlines across a 3 year period shed light upon airlines' pricing decisions when they dominated individual routes or airports. In particular it was found that when an airline's market share of a route increased by 50% (or alternatively, when comparing between a route of 2 equally sized carriers with a route occupied by a single carrier) air fares were hiked by an average of 27%. Similarly, on an airport dominance level, the stronger the airline presence is at an origin airport, the higher are the departing fares that the airline can levy on passengers. In fact it was found that for every 10% increase in the degree of airline concentration<sup>65</sup> at an airport, those airlines could hike air fares by an additional 4-6%<sup>66</sup>.

So airlines are in a position on many routes where they know that the market can only sustain one player, where new entrants are deterred not only by claimed high switching costs, but also by the limited availability of runway slots, which incumbents use to protect their market via grandfather rights (at coordinated airports). On such routes, they serve customers such as business and VFR (Visiting Friends & Relatives) – passengers whom they believe not to have a viable alternative destination choice. This appears to closely resemble a situation of local market power on the routes concerned.

For a possible insight into the future of the European aviation sector, it is worth looking at the recent merger of American Airlines and US Airways, which created the largest airline in the world. The companies increased their profits by a factor of 5 in 2013, to almost US\$2bn, as a result of reduced competition in the market<sup>67</sup>.

#### Implications For Airline Buyer Power

This local market power enjoyed by airlines has an impact not only upon passengers but also upon airports. The economic power which allows airlines to dictate air fares to passengers can also be used to strengthen their hand when negotiating with airports. As has been observed by one prominent aviation economist, *‘to exert countervailing power, one must have some market power oneself.’*<sup>68</sup>

Airlines are in a position to dictate prices precisely when they do not really fear the arrival of new entrants on a route which would undercut their prices and capture their customers. Airlines have buyer power vis-à-vis airports, when they can credibly threaten to take passengers from an airport by cutting capacity. As with dictating prices to passengers, they can only do this if they are confident that another airline will not enter the route and serve whatever capacity was cut. In particular, the threat which a network airline

**While this has implications for their degree of countervailing power in negotiations with airports, it also speaks to a more fundamental point – a more nuanced understanding of the role of market power is necessary.**

## Case Study of Alliance Hub Airport

→ ACI EUROPE conducted a case study of a Star Alliance member airline’s home airport. Data on fares was collected in a consistent manner, for all airlines on all short and medium-length routes<sup>69</sup>. It was shown that Star Alliance airlines charged on average an extra 23%, or €60 – €70 in addition, for every fare offered on routes where they were the only operator, compared to the average fare on routes with competition from other airlines. The price premium was even higher where Star Alliance airlines had a monopoly on routes with other Star Alliance hubs. On such routes passengers had to pay on average 80% higher fares than were available on other routes where airline competition was present. Interestingly, when average Star Alliance airline fares on all routes were compared against average fares where LCCs were present, the fare differentials were broadly similar to the above results, suggesting that the bulk of whatever competitive pressures upon the Star Alliance airlines came from LCCs, and not other network airlines.

can make, to deny an airport transfer passengers and otherwise unviable more lucrative long-haul services, is a credible and potentially serious one.

This airline confidence has been proven to be well founded in many instances– the risk of other airlines entering an existing route tends to remain the exception rather than the rule. 74% of intra-European routes have no airline competition. And even in instances where airlines closed a previously single-carrier route, in over 90% of cases, those routes were not operating the next year. Indeed, 3 years later, on average only 14% of these routes had regained their pre-closure capacity<sup>70</sup>. This situation is known as ‘a lack of competitive backfill’ and was a key consideration in the recent decision to de-regulate Stansted Airport.<sup>71</sup> If airline switching costs are as high for some airlines as IATA argue, these high costs do not simply ‘trap’ such airlines to a route – rather they protect those airline from competition on the route.



## Airline Competition in the US Market

→ An IATA paper<sup>72</sup> compared fare data from Q2 2008 and 2000 for 1,500 US routes. The results found that number of network carriers on a given airport-pair had either a negligible or non-existent impact on fares paid by passengers. It is possible that this reflected an absence of active competition between network carriers. This hypothesis was strengthened by the finding that back in 2000 the same airport pairs when only operated by a single network carrier, saw an 11.8% increase in air fares compared to a route with two network carriers. Merging activity and alliance strengthening meant that by 2008 the competitive dynamic which had existed in 2000 had been curbed.

→ In fact it was only the presence of an LCC at an airport which led to more competitive air fares, with the effect ranging between 17.6% and 27.2%, depending on the LCC in question. Even the potential presence of a specific LCC on an airport-pair had a far stronger impact on air fares than the actual presence of another network carrier. This is in line the finding of the above ACI EUROPE case study which suggested that intra-network carrier competitive pressures may be very limited at best.

When combined with grandfather rights at slot coordinated airports, this gives an airline significant countervailing power in its dealings with the airport.

This phenomenon has been well documented, with the UK Competition Commission noting that airline switching costs are unlikely to be a barrier to airport competition, precisely because such airlines *'have bargaining power – for example from their brand strength and consequent ability to bring new passengers and subsequently take them away'*<sup>73</sup>.

As has been outlined in detail in the Airport Competition Study, airline buyer power is a significant competitive constraint on airport behaviour, with airports serving both point-to-point and network carriers being subject to this pressure. Special attention should therefore be given to airline buyer

power, when considering to what degree airports with large based network carriers possess market power.

**Special attention should therefore be given to airline buyer power, when considering to what degree airports with large based network carriers possess market power.**

### Wider Implications

The point of this is not to suggest that the airline industry is in any way uncompetitive as a whole. Rather it is to point out that an industry can be considered 'the poster child' of competition, while still retaining significant and widespread pockets of local market power, over either geographic areas or groups of passengers. In any real-world, non-theoretical industry, it will always be possible to point to groups of buyers who do have limited choice, and to use this as a basis for assertions of monopoly power. Indeed this is, at heart, the core approach of the IATA Briefing Paper. As has been iterated before, competition occurs at the margins. It is not those buyers without choice which exert competitive restraints, but rather those buyers which do have choice and/or countervailing power. Any analysis of competitive pressures must therefore focus on this latter group of buyers.

Potential airport market power must be considered in a consistent manner with the assessment of airline market power –with consistent standards of proof and, where necessary, proportionate policy responses. It follows that such a consistent approach would see far greater reliance upon standard competition law when regulating airports, in much the same way that normal competition rules are proportionately applied when airlines merge, or are suspected of fixing prices.

**In any real-world, non-theoretical industry, it will always be possible to point to groups of buyers who do have limited choice, and to use this as a basis for assertions of monopoly power. Indeed this is, at heart, the core approach of the IATA Briefing Paper.**

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44. 'Profitability & the Air Transport Value Chain – IATA Economics Briefing No. 10', IATA, June 2013, Chart 20
45. The sample used to derive this figure consists of 11 airport operators, including Fraport, BAA plc (as known at the time), Aeroports de Paris, Schiphol and others – i.e. not smaller airports but specifically the large operators which are the main subject of IATA's Briefing Paper. If a sample was taken which more fully reflected the distribution of airports by size in Europe, the economic losses would be substantially higher. See Annex D of the 2013 IATA Briefing Paper concerning profitability. The sample used in the 2006 paper is unknown, but contains 33 airports with a cumulative global market share of 32%, suggesting that the average airport size is reasonably large.
46. 'Value Chain Profitability – IATA Economics Briefing No. 4' IATA, June 2006, Figure 4.2 & 'Profitability and the Air Transport Value Chain – IATA Briefing No. 10', IATA, June 2013', Chart 9
47. 'Airport Competition in Europe', Copenhagen Economics, June 2012, Figure 3.5
48. 'BAA Airports Market Investigation – Provisional Findings Report', UK Competition Commission, August 2008, Para. 4.4
49. 'Airport Competition – IATA Economic Briefing No. 11' IATA, November 2013
50. 'Airport Incentive Programmes: A European Perspective', Malina R, Albers S & Kroll N, May 2012, Table 1
51. 'Passengers' Airport Preference – Results from the CAA Passenger Survey', UK Civil Aviation Authority, November 2011, Para. 4.11
52. 'Airport Competition in Europe', Copenhagen Economics, June 2012, Box 3.5
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62. See the UK Airport Commission's Interim Report, published in December 2013, for more information. Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/266668/airports-commission-interim-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266668/airports-commission-interim-report.pdf)
63. 'Airport Competition in Europe', Copenhagen Economics, June 2012, p.34
64. Bachis, E & Piga, C, 'Hub Premium, Airport Dominance and Market Power in the European Airline Industry', RIVISTA DI POLITICA ECONOMICA, October 2006 p.47
65. Market concentration is measured according to the Herfindhal Index, which is a measure of the size of firms in relation to the industry and an indicator of the amount of competition among them. A single monopoly firm would have a value of 1, while a large number of smaller firms have a value close to 0.
66. Bachis, E & Piga, C, 'Hub Premium, Airport Dominance and Market Power in the European Airline Industry', RIVISTA DI POLITICA ECONOMICA, October 2006 p.46
67. 'Fivefold Profits Boost for Airlines under AAG Wing', Financial Times, 29/01/14
68. 'Countervailing Power to Airport Monopolies', K. Button, in 'Airport Competition: The European Experience' edited by P. Forsyth et al, 2010 p.73
69. One way flights at equivalent service levels were booked for all airlines operating all routes, to depart at a specific mid-week date approximately 10 weeks in the future. Where there was no service on that day, a fare was checked for the day before or after. Where there was no flight on any of the days, no fare was recorded.
70. 'Airport Competition in Europe', Copenhagen Economics, June 2012, p.47
71. Market power determination for passenger airlines in relation to Stansted Airport – statement of reasons', UK CAA, January 2014
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In June 2012 a study entitled 'Airport Competition in Europe' was released. Commissioned by ACI EUROPE, it demonstrated that European airports are subject to a range of significant competitive pressures, and, on the principle that regulation should be proportionate to the degree of market power identified at individual airports, argued that a major roll-back of the economic regulation of airports in Europe was required.

In November 2013, IATA released 'Airport Competition' – a Briefing Paper which was in effect a response to the original ACI EUROPE study. The Briefing Paper offered an alternative perspective on several elements of the study, and articulated some possible implications for policy, which according to IATA followed from their analysis

This paper is a response to the IATA Briefing Paper.

ACI EUROPE is the European region of Airports Council International, the only worldwide professional association of airport operators. ACI EUROPE represents over 400 airports in 46 European countries. Member airports handle 90% of commercial air traffic in Europe, welcoming more than 1.5 billion passengers each year.

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