Airport Alliances and Multi Airport Companies - Implications for Competition Policy

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Issues

• “The Liberalization…will accelerate the process of industrial concentration within global alliances. After some early instability, the alliances will become increasingly integrated and dominant (Doganis, 2001, p. 17).

• Within the next 10-12 years we will see the emergence of 5 or 6 very large airport companies each owing ten or more airports in several countries. … Certainly such multinationals will dominate the European airport industry (Doganis, 1999, p. 113).
Issues

- Airlines: Alliances and Mergers are changing the nature of the industry
- Airports: Airport Alliances and Mergers have so far not changed nature of the industry
- What drives Airport Alliances and Multi Airport Companies?
- Can they be an obstacle for a competitive airport industry?
- What are their benefits and costs?
- How should public policy deal with Airport Integration?
Outline

- **Airport Alliances:**
  - Galaxi, Panteras, ADP-Schiphol
  - Drivers and performance
- **Multiple Airport Companies**
  - Abertis, ADP, Ferrovial/BAA, Macquarie Schiphol
  - Drivers and performance
- **Integration: Similarities and differences between airlines and airports**
- **Benefits and Costs of Airport Integration**
- **Public Policy and Airport Integration**
- **Conclusion**
Airport Alliances

What is a „strategic alliance“?

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

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)
Airport Alliances

AHS Aviation Handling Services GmbH

- Founded in 2000 Members: BRE, HAJ, HAM
- HAM (32.75%), HAJ (34.75%), BRE (12%), MUO (10%), NUE (1%) STR (11%)
- Goals: Ticketing & sales, ground handling
- Performance:
  - Successful Marketing alliance & know how transfer
Airport Alliances

Panteras (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
Airport Alliances

• Panteras - Performance:
  – „Complementary skills set“ in ground handling & retail (Morgan Stanley, 2001)
  – More competitive in international projects, but „large increase in lower-returning external activities“ (Morgan Stanley, 2001)
  – Failed to fulfill its expectations. Alliance with Italian airports did not materialize
Airport Alliances

ADP and Schiphol Group Alliance

- 8% capital stake, 21 Oct. 2008

- Goals:
  - “Aviation: Improve competitiveness through dual hub. Best-in-class service levels.
  - Non aviation: Retail, real estate and telecoms activities through exchange of best practices.
  - International airport developments with a key focus on strengthening the dual hub within SkyTeam network.” (ADP & Schiphol, 2008)
Airport Alliances

ADP and Schiphol Group Alliance

• Revenue and cost synergies:
  • €71 million per annum on a fully phased basis by 2013
  • €18 million per annum reduced capital expenditure from 2013 onwards
• Sources: 45-50% aviation, 30-35% retail, 20-25% others
Airport Alliances

ADP and Schiphol Group Alliance

• Performance:
  - Synergies for ADP = 6 % of EBITA forecast for 2012. No impact on share price of ADP
  - Synergies relative small to other alliances & mergers
  - Positive: Know how transfer, cost savings through standardization of processes, common new developments and joint purchasing.
  - Dubious: Foreign Investment to “support the dual-hub concept within the international SkyTeam network in particular.”
  - Negative: Reduces hub competition
Integration

Multiple airport companies

• Common ownership of a number of airports, or at least a strategic minority holding

• Different Types
  - Government majority owned national airport corporations (AENA)
  - Privatised groups of airports (BAA)
  - Major airports with regional and international subsidiaries (Fraport)
  - Corporations with a diverse portfolio of airports (Macquarie)
  - Airports with strategic, minority interests (Schiphol’s in Brisbane)
  - Specialist investors, e.g. infrastructure funds (Colonial First State)
## Integration: Multiple airport companies

<table>
<thead>
<tr>
<th>Airport Company</th>
<th>Majority Interest in one Airport?</th>
<th>Strategic Holdings in Airports?</th>
<th>Ownership of pot. Competitive Airports?</th>
<th>Operating Concessions for Other Airports?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abertis (TBI)</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>AENA</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>ADP</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Dublin AA</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Ferrovial/BAA</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Fraport</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Hochtief</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Infratil</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Macquarie</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Peel</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Schiphol</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
</tbody>
</table>
Drivers & Motives:
• Utilizing the expertise of specialized managers and investors
• Achieving operational and investment coordination
• Reducing airport competition and gaining market dominance.
• Overcoming market imperfections in order to avoid multiple price mark-ups on marginal costs of service provision
## Integration

<table>
<thead>
<tr>
<th>Company</th>
<th>Links between airports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abertis (TBI)</td>
<td>Of four European airports only Belfast to Luton and Standsted</td>
</tr>
<tr>
<td>AENA</td>
<td>Only between Spanish airports</td>
</tr>
<tr>
<td>ADP</td>
<td>No</td>
</tr>
<tr>
<td>Dublin AA</td>
<td>Dublin with Cork, Shannon, Düsseldorf, Birmingham</td>
</tr>
<tr>
<td>Ferrovial/BAA</td>
<td>BAA London airports to Scottish airports</td>
</tr>
<tr>
<td>Fraport</td>
<td>Frankfurt with Hanover, Delhi, Antalya.</td>
</tr>
<tr>
<td>Hochtief (HTA)</td>
<td>Düsseldorf, Athens, Hamburg and Budapest</td>
</tr>
<tr>
<td>Infratil</td>
<td>No</td>
</tr>
<tr>
<td>Macquarie</td>
<td>Copenhagen, Brussels, Birmingham, Rome, but not Sydney</td>
</tr>
<tr>
<td>Peel</td>
<td>No</td>
</tr>
<tr>
<td>Schiphol</td>
<td>Only Amsterdam to Vienna</td>
</tr>
</tbody>
</table>

The share of traffic is below 5 per cent.
Integration: Similarities and differences

**Regulation:** Protected home markets

Country I

Hub

Secondary

Country II

Hub

Secondary

**Liberalisation:** Increased competition

Hub

Secondary

Hub

Secondary
Integration

Similarities and differences between airlines and airports

• Both are network industries
• Both have horizontal and vertical relationships
• However, drivers of cost savings and integration differ substantially
## Integration

<table>
<thead>
<tr>
<th></th>
<th>Airlines</th>
<th>Airports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know how transfer</td>
<td>Minor importance</td>
<td>Potentially state-owned &amp; 3rd World airports</td>
</tr>
<tr>
<td>Marketing</td>
<td>Development of local markets</td>
<td>Some success</td>
</tr>
<tr>
<td>Route effects</td>
<td>Limited Economies of scale</td>
<td>Local costs dominate</td>
</tr>
<tr>
<td>Network effects</td>
<td>Economies of scale scope &amp; density</td>
<td>Local costs dominate</td>
</tr>
</tbody>
</table>
# Integration

<table>
<thead>
<tr>
<th></th>
<th>Airlines</th>
<th>Airports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Side</td>
<td>Consumer preference for networks &amp; quality</td>
<td>Mild preference</td>
</tr>
<tr>
<td>Double marginalization</td>
<td>High yield routes</td>
<td>Unregulated hub and spoke</td>
</tr>
<tr>
<td>Competition</td>
<td>Strong incentives in oligopoly</td>
<td>Extend regional monopoly, reduce hub competition</td>
</tr>
<tr>
<td>Regulation</td>
<td>Restrictive ASA with foreign ownership restrictions</td>
<td>Relatively open airport industry</td>
</tr>
</tbody>
</table>
Benefits & Costs of Airport Integration

- Know how transfer in ground handling, retail, foreign investment & Consulting
- No benefits from solving vertical market imperfections
- Coordination in investment

- Fortress regional airport monopolies
- Decrease in hub competition

➢ Limited cost savings, but potentially negative effects on competition
Public Policy

Public Policy and Airport Integration

• Owner of airports:
  - Integration offers only temporary know how transfer
  - Know how available from other service industries.
  - Integration often does not add value

• Privatisation policy:
  - Governments prefer higher revenues through sales.
    BAA, Vienna/Bratislava
  - Privatization should increase airport competition by separate ownership.
Public Policy

• Competition policy
  • No need to intervene in know how transfer.
  • If airports buy other airports which could act as a substitute, assess case carefully. In general
    ➢ Cost savings from horizontal integration are very limited
    ➢ Size of the company is not as important as the degree of its local dominance
    ➢ Market power decreases welfare.
Conclusions

• While Alliances and Mergers have changed the nature of the industry a similar trend for the airport industry has not and will not happen.
• Although airports and airlines are network industries the drivers for integration are different.
• Network economies are not drivers for airport integration.
• Overcoming market imperfection in vertical relationships is not a driver for airport industries.
• Airport integration is driven by mainly by know how transfer and in some cases by the motive to gain market power.
Conclusions

• Know how transfer is an economic benefit, but it is a temporary gain, which could also be reaped from other industries.
• Most airport alliances are failures.
• Integration of airports with overlapping catchment areas and integration of hubs reduces competition.
• Privatization should increase airport competition by separate ownership.
• Competition policy should be highly critical of integration as cost savings are small relatively to the risks of increasing market power.