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?**
- **Ho should public policy deal with Airport Integration?**

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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**

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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.**

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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)**

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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**

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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)**

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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**

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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

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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)

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Integration: Multiple airport companies

Airport Company	Majority Interest in one Airport?	Strategic Holdings in Airports?	Ownership of pot. Competitive Airports?	Operating Concessions for Other Airports?
Abertis (TBI)	Y	Y	N	Y
AENA	Y	Y	Y	Y
ADP	Y	Y	Y	Y
Dublin AA	N	Y	N	N
Ferrovial/BAA	Y	Y	Y	N
Fraport	Y	Y	N	Y
Hochtief	Y	Y	N	N
Infratil	Y	Y	N	N
Macquarie	Y	Y	N	N
Peel	Y	Y	Y	N
Schiphol	Y	Y	Y	Y

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Integration

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**

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Integration

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

The share of traffic is below 5 per cent

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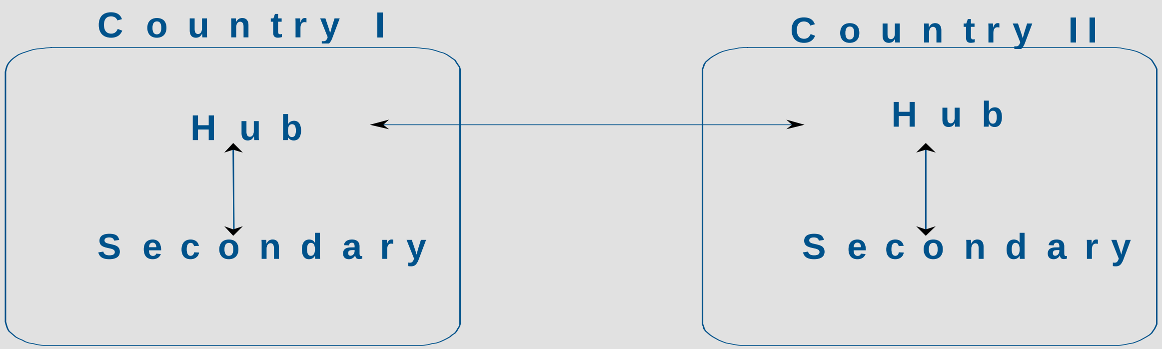
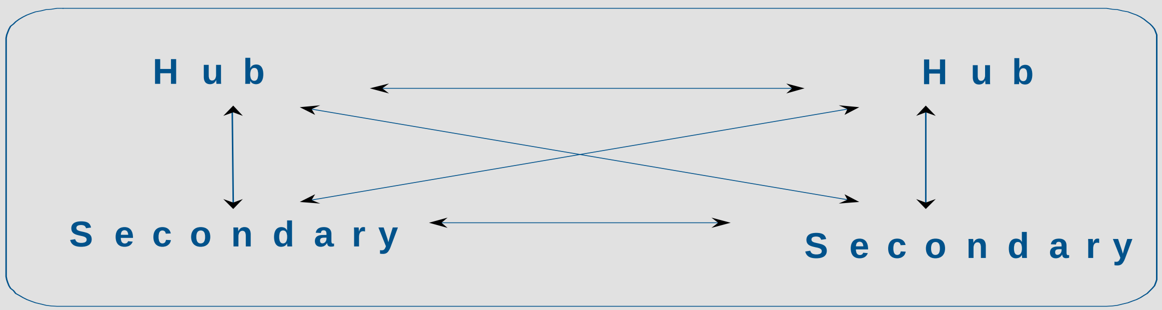
Integration: Similarities and differences

Regulation: Protected home markets



Liberalisation: Increased competition



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

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Integration

	Airlines	Airports
Know how transfer	Minor importance	Potentially state-owned & 3rd World airports
Marketing	Development of local markets	Some success
Route effects	Limited Economies of scale	Local costs dominate
Network effects	Economies of scale scope & density	Local costs dominate

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Integration

	Airlines	Airports
Demand Side	Consumer preference for networks & quality	Mild preference
Double marginalization	High yield routes	Unregulated hub and spoke
Competition	Strong incentives in oligopoly	Extend regional monopoly, reduce hub competition
Regulation	Restrictive ASA with foreign ownership restrictions	Relatively open airport industry

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Benefits & Costs

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**

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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.**

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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.**

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Conclusions

Thank you

- **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.**

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