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THE AIRPORT INDUSTRY IN A COMPETITIVE ENVIRONMENT: A UNITED KINGDOM PERSPECTIVE

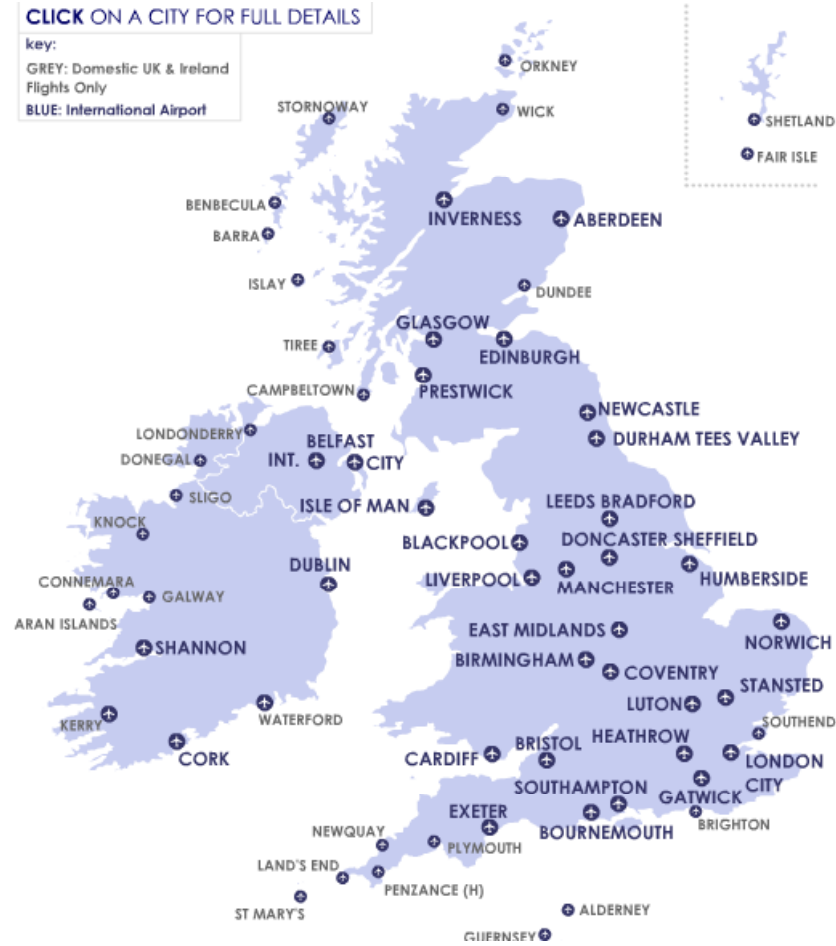
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CLICK ON A CITY FOR FULL DETAILS

key:

GREY: Domestic UK & Ireland
Flights Only

BLUE: International Airport



CONCLUSIONS

- Airport industry - multi-product service industry
- Airport industry - generally local not natural monopoly
- Can evolve into a competitive structure
- Small airports can be competitive *and* viable
- UK airports similar to other industries competing in a spatial market (hypermarkets, refining, ports)
- (imperfect) competition preferred to (imperfect) regulation

MULTI-PRODUCT ENTERPRISES

UK airports supply a bundled group of services

passenger services

- scheduled/charter
- short haul/long haul
- LCC/FSC

General cargo/freight/mail

Corporate jets/Air taxis

Aero-club/flight training

Flight testing

VIP flights

Military movements

Non-operational activities (general storage, light industry)

TURNOVER

- Best measure of size/scale is financial turnover (but limited data available)
- Data for 28 UK airports in **Table 1**
- Probably another dozen with > £5mn. pa.
- Total airport turnover about £3.25bn. pa.

OWNERSHIP

- Mixed private/public sector (mostly private)
- Active market for corporate control
(September: BHD sold, LGW for sale)
- Helps to drive productive efficiency

AIRPORTS AND THE SUPPLY CHAIN

- Airports an intermediate good
- Profound impact of EU liberalisation/ LCCs
- Recent 'revolution' in the nature of supply to downstream customers in EU
- Vertical supply contracts (replacing 'posted charges' and Conditions of Use)

CONTRACT CHARACTERISTICS

- Long term
- Airport obligations: specified (heavily discounted) charges, quality of service and investments
- Airline obligations: number of base aircraft, traffic volume guarantees
- C.f. other industries with similar supply-chain characteristics
- Not exclusive

LIBERALISATION IMPACTS

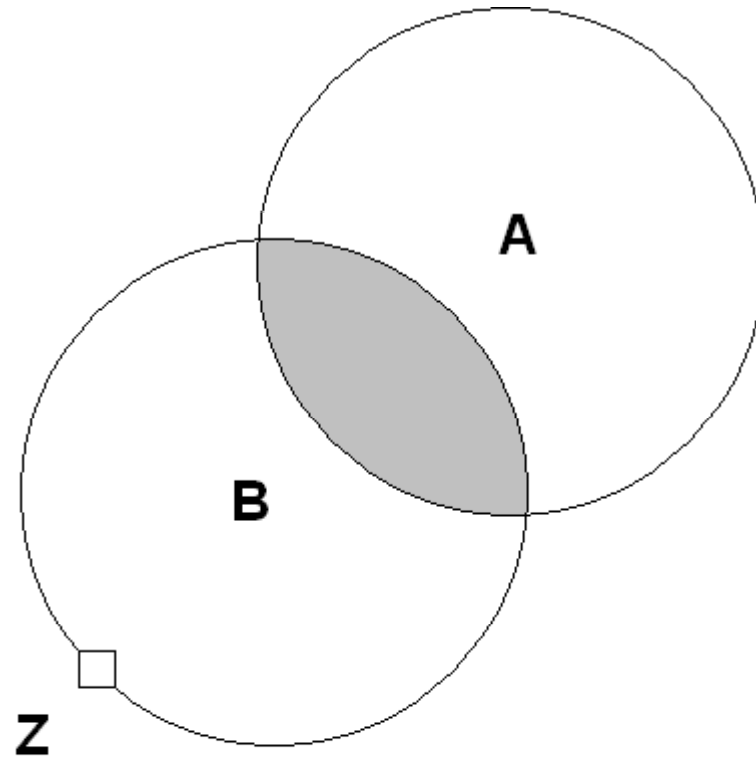
- LCCs view market on a pan-European basis
- ‘Capital on wings’ – seeking best return across Europe (fleet roll-outs)
- Big increase in countervailing power of airlines
- Competition between airports for contracts and base aircraft
- Spill-over effects re relationships with legacy airlines

LOCAL MARKET CHARACTERISTICS

- Airlines willingness-to-contract conditioned by catchment characteristics
- UK CAA catchment criteria - one/two hour drive times
- Catchments show extensive overlaps
- Airports (airlines) cannot price discriminate by pax origin/destination

FIGURE 1

Competition and Catchment Areas



Catchment analysis: two-hour drive-times

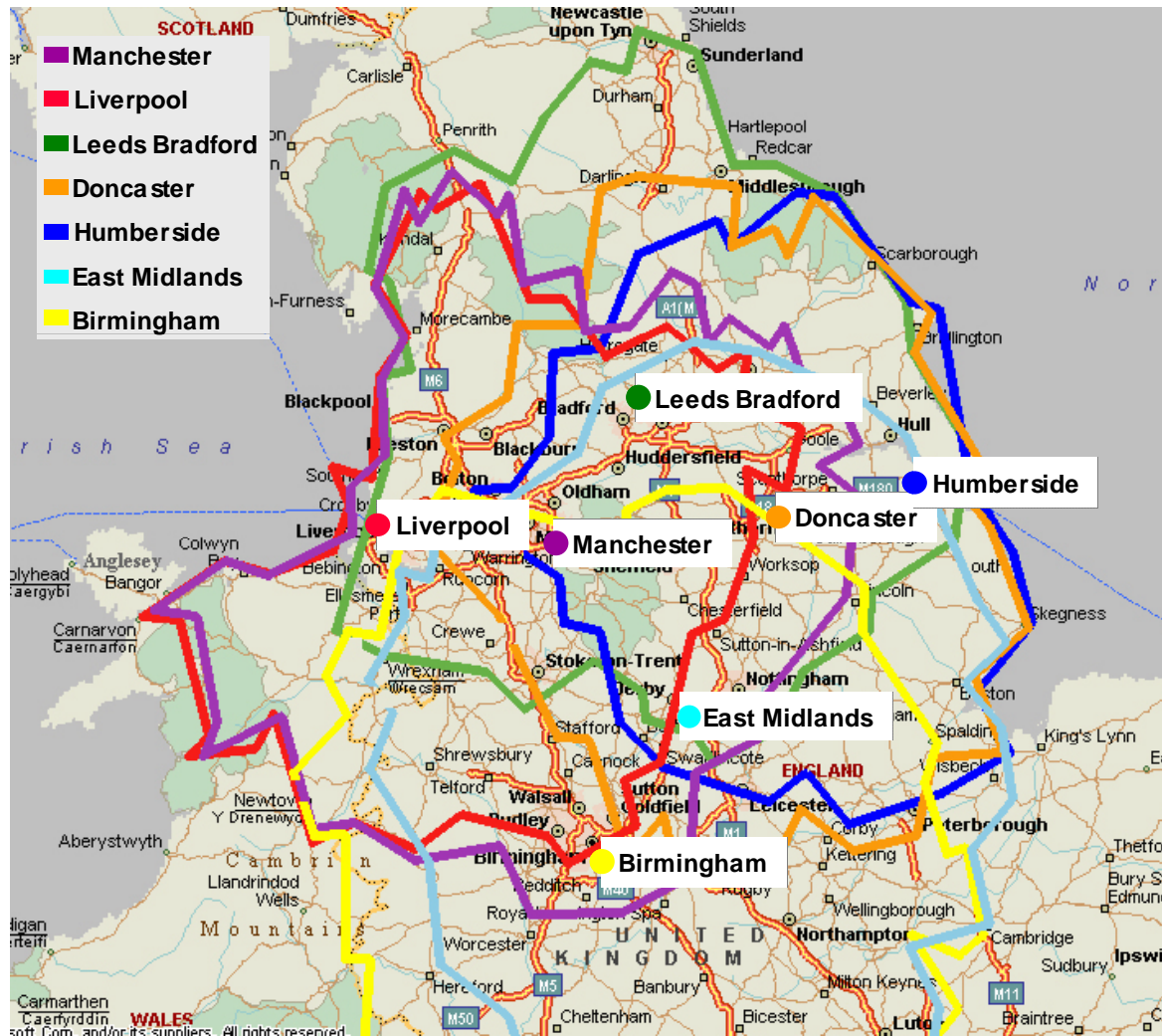


TABLE 4

- All but one airport within 1.5 hours of neighbour
- Mean drive time 1.0 hour to nearest alternative

RESULT

- Potentially very competitive structure for UK airports

FINANCIAL IMPLICATIONS

- Airports are price-takers
- **But** remain generally profitable
- **And** small/medium sized airports can make decent returns (economies of scope)

Figure 2

Operating Profit as % of Fixed Assets v Turnover (£000)

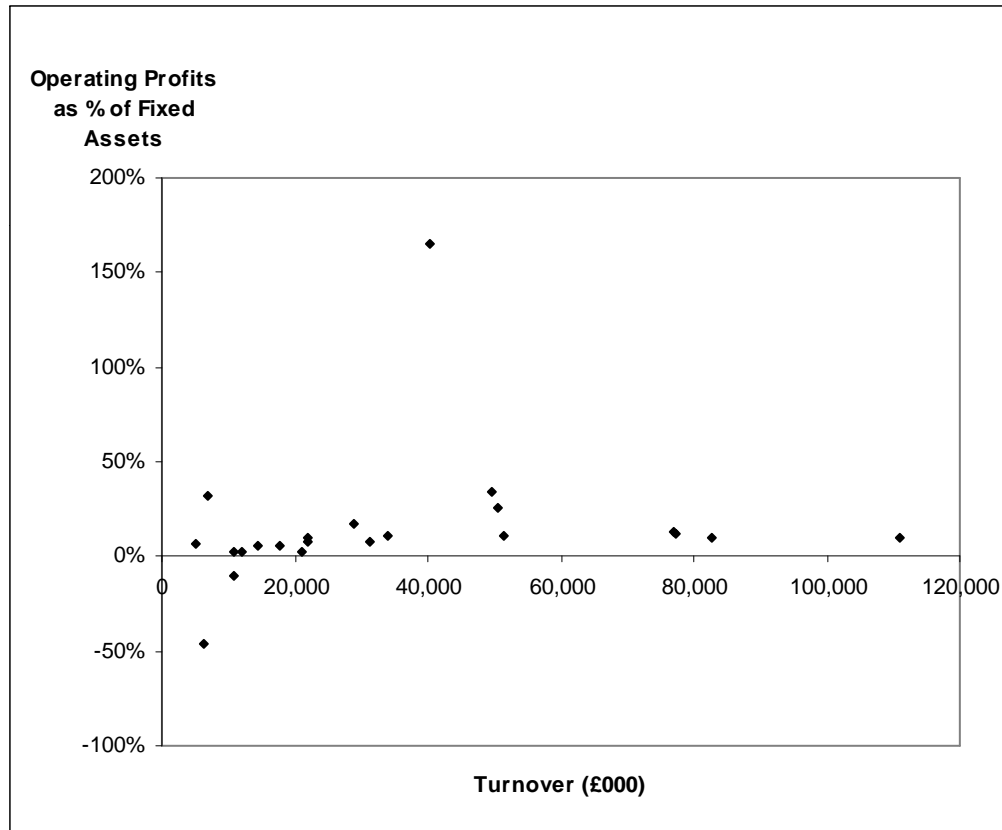


Table 6

Net Return (%), Airports and UK Private Non-Financial Sector 2005-06

Airports ^a	2005-06 15.2 (10.9 ^b)
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	2005	2006
Non-financial service sector	17.9	19.5
Manufacturing sector	9.1	7.8
All private non-financial corporations	14.0	14.5

Source: National Statistics and author's calculations

^a Airports listed in Table 5

^b Excluding outliers

POLICY IMPLICATIONS

- Restructure industry to make competitive
- Economic regulation very much a second-best policy

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