JOINT TRANSPORT RESEARCH CENTRE

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

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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
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 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
• 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)
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<th>2005</th>
<th>2006</th>
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<td>Airports(^a)</td>
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<td></td>
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<tr>
<td>2005-06</td>
<td>15.2</td>
<td>(10.9(^b))</td>
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<tr>
<td>Airports(^a)</td>
<td></td>
<td></td>
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<tr>
<td>Non-financial service sector</td>
<td>17.9</td>
<td>19.5</td>
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<td>Manufacturing sector</td>
<td>9.1</td>
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<tr>
<td>All private non-financial corporations</td>
<td>14.0</td>
<td>14.5</td>
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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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