



Competition in Aviation and the role of Airports

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DGAC-CSAC Conference

Paris, 4 May 2015



Aankoms

Arrivals



Car rent

Return

Outline

1. Schiphol Group Introduction

2. Competition – facts and figures

3. Relevance of competition

4. Airport response

Our mission:

To connect the Netherlands with all important economic, political and cultural cities and centres of the world

Connecting to compete & Connecting to complete

Amsterdam Airport Schiphol – facts and figures



319 destinations directly connected



> 55 million passengers, **1,6 million** tonnes freight



> 415.000 air traffic movements



170.000 jobs in the region, **60.000** jobs at location Schiphol



650.000 m² terminal area, **6** runways at **2.787** hectares



5,8 billion Euro value of fixed assets (**1,6 billion** of real estate)



>500 companies based at Schiphol



26 billion Euro contribution aviation sector to Dutch GDP

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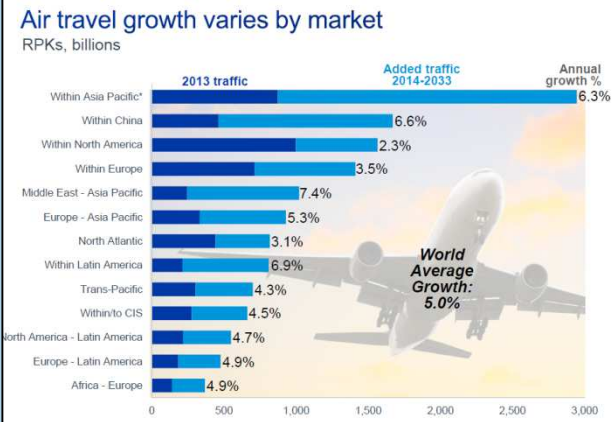
Exponential growth of Middle-East Hubs

Transfer passengers (in millions, single counting)

2003			2008			2013		
1	Atlanta	27,1	1	Atlanta	24,2	1	Atlanta	26,9
2	Chicago	17,8	2	Chicago	16,5	2	Dubai	16,3
3	Dallas	15,3	3	Dallas	16,3	3	Dallas	15,6
4	Frankfurt	12,8	4	Frankfurt	14,2	4	Charlotte	14,4
5	Houston	10,1	5	Denver	11,7	5	Frankfurt	14,0
6	London Heathrow	9,1	6	Houston	11,5	6	Chicago	12,8
7	Detroit	9,0	7	Charlotte	11,1	7	Istanbul	10,0
8	Paris CDG	8,9	8	Paris CDG	10,8	8	Amsterdam	9,7
9	Minneapolis	8,9	9	London Heathrow	10,3	9	London Heathrow	9,5
10	Charlotte	8,5	10	Amsterdam	10,3	10	Denver	9,1
11	Phoenix	8,4	11	Madrid	9,0	11	Paris CDG	9,1
12	Cincinnati	8,3	12	Phoenix	8,0	12	Houston	8,5
13	Denver	8,2	13	Hong Kong	7,8	13	Hong Kong	8,4
14	Amsterdam	8,1	14	Dubai	7,6	14	Doha	7,6
15	Los Angeles	7,9	15	Los Angeles	7,5	15	Phoenix	7,6
...			...					
32	Dubai	3,7	30	Istanbul	4,6			
55	Istanbul	1,8	39	Doha	3,6			
77	Doha	1,0						

Growth expected to continue

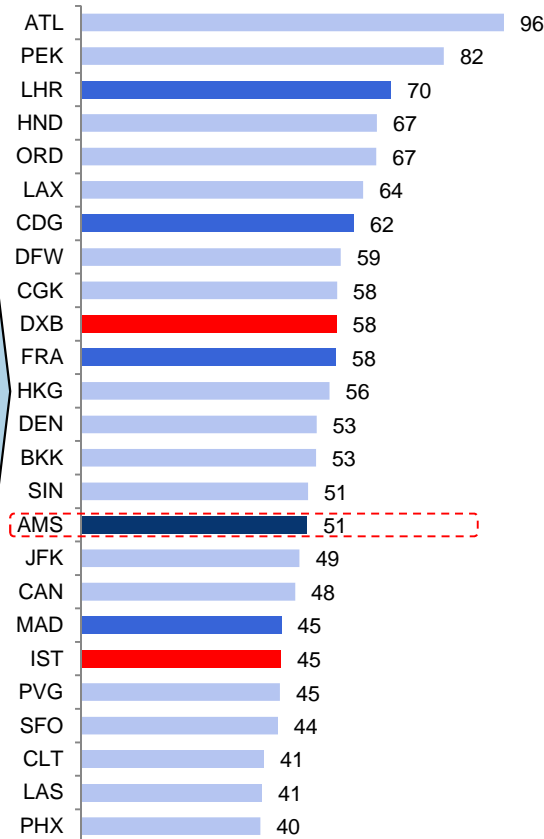
Air traffic growth in Europe stays below world average level. Boeing: intra EU traffic 3.5% growth; North Atlantic 3.1% compared to world average growth of 5%



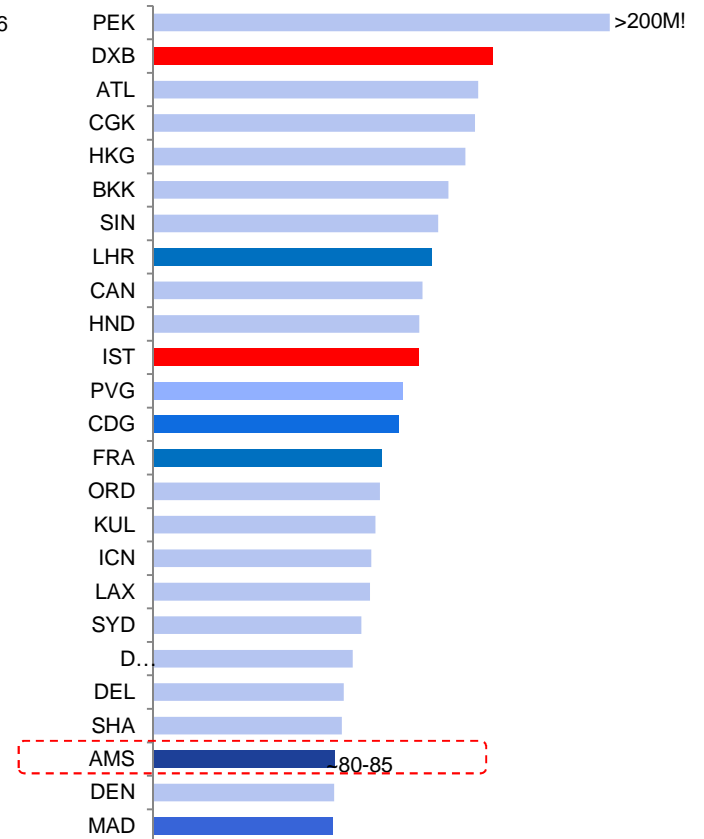
As a result the top 25 airports in 2030 will be dominated by Asian and Middle East airports

■ DXB and IST
■ EU airports

2012 pax traffic (mil.)

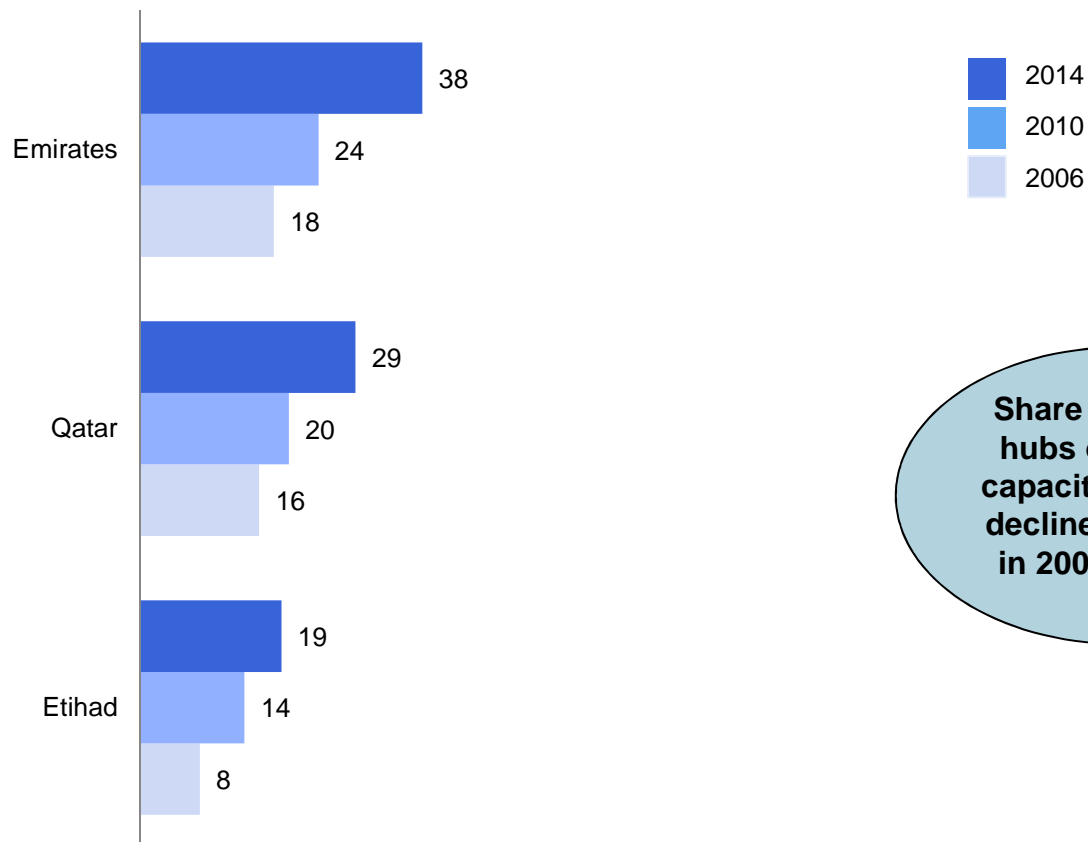


2030 high level estimate



Gulf carriers adding more destinations in Europe leading to bypassing of the mains hubs

destinations served in Europe



Share of top 5 EU hubs of total ICA capacity ex Europe declined from 60% in 2006 to 54% in 2014

Level playing field?

ARTICLE IN PRESS

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Unlevel playing field? Ah yes, you mean protectionism¹

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ABSTRACT

The competitive threat of the Gulf carriers has been increasingly answered in Europe by protectionist measures. This policy was justified by allegations of unfair competition and an unlevel playing field. Indeed it is obvious that the playing field for the competition between European and Gulf carriers is unlevel. The main cause however, is the location of the Gulf carriers' home bases that enable them to develop long-haul, hub-and-spoke and to benefit from technological economies of scale of a modern hub-and-spoke wide-body fleet. In this respect, such that of, for example Emirates are not unusual if one takes into account their network and fleet characteristics. The other way around, European carriers have to operate from historical hubs and are consequently confronted with costly short-haul feeder systems due to the location of their home bases in the European market. All in all, the unlevel playing field is primarily caused by historical competition advantages of States in the Gulf region. The playing field is further tilted by EU policy measures to the detriment of the European network carriers. The third and last important category of factors that also tilt the playing field emerges from the economic and institutional conditions in the Gulf States. In contrast with the European approach these conditions work in the Gulf carriers' favour. Protectionist measures in Europe are primarily justified by this third and last important category.

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1. The changing focus of Europe's aviation policy

Aviation politics in Europe seems to be undergoing a shift in thinking. Various liberalised bilateral air services agreements concluded in the last decade between European Union Member States and the Arabian Gulf States appear to have been based at the European side on other expectations than the current market developments show. In fact, the European civil aviation industry is starting to send out conflicting signals. On the one hand, it is still talking up the benefits of worldwide liberalisation; on the other hand, the network carriers in Europe are increasingly receptive to the idea of protecting national home markets. For example in 2008 IATA took the initiative for an Agenda for Freedom Summit. The Agenda, in which fair competition was only a minor standard issue, called upon governments to waive certain clauses in their bilateral agreements if they restrict the airlines' ability to do business. In 2009 this agenda was further elaborated into a statement of three freedoms, to access capital markets, to do business and to price services. Denial of fair competition was more explicitly addressed as a cause to refrain from, or stop implementing, these freedoms in bilateral air service agreements. However in its "Fit for Quality Asked Questions" about the Agenda for Freedom (ATA 2013a) indicates now an extra key issue: the need for a level playing field. Apparently the fair competition clause has been upgraded. This corresponds with the effects of growing competition from the Gulf carriers in Europe. Several European airlines' increasingly complain of an unlevel playing field.

One might hypothesize that these complaints would simply fade away if more Gulf carriers were willing to enter into one of the three airline alliances. Because Emirates continues its policy not to be affiliated to any alliance the discussion about a level playing field may increasingly focus on this Gulf State airline. For example, the former CEO of KLM stated that he would not be concerned about unlevel playing field issues among airlines if the airlines cooperated in code-share agreements, or alliances. But he assured: "I do have

¹ The International Airline Group (IAG), the parent company of British Airways, Iberia and Vueling, takes a different position. In an interview, CEO Willie Walsh said: "Many of the European consequences will hatch and focus about the way the Middle East carrier operate; they think that it is unfair competition. I don't buy into that [...] But I will not argue another bit of competition to British Airways" (Vohra, 2011). This comment is the more remarkable if one realises that Emirates operates a Heathrow with the daily A380 frequency and a Gatwick with three daily B777 frequencies.

² This article is an adapted version of the Martin Kutz lecture given at the European Aviation Conference in Berlin, 2012.

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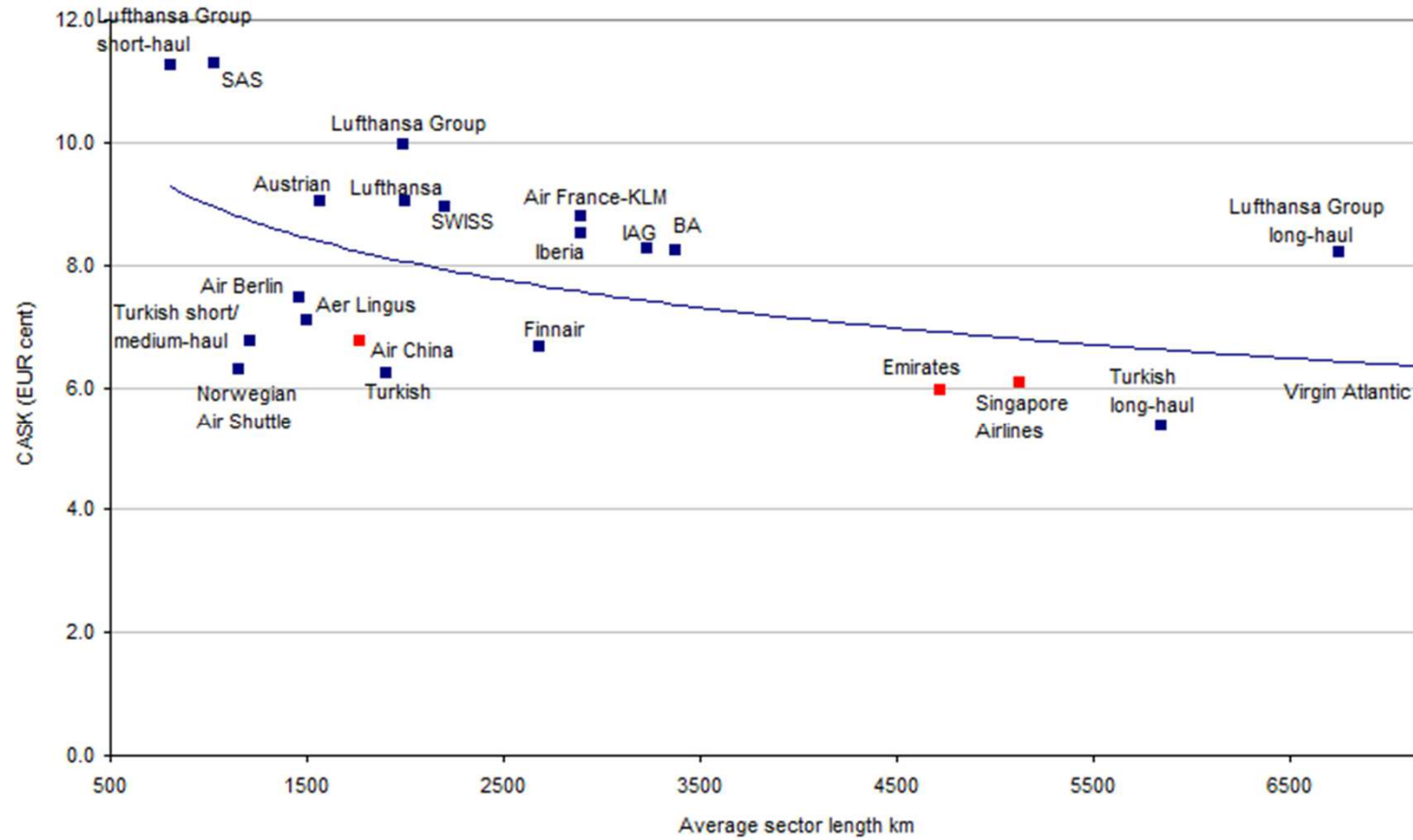
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Is there an “unlevel” playing field?

De Wit claims:

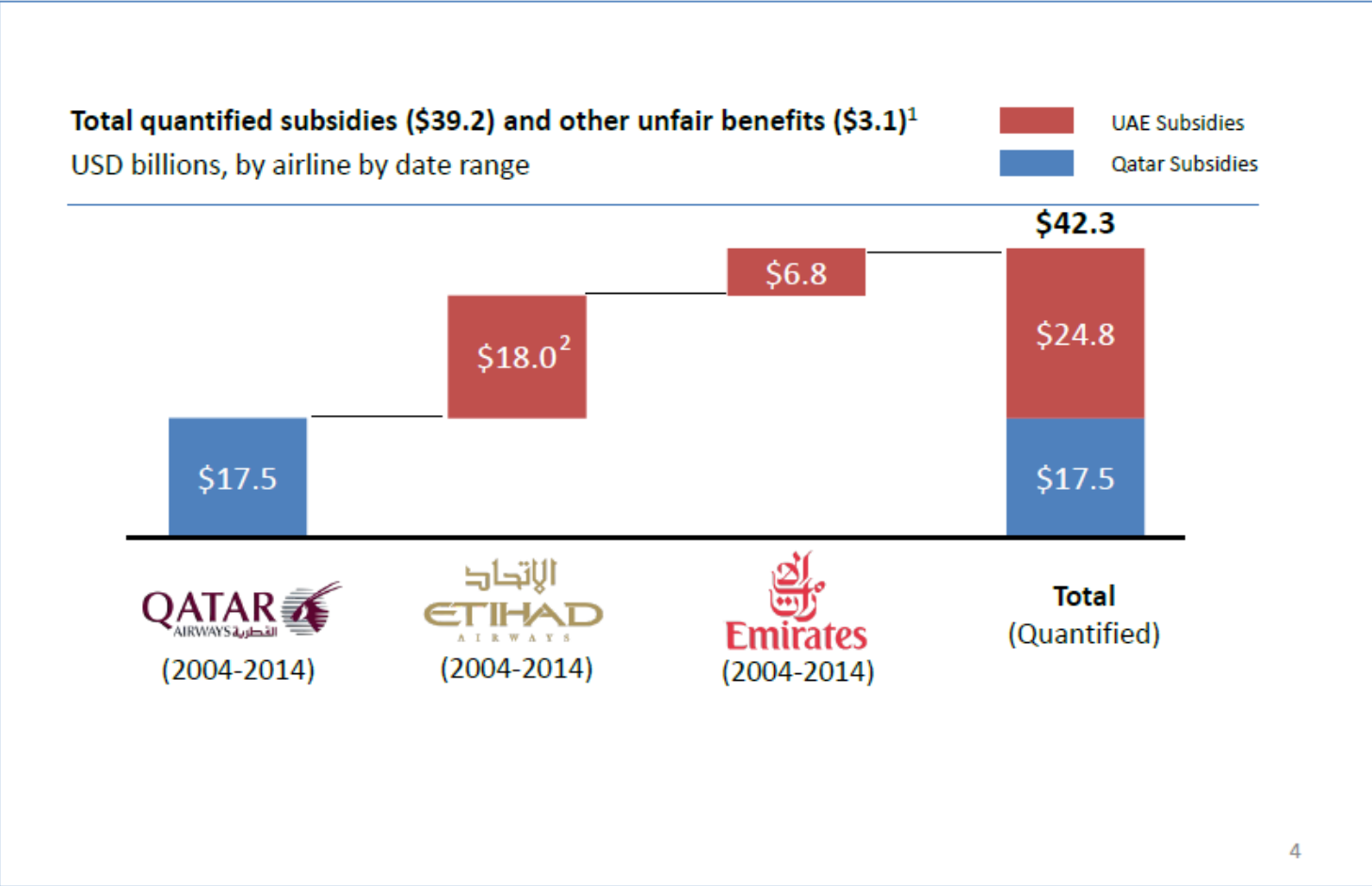
- 85% of cost difference between Emirates and European legacy carriers is labour costs and geographic position Middle-East (LH-LH)
- 15% is unlevel playing field...

Unit costs major airlines



Recent white paper AA, Delta, United

Since 2004, the Governments of Qatar and the UAE have granted over \$40 billion in subsidies and other unfair benefits to their state-owned carriers



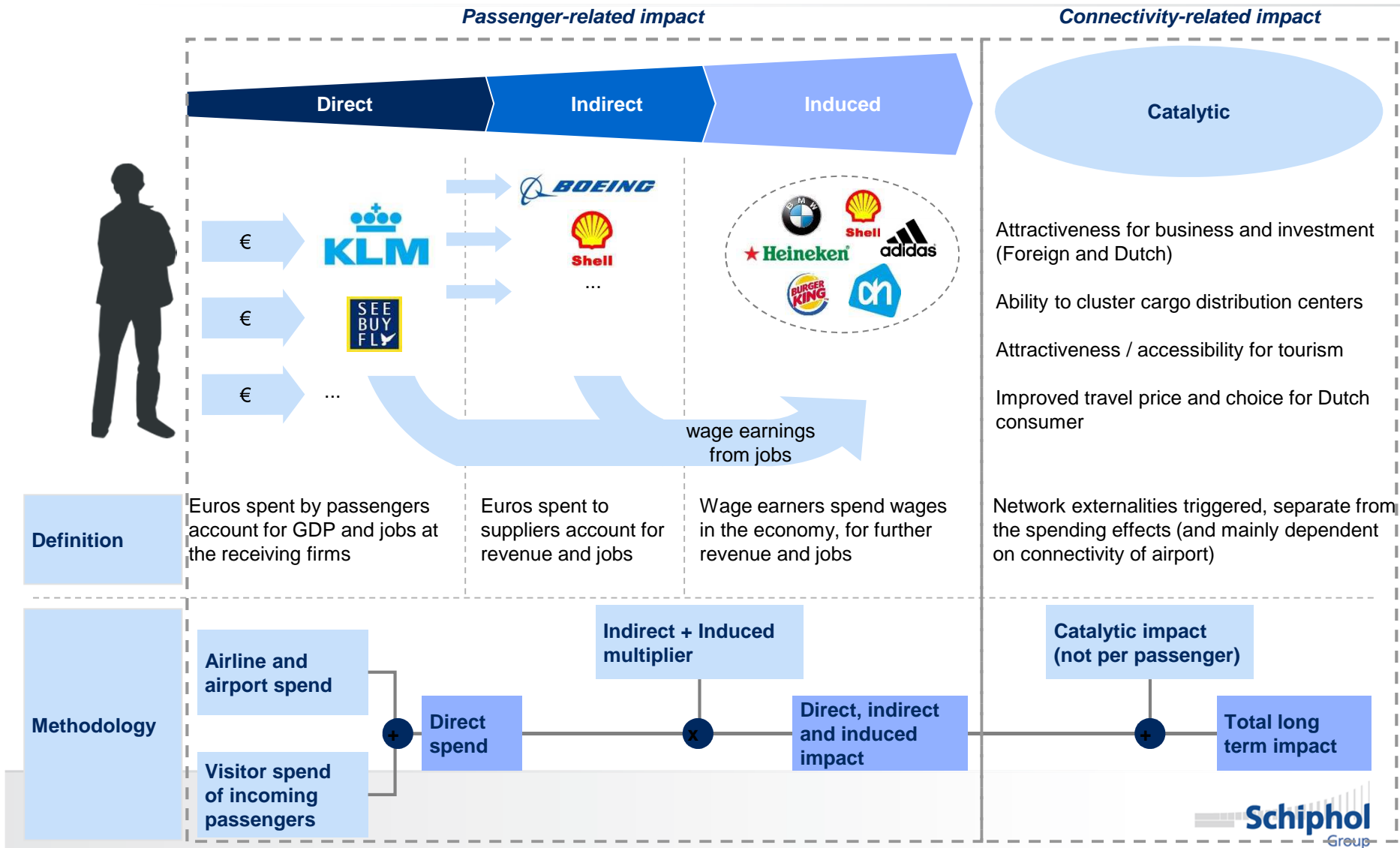
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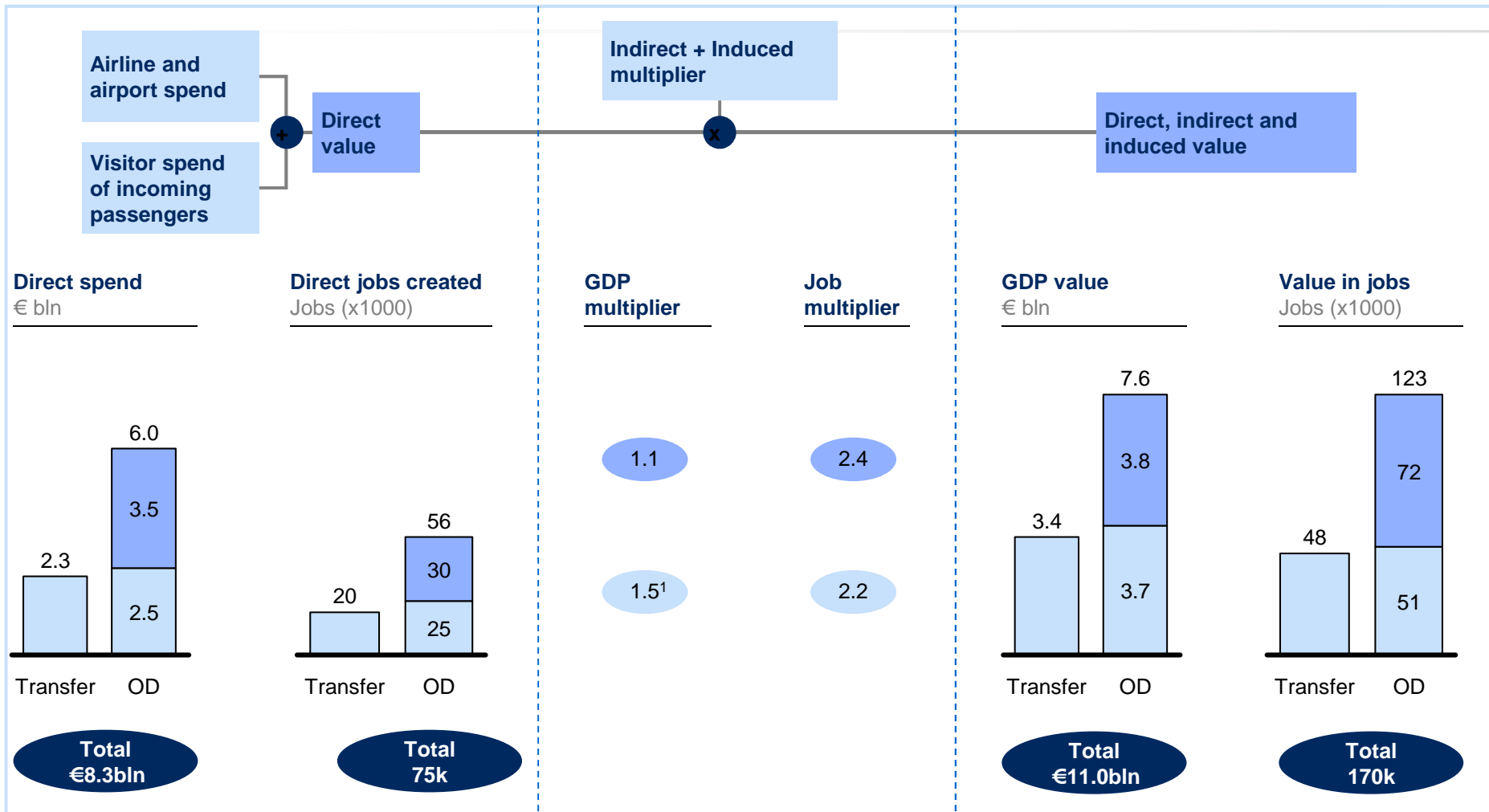
Economic value of aviation

Typical framework used for economic impact analysis



1 Indirect and induced: GDP ~€11bln, ~170k jobs

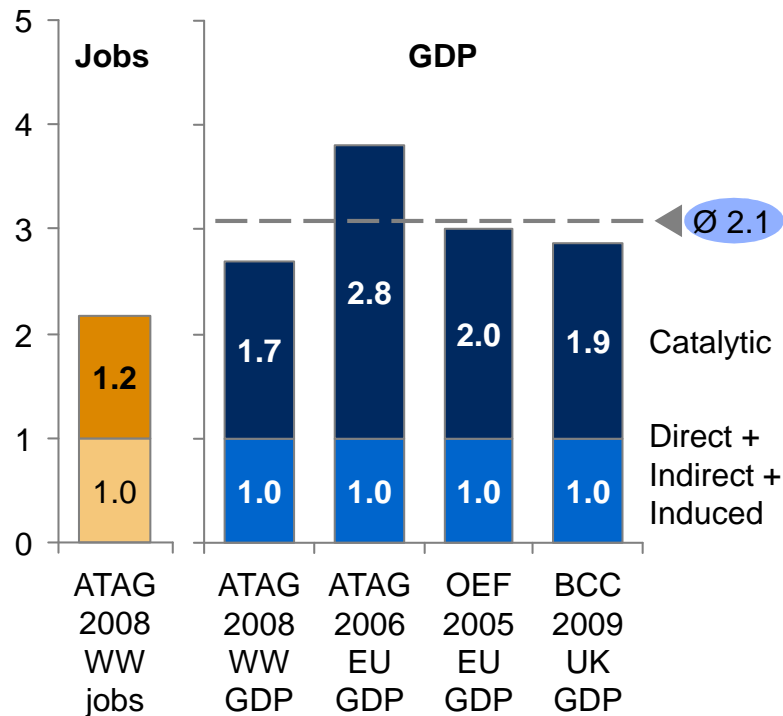
Visitor spend²
 Airfare spend



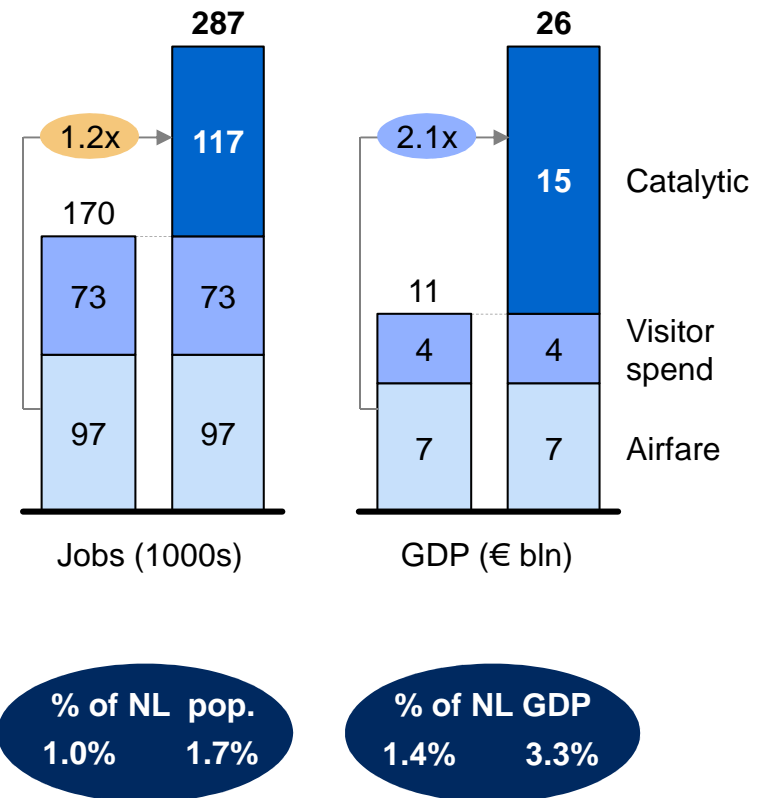
2 Catalytic: GDP ~€26bln, ~287k jobs

External reports catalytic impacts

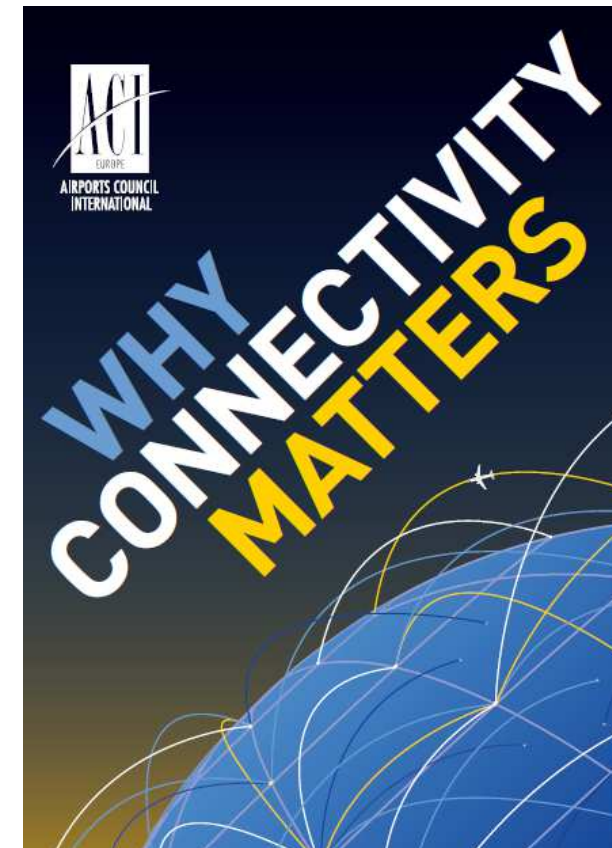
Total value as multiple of direct, indirect and induced impacts¹



Total estimated value of all passengers (including catalytic effects)



Other recent publication all stress the importance of (hub) airports for connectivity and economic growth



Outline

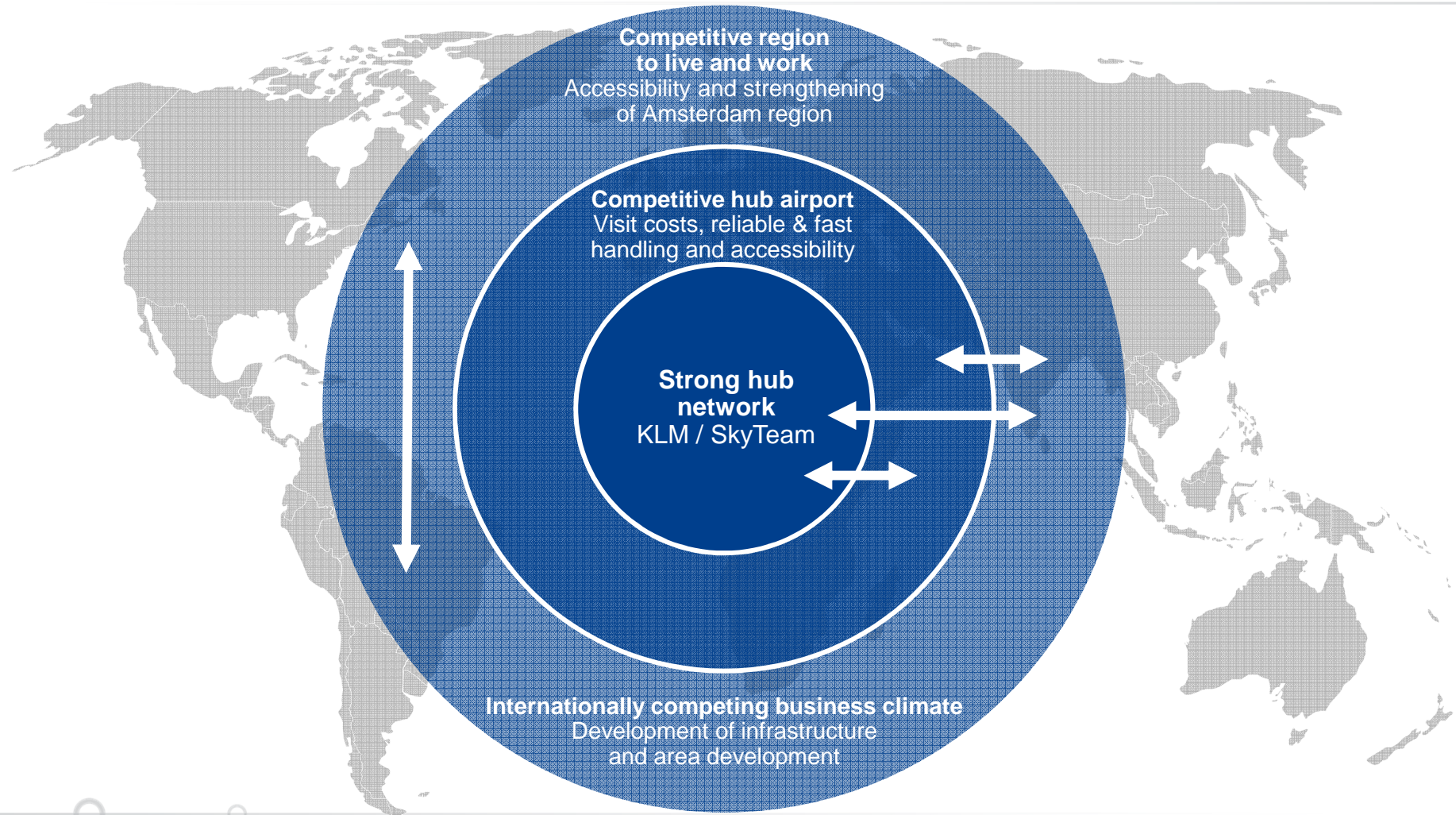


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Increase competitive position of aviation

AIRPORT	<ul style="list-style-type: none">• Focus on cost, Europe's lowest cost hub• Invest in quality and capacity
AVIATION POLICY	<ul style="list-style-type: none">• Selectivity: create capacity for mainport related traffic• Licence to operate and licence to grow• Sufficient air and ground capacity• Ground connectivity• Single European Sky (SES)
LEVEL PLAYING FIELD	<ul style="list-style-type: none">• Pax rights EU vs. non-EU carriers• Stringent EU policy towards state subsidized carriers
SECTOR COOPERATION	<ul style="list-style-type: none">• "Mainport" philosophy

KLM/SG shared vision: 'Essential elements Mainport Schiphol'



See you at Amsterdam Airport Schiphol

