



# FIERCE COMPETITORS, FRAGILE FOES

COMPETITION BETWEEN  
AIRPORTS IN EUROPE



# HOW AIRPORTS MARKET THEMSELVES TO AIRLINES



# COMPETITION BETWEEN AIRPORTS IN EUROPE IS ALL AROUND US — *LIKE THE AIR WE BREATHE, WE SIMPLY DO NOT NOTICE IT*

So many people still grapple with the concept of airport competition. Why?

Successive studies have shown that there is strong competition between airports, and that it is instrumental in determining the price and quality offer that the airport provides to its customers.

AND YET most people still think that airports are monopolies.

Airlines themselves are the protagonists in choosing between airports for their routes, aircraft bases and growth. Yet despite running airport beauty contests and participating in route development conferences, airlines hardly recognise airport competition as they want regulators to apply a downward pressure on airport charges.

Indeed, we see the result of this lack of recognition of airport competition in the continued weight of economic regulation, which remains largely based on a reflexive urge to regulate rather than a demonstrated market failure.

**This synopsis summarises evidence from the study carried out by Frontier Economics in 2022. Alongside presenting the evidence on market trends from Frontier Economics, it charts a way forward as the European aviation sector reshapes itself following the shock of the COVID-19 pandemic and acts in full awareness of the urgency to act to address climate change.**

## FACTS ABOUT EUROPEAN AIRPORTS REVEAL FOUNDATION OF A COMPETITIVE MARKET

	2012	2019	2022	
# of airports in Europe with commercial traffic	674	661	646	—
# of airlines (10 daily flights min)	166	161	134	—
New routes annually (million seats)	60.5	60.8	Not applicable (post-Covid recovery)	
Closed routes annually (million seats)	-51.7	-50.5	Not applicable (post-Covid recovery)	
Top 5 Airlines' Market Share (intra-Europe)	35.0%	34.7%	38.8%	↗
Top 5 Airports' Market Share	25.1%	22.3%	22.3%	↘



# AIRPORT COMPETITION WORKS “AT THE MARGIN”

Let’s think about an airport that has 100 flights a year. Amongst those flights, some are very profitable for the airlines, and others may barely break even, or even have operating costs that exceed the airline’s revenues.

However, there is no way for airports to know exactly which flights have the highest yields, and which have the lowest. It is the low yielding flights that face the risk of being cut by the airline. These are the “marginal flights”. To keep all of its 100 flights, the airport must compete for that marginal flight.

Airports compete for the marginal flight because a small change in passenger numbers can result in a substantial change in their profitability: this is a typical result for businesses with high proportions of fixed costs - small changes in volumes result in much larger changes in profitability.

This characteristic of airports means that the marginal airline services and passengers are of substantial importance to airports. The market evidence fully supports this theoretical expectation.

# THE AIRPORT OFFER TO AIRLINES — “*WE WANT YOUR BUSINESS*”

The primary business-to-business customer relationship of the airport is with the airline. And airlines across the European region are more agile than ever – making competition between airports pan-European and beyond. Airlines know they have the power and ability to switch between airports, allowing them to demand and set conditions, from quality of service to level of charges.

Airports strive to attract airlines by servicing diverse needs of airlines for infrastructure —whether priority lanes and lounges for full-service carriers, or high-density seating and walkways to gates for low-cost carriers.

Airports benefit when more travellers use them. Working with partners such as airlines and local destination promotion authorities, as well as business chambers and tourism associations, airports are fighting to grow their business.



*Each additional passenger and each additional flight is important for an airport to be able to cover its fixed costs, and airlines use this aspect of airport economics in negotiations with airports.*

**Airports competition can be seen in a number of ways.**

They:

1. Market themselves to airlines, both the ones that currently fly to the airport and potential new airlines. Airport marketing is as much about retaining airlines already serving the airport as attracting new ones.
2. Build business plans for routes running from their airport. These presentations need to include market intelligence to convince airlines of the clear business potential of the route based on the local market, including business, leisure, family, diaspora, cargo and express traffic.
3. Demonstrate the potential for the airport, its airline partners and business and tourism community to work together to increase the number of travellers, making the region more interesting for airlines to serve.
4. Generate interest in specific routes from would-be travellers at both ends of the routes; for example advertising a small touristic region far across Europe (let's say, highlighting the splendour of Carinthia to the people of County Cork).

**ROUTES marketing**

There is no more visible evidence of competition between airports than the industry's route development fora, of which the eponymous ROUTES event series is the most well-known.

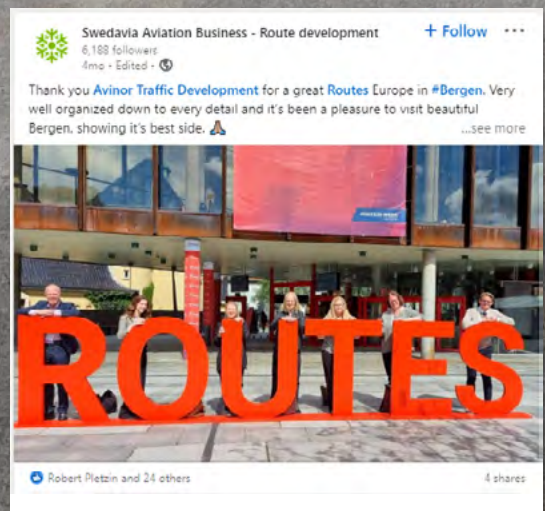
From 60 participants meeting in Cannes for the first time back in 1995, to today's multi-day platforms with up to 3,000 participants from all over the world, these events have become must-attend for airports to meet and engage with airlines in match-making sessions at which they pitch their value proposition for new services and routes. Interestingly, while airports have to pay hefty participation costs to attend, these events are entirely free for airlines.

If airports were monopolies, then these massive route development events simply would not exist.





# AIRPORTS ATTENDING ROUTES DEVELOPMENT CONFERENCES PITCH THEIR AIRPORTS' VALUE TO AIRLINES







Airports dedicate considerable budgets to exhibit at Routes Conferences. Here pictured the Copenhagen Airports stand including a fresh juice bar.



A crucial part of Routes conferences are the so-called "speed-dating" sessions, where airports get a short amount of time to pitch new routes to airline representatives.



Routes conference stands are almost little works of art, transporting visitors to the destination, sometimes quite literally! Here pictured is Brussels Airport's stand recreating the interior of a traditional Belgian café inside the exhibition space.



Market intelligence is key when discussing new business with airlines, but it's the financial incentives and discounts on charges that have the power to move the needle. Only surefire profit will convince airlines to make the business leap.



Cosy spaces created by airports' airline marketing teams are designed to attract visitors and make them want to stay. The Swedavia stand is a great example of successful interior design, bowing to Sweden's prowess in this field.



Creative copy and catchy marketing slogans are a must-have when attracting new airline business, requiring airport teams to start preparing their next pitch as soon as the conference is over. Athens Airport knows that on top of financial incentives and attractive marketing package, airports need to invest in sticky branding.

# THE AIRLINE DEMAND

## — “*BID FOR OUR BUSINESS, OR WE’LL TAKE IT DOWN THE FLIGHT PATH*”

From your armchair at home, tablet in hand it might seem that there is only 1 airport nearby and 3 airlines flying from here to there.

But the business-to-business relationships in the marketplace are far more complex than that simple picture.

Those 3 airlines might actually all belong to the same group, and sell seats at the same or closely coordinated prices in their dynamic yield management system.

And the airport, to ensure that the airline keeps flying to that specific ‘there’, had to put in place a volume discount that rewarded the airline a pay-back at the end of the year.

Indeed, the only reason you can fly there is that the airport and all the other partners that make a flight possible have ensured that the airline can make a profit when it operates that flight.

Meanwhile, the airline can squeeze each of its partners — or threaten to drop the route and fly to a different airport.

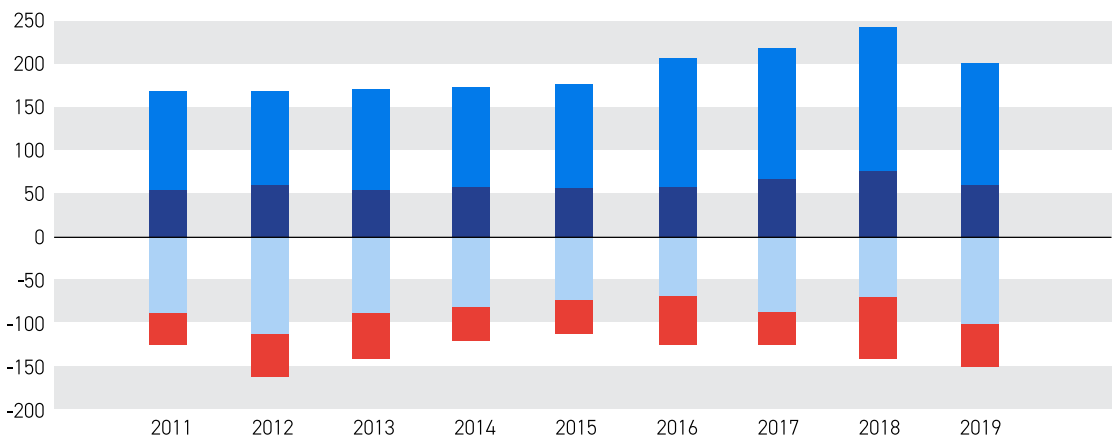
Frontier Economics’ analysis clearly shows that airport competition results from two concurrent market dynamics:

1. Airlines opening and closing routes (route churn) between airports on a pan-European level and beyond.
2. Airlines changing capacity (frequencies & seats) on existing routes – either increasing or decreasing capacity.

As shown below, the level of route churn (opened & closed) and capacity variations (increase & decreased) is significant and results in airports being under market/competitive pressure to offer pricing (charges) and services that is conducive to both get new routes and to preserve/grow capacity on existing routes. This reflects the credible threat that airlines are able to exercise upon airports not to open new routes and not to maintain or grow capacity on existing ones.

- Route increased
- Route opened
- Route decreased
- Route closed

### **55% of all routes had a change in capacity of more than 10% from one year to the next**



Source: Frontier analysis using OAG data

Note: This chart shows the total seats (million seats per annum) flown in Europe from 2010 to 2019 by the type of route. Europe is defined as every country with at least one airport which is a member of ACI EUROPE. Monaco is excluded as it only has a heliport.





*“EasyJet invited airports to make  
Apprentice-style pitches during  
20-minute Skype sessions.”*

From Reuters article [Budget airlines put squeeze on airports in coronavirus cost drive](#)

*“Lufthansa Group is increasingly  
able to move fleets and traffic  
wherever the conditions are  
best for quality, growth and cost  
effectiveness.”*

Lufthansa Press Release –  
[Lufthansa Group Optimizes Hub Management](#)

# THE MOST FRAGILE FOE OF ALL

No airport is more captive to the current airline business model than the Hub Airport<sup>1</sup>. These major European airports face competitive pressures from all sides: and yet they are often the airports called the most dominant.

## Competitive pressures from other hubs

A hub airport's connecting passengers are disloyal – they will connect via another hub if the price or service quality is more advantageous. This is why airlines offer 'loyalty' programmes to entice back these frequent travellers.

**Connecting routes at selected European airports competed by direct flights**  
*Around 60% of all connecting flight itineraries could be flown via an alternative hub*

Hub	Share of connecting flights via that Hub, which could have been flown via another Hub	
Origin		Destination
FCO	72%	
MUC	73%	
FRA	67%	
AMS	62%	
CDG	60%	
MAD	54%	
IST	35%	

## Competitive pressures from direct routes – both intercontinental and intra-European

New aircraft technology and evolving airline business models are also changing the market for hubs. Think about the 14-hour journey from Perth, Australia to London without a single stop. These new aircraft types allow the economics of thin point-to-point routes to entirely circumvent hubs: a development called **“hub bypass”**.

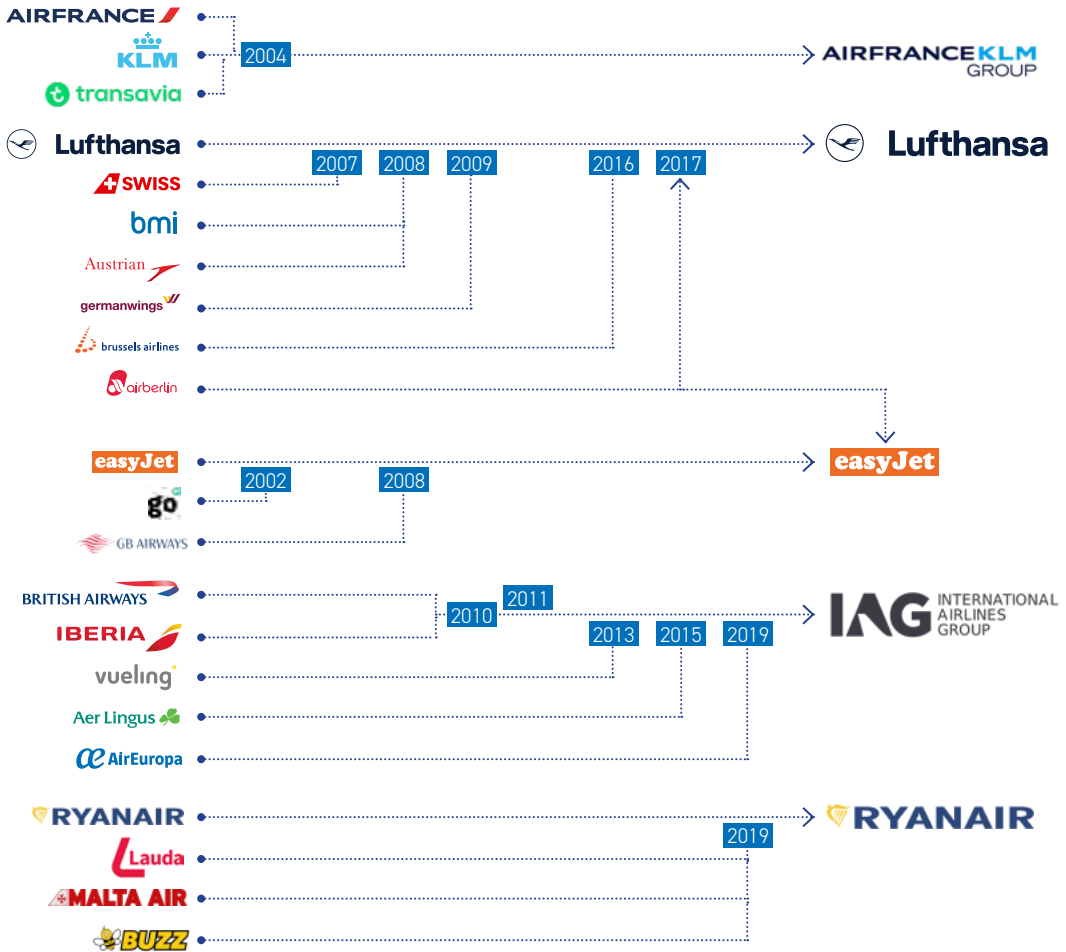
Hub bypass has already been a wide spread reality for some time for intra-European routes, driven by the impressive development of Low Cost Carriers (LCCs) which have revolutionised air connectivity by offering direct 'point-to-point' services between an increasing number of European regions.

<sup>1</sup> A hub airport is an airport used by one or more airlines to concentrate passenger traffic and flight operations. Hubs serve as transfer points to help get passengers to their final destination. It is part of the hub-and-spoke system. (Wikipedia, accessed on 13/09/2022)





# WHO HAS MONOPOLY POWER TODAY? — *THERE ARE FEWER AND FEWER AIRLINES FLYING. THIS HAS TURNED AROUND THE POWER DYNAMIC.*



Source: InterVISTAS research of airline websites and history

The top 5 airline groups now account for nearly 60% of all flights within Europe, and the top 5 airlines alone accounted for nearly 40%.

Meanwhile, more than 640 airports in Europe are vying for business from airlines. This means that a small number of airlines have a high degree of buyer power when they choose between airports.



# POST COVID-19, CHANGES IN THE MARKET STRUCTURE HAVE INCREASED AIRPORT COMPETITION

COVID-19 shocked the air transport sector. Coming out of the pandemic, it is clear that there have been structural changes - around bargaining power of airlines, consolidation of airlines, and pressures on supply chain, all of which have increased airport competition. The evidence from a survey of ACI EUROPE members conducted for this study, data on airline schedules, and information in the public domain show that from 2019 onwards:



Low-cost carriers (LCCs) provide an increasing share of flights. As of June 2022, low-cost carriers represented 37% of all flights to, from or within Europe, and 45% of all intra-European flights; this is about 5 percentage points higher than their share in 2019, pre-pandemic.



The top five airlines by capacity have an increasing share of seats every year, increasing the buyer power of these airlines.



Many routes were changed after 2019. In 2021, over 35% of routes flown by airlines to, from and within Europe did not exist in 2019. These route changes are driven primarily by LCCs; in 2022, 941 routes flown by Ryanair did not exist in 2019.



Airlines are working to shorter planning horizons than was the case before the pandemic. This means they are more flexible in shifting capacity. As a result, airlines are also negotiating harder for discounts.



Leisure passengers make up an increasing share of passengers. This increases the competitive pressure on airlines, and thus airports, as leisure passengers are more sensitive to changes in price. In other words, as air fares go up, leisure travellers shift to cheaper destinations, drive instead of flying, or stay at home.



# IMMOBILE, FIXED AIRPORTS HAVE TO CONSIDER THE LONGTERM IN THEIR PRICING DECISIONS TODAY

Airlines' continued accusations that airports are monopolies fail in another sense. An airport is immobile, and therefore an inherently risky fixed asset. While any airline can move its business or part of its business to another location, airports cannot do so. Their only option is to work at making their location more competitive.

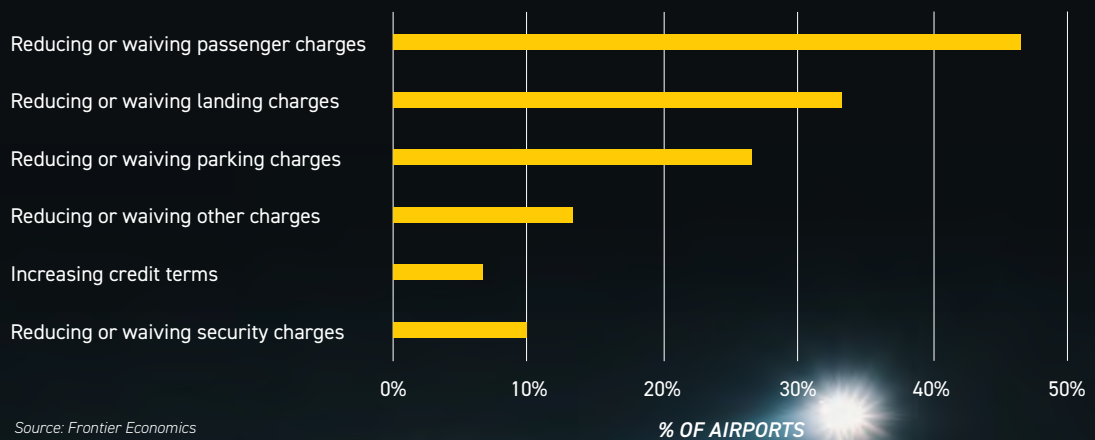
This is why airports are fully aware that their pricing policies today will have long-term impacts on their airline clients and the future business they will bring.

Despite suffering enormous losses, airports during the height of the COVID-19 pandemic did not try to raise prices, as their airline customers were also suffering from the same crisis. Only

during the recovery, when aviation markets were again re-opened, could airport operators start to take steps to ensure financial stability. This kind of pricing behaviour, studied in academic theory as well, shows that airports supported their airline customers during the crisis even as the airports made huge losses, to be sure to maintain and grow their airline business post crisis.<sup>2</sup>

The evidence of the support that airports offered to their airline customers shows that airports strive to build strong and lasting customer relationships based on trust and thereby ensure long-run business growth, which is based on fair pricing.

## RECOVERY INCENTIVES PROVIDED BY AIRPORTS TO AIRLINES (2020-2021)



Source: Frontier Economics  
Note: N=30

<sup>2</sup> Kahneman, Daniel, et al. "Fairness as a Constraint on Profit Seeking: Entitlements in the Market." The American Economic Review, vol. 76, no. 4, 1986, pp. 728-41.

# UNDISPUTABLE EVIDENCE FROM THE MARKET

## 1. Growth that shows airport charges are enabling market development

Between  
2013 and 2019,  
the market  
(to, from and  
within Europe)  
grew by 37%.

The steady increase in annual air travel, and the capacity that airlines offered, demonstrate that the level of airport charges has been set at a level determined by the market, and that allowed airlines to continue to grow. If there was truly a problem with airports charging too high prices, then the market would not have grown so dynamically.

## 2. Route churn that shows airlines have options

Airlines churn their routes to allocate capacity where it is most profitable to operate, based on their knowledge that airports compete for that capacity. However, this observed movement of capacity will only be the “tip of the iceberg”.

Most of airport competition is invisible because it consists of airlines working with their existing customers to keep their business.

Airlines’ credible threat of moving capacity will likely have affected negotiations on a much wider range of routes that remain at the airport. **This is underlined by new analysis which shows that 55% of existing routes had more than a 10% change in capacity from one year to the next.**

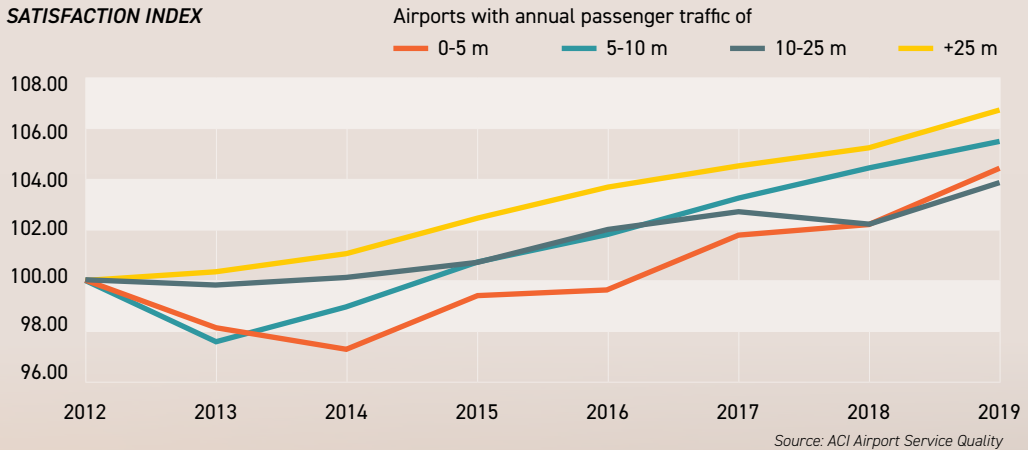
20%  
of all routes  
in Europe  
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More than  
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see an increase  
in capacity



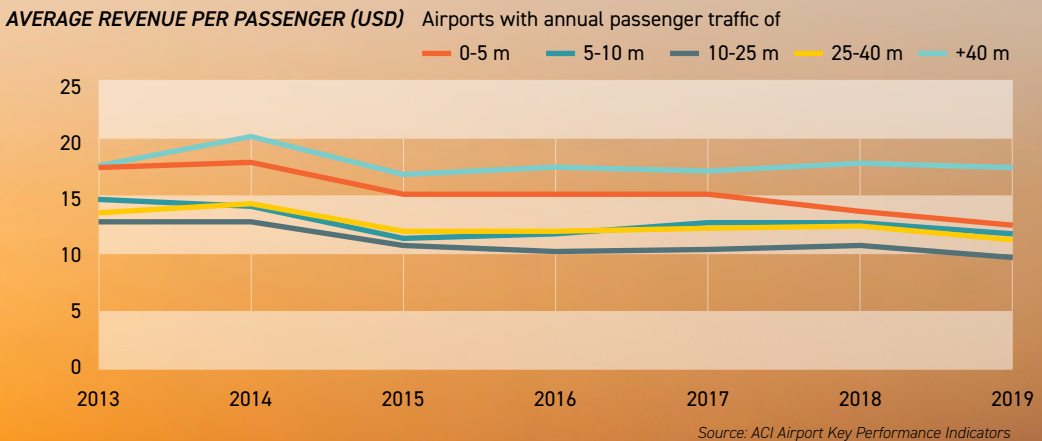
### 3. Service Quality that increases every year

Airport charges are also related to service quality. There is an increasing focus on comfort in the terminal and the passenger experience. A competitive airport sector would be expected to demonstrate that it is endeavouring to increase passenger satisfaction. The evidence from the market shows that this is true.



### 4. Airport aeronautical revenue per passenger decreased between 2016 and 2019

The average aeronautical revenue per passenger of Europe's airports has decreased in real terms since 2016 across all airport size categories. This reflects the existence of significant competitive pressures upon airports. This trend pushes airports to develop other revenue streams, as discounted user charges to airlines are not sufficient to meet airports' operational and investment needs.



# AIDE-MEMOIRE: BACKGROUND ABOUT THE EVOLUTION OF AIRPORT COMPETITION

Airports are highly competitive businesses looking to gain new airline services and passengers. This is in part because of the liberalisation of Europe's air transport market, a process which started in 1992, and the privatisation and/or corporatisation of airports. Like any competitive business, airports must ensure they cover their costs.

Airport competition is pan-European, because airports are competing with other airports across Europe to attract new airline services as much as they are competing to bring in passengers from the local catchment area.

Airport competition is not new but it is increasing in intensity. In a 1994 position paper on the role of an airport, ACI EUROPE wrote that airports "have developed from a public utility into a commercial entity." In the mid-2000s, many studies looked at the impact of airport competition.

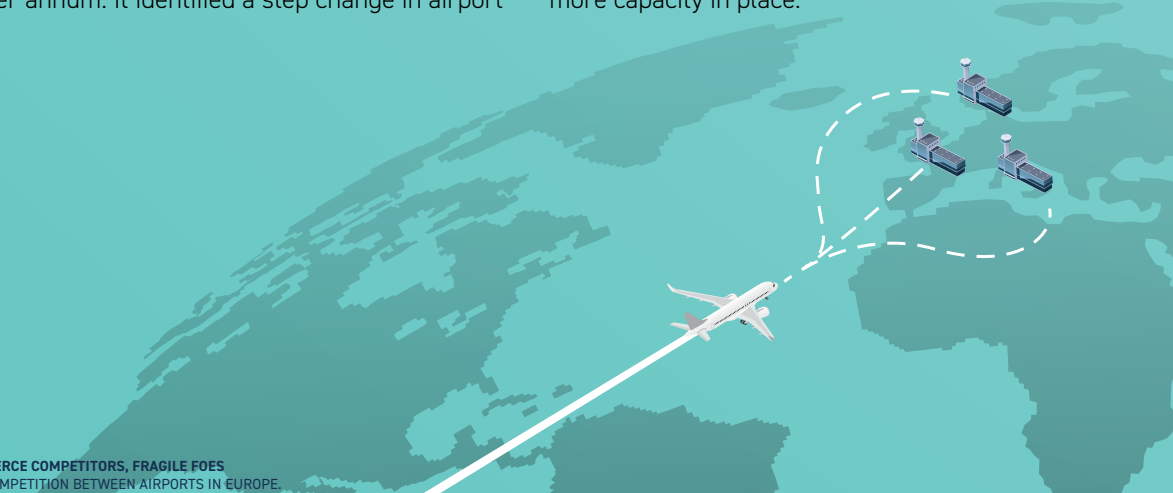
**A study in 2012 from Copenhagen Economics** demonstrated the high levels of competitive constraints upon airports.

The analysis was based on airline, airport and passenger behaviours, especially for airports with less than 10 million passenger movements per annum. It identified a step change in airport

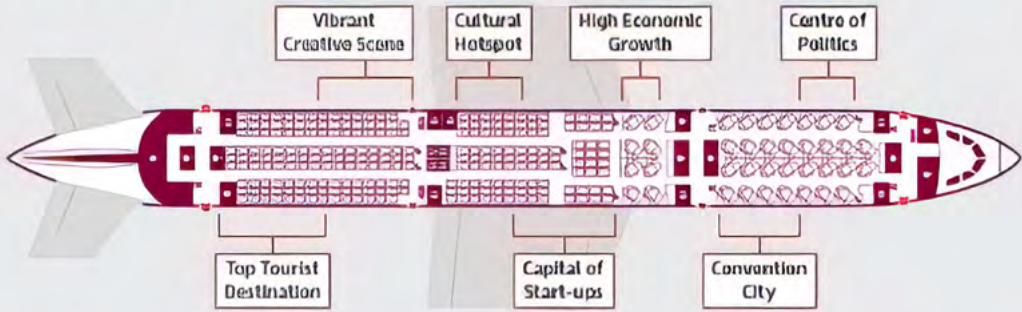
competition in the period up to 2010, due to the growth of a more flexible business model of low-cost carriers, who fly point-to-point rather than via hubs. These low-cost and point-to-point airlines were prepared and able to switch routes between airports. Additionally, the development of more hub-on-hub competition meant that the large airports had to work closely with their hub-and-spoke network airline customer to win traffic from other hubs. Finally, the overlaps between airport catchment areas mean that airports had to protect their market share. Altogether, airports are more commercially focussed, responding to the more competitive environment.

The market grew rapidly in the following years, and a **2017 study by Oxera** found that the changes in the European air transport market led to an increase in airport competition.

The market developments included the arrival of Low-Cost Carriers at the largest airports in Europe, the increase in number of flights to competing hubs, and changes in services available to passengers allowing them to take advantage of actions such as creating their own 'self-connection'. Airports kept their prices for airlines low while increasing service quality and putting more capacity in place.



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# LESSONS FOR ECONOMIC REGULATION OF AIRPORTS

## Call to action 1:

### **Avoid airport economic regulation where competition is already effective**

The business transformation of Europe's airports and the continued expansion of competition between them over the last years leads to a key question: to what extent is economic regulation in its current form still required and relevant for the European airport industry?

Against this backdrop, it may well be the case that the application of principles that guide airports' conduct, as enshrined in the EU Airport Charges Directive, may be better than the price-setting regulation in place in many European states today.

Experience from Australia, where airports have been under a light-handed price monitoring regime for over 20 years, demonstrates that such models work well. Not only does increased competition reduce the need for regulation, but regulation can in fact be harmful if applied where competition is already effective. This harm can be especially prevalent if dominant airlines distort the regulatory process to prevent airline competition and to keep their air fares high, leading to our second call to action...

## Call to action 2:

### **Monitor consumer outcomes**

Regulators need to monitor air fares to ensure that airlines are not starting to over-charge passengers. A regulator who blindly focuses on the theoretical risk of an airport using market power in setting its prices is doing nothing to improve the service quality or lower the air fares that people pay the airline.



# AT A GLANCE

## — *WHAT ARE “AIRPORT CHARGES”?*

An airport, like any commercial entity, serves a market need and must earn revenue to cover its costs, including financing costs.

Airports typically earn revenue from two streams: the aeronautical business and non-aeronautical (commercial) business. The former are frequently called ‘airport charges’.

### **Airport Charges**

The aeronautical business covers everything related to airlines and passengers. Airports have a menu of prices for an airplane to land and take off, to park, to use the jet bridges, lighting, electricity at aircraft stands and other similar services.

Airports also have a fixed fee per passenger which covers the use of the terminal building. In most cases, there are separate fees for the use of centralised infrastructure, for example for moving of luggage, which are charged on a per passenger basis, as well as fees charged to airlines when they rent check-in desks and areas in the terminal where the airline handles its passenger processing. Airport charges do not necessarily include security charges and passengers with reduced mobility (PRM) charges which are applied separately, on a strict cost pass-through basis.

It is important to note that a wide range of activities that happen at the airport are not actually activities performed by airport operators. Airlines separately procure ground-handling activities, such as ramp handling and marshalling of aircraft, loading and unloading of luggage from the airplane, fuelling, catering, and cleaning of the airplane. At some airports, ground handling is provided by the airport, but for all airports that have passenger volumes exceeding 2 million passengers per year, EU legislation requires that the ground-handling services at the airport are open for competition.





**AIRPORTS COUNCIL  
INTERNATIONAL**

ACI EUROPE is the European region of Airports Council International (ACI), the only worldwide professional association of airport operators. ACI EUROPE represents over 500 airports in 55 countries. Our members facilitate over 90% of commercial air traffic in Europe. Air transport supports 13.5 million jobs, generating €886 billion in European economic activity (4.4% of GDP). In response to the Climate Emergency, in June 2019 our members committed to achieving Net Zero carbon emissions for operations under their control by 2050, without offsetting.

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