ASSAEROPORTI
Associazione Italiana Gestori Aeroporti

Airport Competition in Italy

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The Italian Airports Association

Assaeroporti is the Italian airports Association and it represents interests of 33 airport operators for 42 airports.

In 2017, Assaeroporti's members handled in total 175.4 million passengers, more than 1.5 million aircraft movements and 1.1 million tonnes of freight.

Established on May 31, 1967, Assaeroporti is member of ACI EUROPE, Confindustria - the lead organization of the Italian industry -, Federtrasporto and IFSC - Italian Flight Safety Committee.

Assaeroporti is also delegated to negotiate the national collective labour agreement on behalf of the Italian airport operators.

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Introduction

Over the last two decades, air transportation throughout the world has not simply increased exponentially, nor changed superficially to accompany changing demand. Rather, it underwent a substantial transition that has modified all its parts, shaping them in a deeply different manner than in the past.

- *From the very first years of deregulation, carriers, routes, and lay-overs have multiplied throughout the world.*
- *The growth in competition has made air transportation accessible to social classes who were substantially excluded.*
- *Airports have increased in size, modernised and opened their doors to private entities that, in many cases, hold the majority capital in the management companies.*
- *New countries (one thinks of China or the United Arab Emirates) have become leaders in the airport market, creating airports capable of substantially modifying the geography of the countries managing the global transport flows.*
- *Regulation systems have changed, as well as pricing dynamics and their relationship with the investments needed for airport development.*
- *The concept of natural monopoly traditionally applied to airports is no longer applicable, as airports are indeed in competition with each other.*
- *The relationship between airports and airlines has changed dramatically. The demand of growing synergistically in most cases has caused the implementation of co-marketing strategies.*
- *The exponential growth rates of electronic commerce of business-to-consumer (B2C) goods is proof of the fact that the transportation of products by air, hardly considered till now, is constantly becoming more central within a global perspective.*

The relevance of the airport sector in a country´s economy does not end with merely satisfying a share of the demand of transportation of passengers and goods, but rather represents (and will continue to represent) a key element for growth and competitiveness.
The active and continuous search for a significant position in the flow of international trade is today essential for every country in the world. Not even the largest nations, which have the necessary resources and population, and are supported by a strong and growing internal demand, can ignore this fact. But it is mainly the smaller countries which must apply persistency so as not to risk progressive marginalisation and consequent impoverishment. The objective they must set themselves, inevitably, is that of generating and attracting traveller flows, intercepting and managing them and orienting flows in a favourable direction as much as possible.

CENSIS's Research Report – May 2017
Il Sistema Aeroportuale Italiano.
Cardine e protagonista dello scenario socio-economico del Paese.

Aviation Strategy

The aviation sector represents an important engine for economic growth, employment, commerce and mobility for a Country, and it is for this very reason that the European Commission has placed it at the centre of its own Aviation Strategy.

At the same time, the deep transformation that is of interest to the entire chain of air transportation makes it at the very least necessary to reflect upon the principal dynamics which is of interest to a sector in continuous evolution such as the airport sector. Due to this requirement, Assaeroporti has decided to commission ICCSAI to undertake a study which analyses the historical and emerging competitive context of the Italian airport system.

Key Findings of the ICCSAI Study

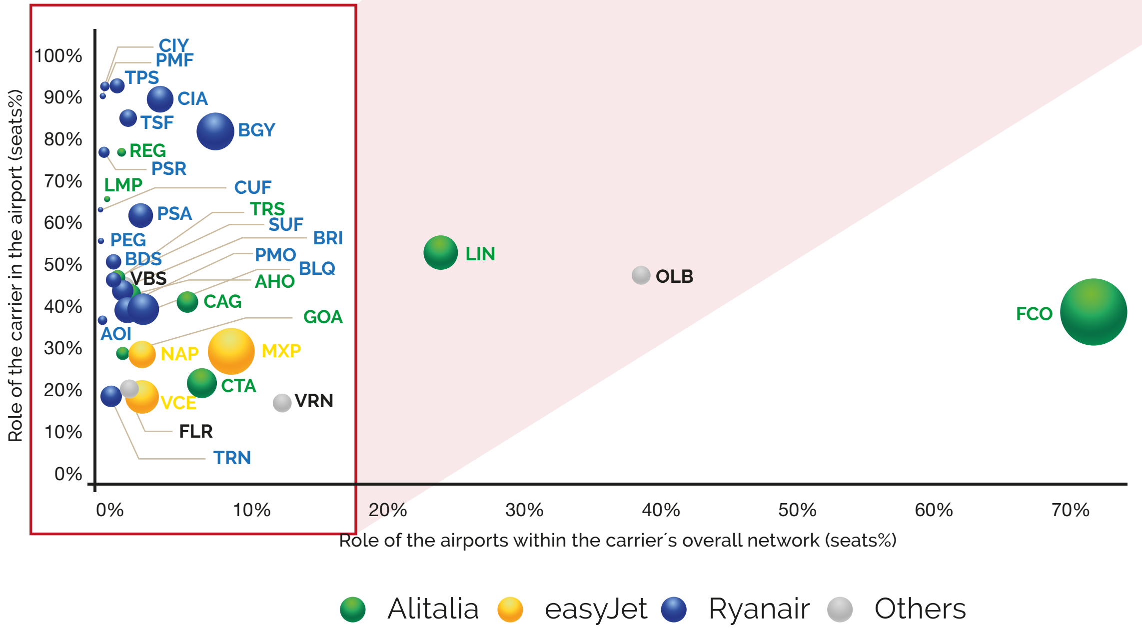
"Analisi sui livelli di competitività del sistema aeroportuale in Italia"

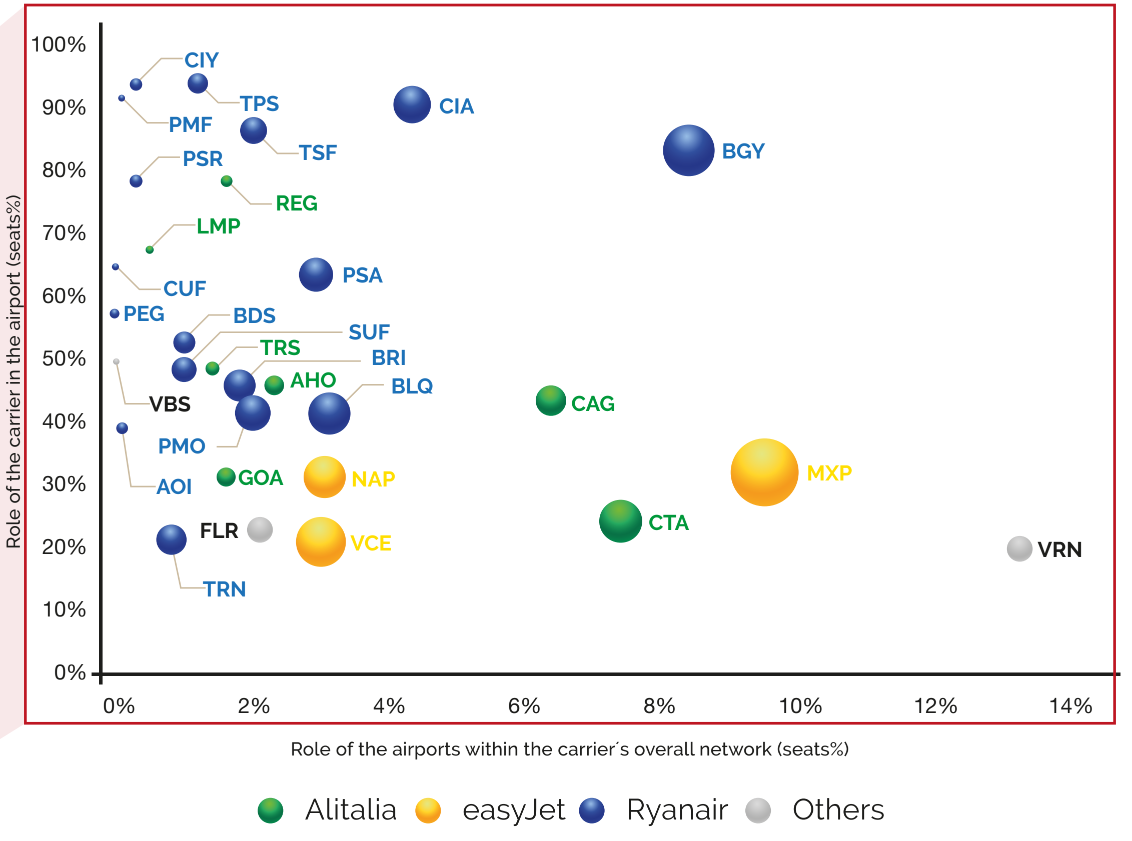
GROWTH OF AIR TRAFFIC IS GUIDED PRINCIPALLY BY LOW COST CARRIERS (LCCs)

Between 2006 and 2016, the traffic in Italian airports rose from 122.9 million passengers to 164.4 million passengers, registering an increase of 41.4 million passengers, totally attributable to LCCs (which in the same period have increased the number of passengers transported to 52.8 million). These carriers are characterised by a high flexibility in moving their own assets (aircraft and operating structure), seeking the best opportunities offered by the market.

> In 2016, in 15 national airports, the main carriers possessed 50% of the traffic; in most of these cases, the airports had a marginal role within the carrier´s overall network.

> In 2016, the overall market share of LCCs was greater than 80% in 9 national airports.





STRONG COMPETITION AMONG AIRPORTS SERVING THE SAME CATCHMENT AREA (local competition)

Considering the geographical conformation of Italy and the distribution of the airports on its territory, the competition among national airports in the catchment area is high. By taking into account as potential competitors those airports with comparable dimensions and excluding those with the same ownership, on average 49% of the population located in the catchment area of an airport[1] has one or more alternative airports available within a maximum of 90 minutes by car from their own residence.

[1] The airport's catchment area refers to a geographic market boundary that is set around 90 minutes' travelling time by car.

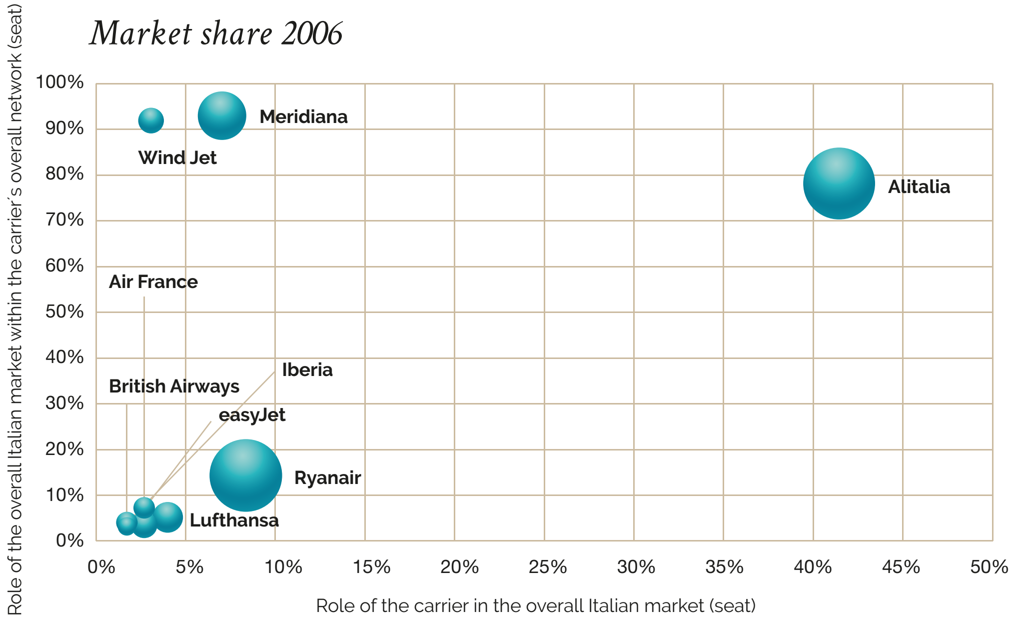
HIGH OVERLAP OF DESTINATIONS AND SERVICES OFFERED ON DEPARTURE FROM NATIONAL AIRPORTS

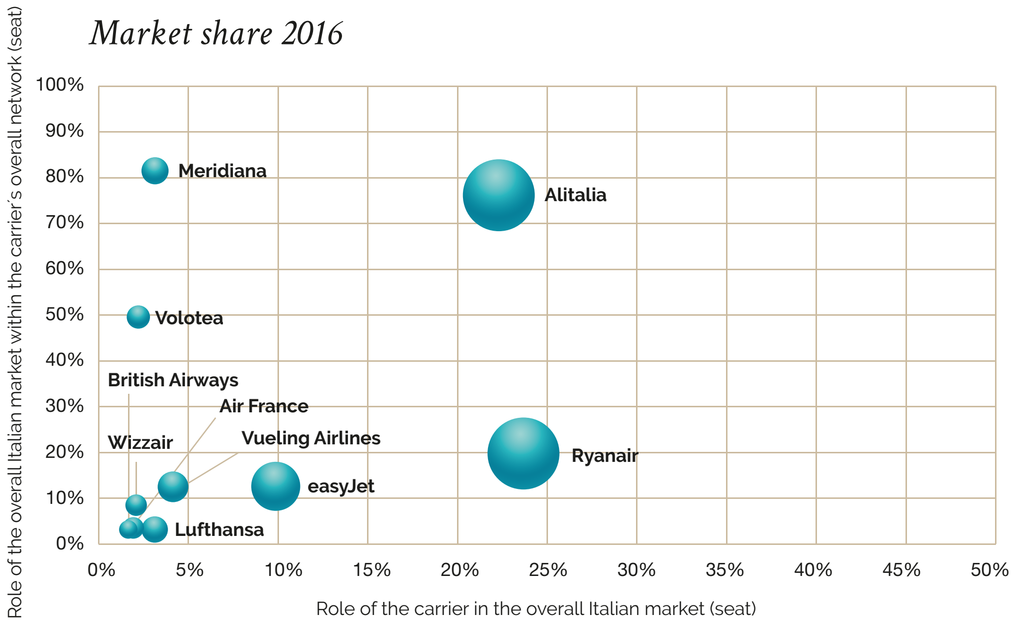
In 2016 on average 71.5% of seats were offered towards destinations which were accessible even if one was leaving from an alternative national airport located at least 2 hours by car from the airport of departure. This phenomenon is linked to the increase of European destinations served, and the progressive **convergence among the carriers´ business models.** On the one hand, in fact, LCCs are progressively starting to operate in the high-end market (presence in major airports, diversification of services offered to passengers, etc.), while on the other hand, some Full Service Carriers (FSCs) are replicating the LCCs model, by developing, for example, their own low cost offers.

CARRIERS ARE CONTINUOUSLY LESS LINKED SOLELY TO THE ITALIAN MARKET (pan-European competition)

From 2006 to 2016 the Italian market share held by carriers that have more than 50% of their offer based on domestic airports has decreased from 53% to less than 30% (data that may be further reduced depending on the future of Alitalia). In this way, the historical relationship of mutual dependence between carriers and airports has been extensively weakened.

Market share 2006





Therefore, the entire Italian market finds itself competing to attract services of the pan-European carriers, who in turn can easily decide to redistribute their offer depending on the opportunities presented by the market.

Many domestic airports, including large-sized ones, have experienced a strong instability in the routes over the past years. The main airports subjected to the reallocation of carriers' supply are principally those with an interest for tourists, where the following phenomena are observed:

> strong growth in the market segment which is more price-sensitive (so-called *footloose passengers*), consequence of a greater familiarity with LCCs and with a greater ease of booking on Internet;

> inclusion in the liberalization agreements/open skies of Countries which overlook the Mediterranean (although the trend has temporarily been attenuated due to the current political instability of these areas).

In the last five years, the phenomenon of route instability has impacted numerous national airports, including the largest airports.

INTENSIFICATION OF COMPETITION AMONG HUBS

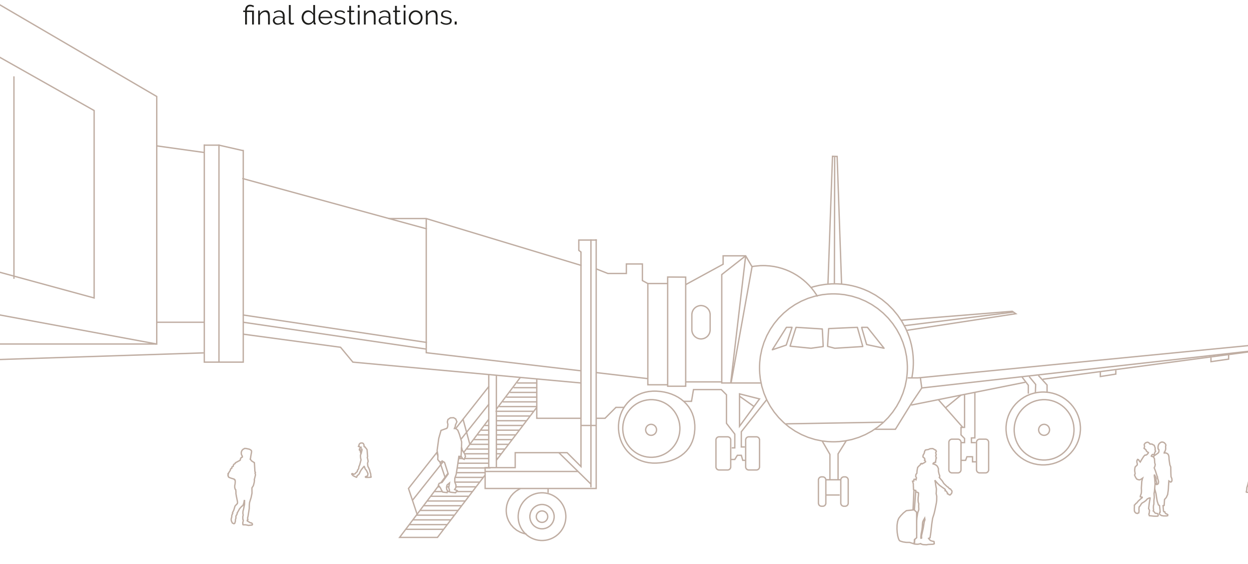
The competition between hubs takes on a supra-European dimension, linked to the increasing role of the large hubs of the Middle East and Turkey of serving passengers who from Europe are heading to Asia-Oceania and connecting the flows coming from the Americas (particularly the West Coast) with Asia.

In 2016, of the 164 million passengers passing through national airports, 60 million flew on domestic routes, 87 million on European routes, 9 million on medium-haul extra-European routes and 8 million on long-haul intercontinental routes (with direct flights to/from Italy). However, within the long-haul segment, the number of passengers who reached intercontinental destinations from Italy via European or extra-European hubs is estimated to be equal to approximately 16 million, almost twice as many long-haul passengers who have used direct flights from Italy.

On average, 25% of flows towards intercontinental destinations accessible via the Italian Fiumicino hub can be served within comparable times via another competitor hub.

> The main competitor to attract the domestic feeder traffic of Fiumicino is Munich airport (in terms of destinations accessible passing either through Fiumicino or through Munich airport).

> The airport with the highest level of competition with Fiumicino is Istanbul. Fiumicino is in competition with this airport on 16 final destinations.



INCREASE OF INTERMODAL COMPETITION

The Italian high-speed railroad network is modifying the competitive framework of the airports, serving as a replacement for many domestic connections, but also potentially widening the competition among airports which are distant from each other, especially for passengers who originate from, or have as their destination, the centre of the large cities served by the high-speed network.

The substitution effect is already plainly evident on domestic routes. In particular, comparing 2008 (year of completion of the Milan-Rome high-speed railway line) for arrivals/departures to/from Rome and 2010 (year of completion of the Rome-Naples high-speed railway line) for arrivals/departures to/from Naples, a drastic drop in the number of seats offered can be observed:

- -64.1% on the Rome-Milan section
- -47.8% on the Rome-Turin section
- -51.7% on the Naples-Milan section
- -37.1% on the Naples-Turin section

AN INCREASINGLY STRONGER COMPETITION IN THE AIR CARGO SECTOR

Despite the high concentration of supply at the national level (5 airports manage 91.7% of the freight traffic), the logistics chain of air cargo has characteristics that can extend the competition within the sector way beyond the national borders. The possibility of serving distant markets using diverse European airports as alternative hubs and the strong proliferation in Europe of the phenomenon of the truck flight (i.e., the transportation of goods from airport to airport by land) confirm the supranational nature of competition in air cargo.

The large shifts of logistical hubs recently verified in Europe (one thinks of the case of Lipsia) and in the world demonstrate that the de-hubbing threat is also present in the air cargo sector.

Conclusion

Conclusion

The analysis made by ICCSAI has highlighted how the competitive context of the Italian airport system is definitely a European one and, in some cases, even a global one. Italian airports indeed find themselves competing:

i. to attract passengers departing/arriving from/to national airports, taking into account both the competition in the catchment area and the increasing overlap of the supply;

ii. to attract services from carriers who are less linked solely to the Italian market;

iii. to develop the role of hubs in intercontinental flows, finding themselves competing not only with other European hubs, but also with those outside of Europe;

iv. to attract cargo flows and develop the role of a base/hub, particularly for integrated logistics operators.

At the same time, the development of the high-speed railroads has already created a strong "substitution effect" on the main domestic routes. In addition, the possibility that the high-speed rail network offers in some cases the possibility of extending an airport's own catchment area, suggests further areas of competition. Finally, airports' efforts to increase traffic volume, typical of a business with high fixed costs, creates competition between airports at the national and international level to attract air services from carriers which are always more route-agnostic (favoured in this by the growth of the footloose passenger segment) and to obtain a role as a hub in the flows of intercontinental passengers.

The result is that the transformations which have characterised air transportation in recent years have modified in a substantial way the context of the sector by creating greater competitive pressures on airports. There are already evident signs that suggest how this trend will continue in the near future.

The possible evolution of the model of low cost business (subsequent, for example, to the progressive entry of LCCs in the long-haul segment and in the connecting traffic, and to the new opportunities offered by technological innovation), the strengthening of the carriers and the airports from Turkey and the Middle East, the appearance of new markets such as the Chinese market and the further consolidation of airlines[1] are the main factors that will determine further important competitive pressures. This seems to apply particularly in a Country like Italy, where the future of the ex-flag carrier will impose new challenges for national airports.

In conclusion, the indicators analysed in the study show:

> the multidimensionality of the problem, highlighted by the ease in which situations of local dominance with regards to supply can become situations of concentration of the demand in only one airline;

> the difficulty of finding predefined, individual and analytical indicators and thresholds, which can be applied to a diverse group of situations.

It follows that, in the eventual assessment of the conditions in which an airport operator could use market power, the considerations set out in this paper lead towards a preference for a prudent approach and a case-by-case appraisal, instead of a universal methodology.

[2] In 2016, 58.4% of overall air traffic in Europe was in the hands of 5 large groups of carriers: Lufthansa Group, Ryanair, IAG, Air France-KLM, easyJet.

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