

# Book Review

**Title** : *Airport Competition: The European Experience*  
**Author** : Peter Forsyth, David Gillen, Jürgen Müller, & Hans-Martin Niemeier  
**Publisher** : Ashgate Publishing Limited, 2010  
**Book Reviewer** : Garry Gumelar Pratama\*  
**DOI** : <https://doi.org/10.22304/pjih.v4n1.a11>



The competitive business environment in aviation industry has changed since European Integration. Not only airlines become more competitive after such integration, but also other main infrastructure of aviation, such as airports. At the first stage of regional development, competition in airport industry seems to be impossible due to clear jurisdictional boundaries between all countries in the region. The other side of the coin is that airport competition becomes an important issue in a more integrated region, such as European Union (EU). This occurs because an airport owner from another country can buy other airports outside its state jurisdiction as long as the airport is under the same region. Moreover, the articles in this book prove the claim of the existence of airport competition. Under the introductory part, the editors outlined three cases from EU: United Kingdom (UK) Civil Aviation Authority action to Heathrow Airport in 2008; Blocked Takeover of Bratislava Airport 2006; and European Commission Prohibition on Subsidies to Ryanair by Brussels South Charleroi Airport 2004. All of the cases are inevitable proofs that airport competition undoubtedly exists in Europe.

The airport privatization triggered airport competition trends, and this began back in 1987 when British Government privatized three London Airports as well as several Scottish Airports. According to Christiane Müller-Rostin (et.al.), the privatization model used by the British Government was considered as a success and shortly became a role model in EU. From 1990 onwards, a number of European Airport were privatized, included among them were airports in Brussels, Budapest, Malta, Paris, and Vienna. Now the majority of airports in EU are privatized. Although UK had declared that they quit EU membership (as widely known under the 'Brexit' term), UK's practice in airport competition is still relevant to be learned. Considered successful in achieving several positive changes in providing more profit, enhancing regional development, creating more employment opportunities, and boosting

tourism growth, the British Airport Privatization model is one of UK legacy to EU airports industry.

The more robust airports competition are, the less business monopoly emerge between them. A monopoly can exist where there is only an airport in the city or region and the nearest airport is too far to provide a competitive environment for intercity flight. On the other hand, the competition is not significant in the long haul flight, where airlines can choose landing point even the distance between airports are quite far. Monopoly market of the airports may broadly vary and among them are monopoly in providing airlines/carriers base, duty-free shop, hub traffic, and other airport services. The objects of the monopoly are airliners and passenger attraction to use one airport only. Airport competition, as well as airport monopoly, is the main research object of the contributors to this book. The scholarly works of various contributors are grouped under four main headings/part. Writings in Part A deals with how do airports compete and how robust the competition is; Part B consist of writings which analyze how do travelers choose an airport and how does this affect the competitive process. Part C deals with providing an academic view of real cases of airport competition. Last but not least, Part D consists of works in reviewing emerging process of airport and competition policy issues in EU region. These parts can provide evidence to convince the readers of this book that legal issues of airport competition really exist in EU airport industry.

Nine contributors published their works under Part A, among them were Peter Morrell, Eric Pels, Erik T. Verhoef, and Kenneth Button. Morrell described the systematic impact of competition. Model shifting from government owned airports to private owned airports initiates a chain reaction that leads to monopoly protection plan by government (or regional authorities on the regional level). According to Morrell's assessment, EU and UK Government have done the math. Article 87 of Treaty Establishing the European Economic Community has served as a legal norm that protects EU member states from distortion of competitive market. Morrell's description was further enriched by Pels and Verhoef contribution. In multi-airport region competition, airports compete for passengers and as the consequence airport charges are lowered, yet still above marginal cost. At the end, airlines have to be more competitive, thus the airline price is lowered. Furthermore in Chapter 5, Kenneth Button provided answers for Part A by explaining the interaction between airlines and airports, in particular the ability of airlines to limit potential market power. Airlines are one of the countervailing powers for airport monopoly. Systematic deregulation of airline market in the United States of America in late 1970s created new business pressures to airlines in increasing competitiveness, especially in operating cost. Accordingly, the reduction of airline cost demanded the government to make changes in airport charging and investment policies.

A broader perspective for readers lies under Part B through the works from Stephane Hess, John W. Polak, and Marck Gaudry. Hess and Polak's study confirmed that traveler's choice has little impact on airport competition, since passengers have strong preference for their nearest (local airport). Passengers were willing to pay high price only to fly from their local airport. In addition to Hess and Polak's articles, Marc Gaudry contributed with an article titled "Improved Modelling of Competition among Airport through Flexible Form and Non-Diagonal Demand Structures Explaining Flows Registered within a New Traffic Accounting Matrix." Gaudry used accounting discipline to create a model of the demand for aviation and airport choice. Works published under this part is needed in order to broaden reader with a legal background.

Part C of this book gives case study of airport competition in Europe. Although all articles in this part are written by non-legal background, lawyers and legal researcher can read Part C in order to understand multidiscipline approach to airport competition problems. Robert Malina came out to the conclusion that economic regulation of airports is unnecessary if intermodal competition (market power of an individual airport vis a vis with other airports) market forces are strong enough. Otherwise, airport regulation is not mandatory. Half of 35 airports in Germany analyzed by Malina have strong intermodal competition. This condition is different with Greece as explained by Andreas Papatheodorou. The conclusion of his research showed that airport competition in Greece is far from being effective because most of commercial airports in the country are still owned by state. Greece government policy is more conservative than the UK. David Starke stated that UK's condition illustrated the ability of airport industry to evolve to a competitive structure. UK's case also showed that competitive framework is an achievable objective for national airport policy.

Airport competition has strong ties with public policy and also law, extensive analysis of the issue can be found in Part D. The part begins with Forsyth and Niemer's research in the UK, where British Airport Authority (BAA) has been criticized for what happened in London's airports (Heathrow, Gatwick, and Stansted) before 2006. As the owner of the three airports at that time, BAA was responsible for inadequate capacity, being too crowded, poor quality services, high cost, and high charge in the airports. It was not until 2006 where the revolution of airport privatization begun. Grupo Ferrovial took over BAA in 2006 and this was the beginning of airport competition in the UK and even in Europe. The breakup of BAA allowed competition between London's airports. As the result of competition, performance of each airport in London had significantly improved. The positive result pushed over UK Competition Commission to recommend BAA to sell its 2 of 3 airports in London. Based on the case, Forsyth and Niemer said that separate

ownership of London airports and competition between them could improve their performance and effective regulation will need to be very well designed.

Furthermore, effective regulation is also needed in order to anticipate future trends in airport competition, e.g. airports alliance trend. Airlines alliances have long been known in aviation industry and have been proven very effective. Same consolidation mechanism may also happen between airports, constituting so-called "Airports Alliance". According to Forsyth, Niemer, and Wolf in other writing under Part D, such consolidation between airports were possible to happen and public policy had to be present to ensure healthy competitive environment. Unlike consolidation using merger and/or acquisition, strategic alliance between separately owned airports is a decentralized system, in which alliance partners consolidate their strategy while still remain independent from each other. Partner in the alliance decided operation according to its own will but commits to take consideration of other partners in same time. On the other hand, merger and acquisition created group of airports under common ownership. This system is a centralized system, which means decision making is in hierarchical structure from the owner to all airports. Forsyth, Niemer, and Wolf did not place their focus on the merger and acquisition mechanism since, unlike airlines, merger and acquisition of airports will not gain substantial economic benefit.

The most important part for readers with law background lies in Hans Kristoferitsch publication under Part D. He gives legal perspective on competition threat from government. Competition between business entities can be interrupted by financial market intervention from a member state. EU tried to hinder the distortion effect to competition by using Article 87 of Treaty Establishing the European Economic Community. State aids to airline were generally banned in Europe, however unique case emerged in Belgium in 2004, when different mechanism of state aid introduced by Low-Cost Carrier (LCC) serving regional airport. In this case, the government gave its financial support to regional airport and regional airport used the support to give facilities to a specific LCC company. The main actors of the case were Ryanair (as LCC provider), The Wallon Region (as public authority in Belgium as well as the owner of airport infrastructures), and Brussels South Charleroi Airport/BSCA (as a company controlled by Wallon Region with a concession to manage South Charleroi airport for 50 years). In November 2001, Ryanair negotiated contracts between Wallon Region and BSCA. Under the contract between Ryanair and Wallon Region, Ryanair was entitled to 50% landing charges for 15 years. The fee is not calculated by weight of an aircraft but based on passenger number. In another contract between Ryanair and BSCA, Ryanair could get a benefit including: EUR 1 per passenger ground handling fees instead of normal EUR 10 per passenger; one-shot EUR 250.000 for hotel cost and staff subsistence; EUR 160.000

for each new route opened by Ryanair; EUR 4.000 for office equipment; free office space; and free hangar use. These contracts indicated a violation under Article 87 of Treaty Establishing the European Economic Community, and thus European Commission took action.

European Commission decided that the substantial fund to attract Ryanair to Brussels South Charleroi Airport and aid granted by Wallon Region for Ryanair only were illegal state aid under Article 87 of Treaty Establishing the European Economic Community. For aid granted by BSCA, European Commission decided that selective reduction of ground handling fees and operational aid for Ryanair were incompatible with common market. Yet start-up aid, including meeting contributions, one-shot incentives, and free office space were still compatible with common market. The principles laid out by European Commission in the case were refined in 2005 Community Guidelines document. Under the instrument, airports are grouped into four categories and only airport that fall into a specific category can get a state aid. Although this guideline is not legally binding to member states or companies in Europe, the guideline is vital for European Commission itself in deciding future cases.

All in all, this book is recommended for readers, both academicians and practitioners in Indonesia as the power house country of Association of South East Asian Nations (ASEAN). The book can provide a lesson learned source which can give a glimpse about the future aviation in ASEAN if the region becomes more integrated. The readers will realize that airport competition is impossible to occur at the first stage of regionalism, because the airports are still under one country jurisdiction or they are mostly owned by a government. However, in the more advanced stage of regionalism, where jurisdictional boundaries and a portion of state sovereignty are given to supranational entities, competition becomes possible. Airports in EU are now under such stage and condition that make it feasible to identify competition between them. EU as supranational power plays role in the airport competition by providing integrated regional law and policy to govern airports. This book was published in 2010, prior to UK declaration to exit EU. As this book contains useful material for further research in airport competition, future improvement should be focused on the implication of Brexit to airport competition law and policy. Consequently, it is important as well as interesting if more researchers contribute to this publication by adding further research on the matters.