



The economic market power of Amsterdam Airport Schiphol

Study of the economic market power on the relevant market(s) for aviation and aviation-related services on the Amsterdam Airport Schiphol

Berlin, April 2010

Market power assessment

Framework:

- Assess demand side competition on both retail level and wholesale level (including intermodal competition)
- Assess supplyside competition including (barriers to) entry
- Analyse if price could be profitably increased to above competitive level, i.e. does switching behaviour of airlines and passengers discipline the behaviour of the airport or not.

1. Market for the provision of infrastructure to airlines

	...to airlines serving O&D passengers	...to airlines serving transfer passengers	...for local and instruction flights	...to airlines offering cargo transportation
Demand side competition Wholesale Retail level	Downstream competition is increasing but Schiphol remains main airport in catchment area (market share over 50% in most parts of the Netherlands). Airlines have very limited switching options, due to high switching costs (sunk costs at airport) and limited capacity at alternative airports.	Strong downstream competition but Schiphol is only supplier on 40% of its routes. Transfer market seems segmented, airline alliances limit extent of competition. Airlines have limited switching options, due to high switching costs (sunk costs at airport) and limited capacity at alternative airports.	Not much alternatives available for users.	Very strong downstream competition and other airports are larger than Schiphol in cargo segment. Airlines have some switching options, but some have high switching costs (sunk costs at airport).
Supply side competition	Exposure of airports to competition from Schiphol is higher than vice versa. High speed rail could slightly limit market power in the future.	Airlines and airline alliances see relevant hubs as different destinations, not much substitution. Expiration in 2011 of double hub guarantee of Air France-KLM merger may weaken market position.	Alternatives Rotterdam and Lelystad owned by Schiphol Group.	Captive carriers have no real alternative. Belly freight over 40%, even more for KLM which cannot switch to other airports. Also Martinair unlikely to move.
Price increase analysis Wholesale Retail level	Assuming price elasticity of -2 and full pass through, price increase is profitable for airport. Note: confirmed by ticket tax example. Even if passengers do not switch, airlines may. However unlikely due to switching costs and capacity constraints at other airports	Assuming price elasticity as high as -8 and full pass through, price increase is still profitable to airport despite strong downstream competition. Captive users are unlikely to leave Schiphol,	Alternatives Rotterdam and Lelystad owned by Schiphol Group.	Airport charge very small part of cargo shipment costs, so price increase can be profitable. Belly freight over 40%, even more for KLM which cannot switch to other airports. Also Martinair unlikely to move (both captive carriers).

→ Market power in all four markets

Additional considerations:

- Larger airlines serve several markets and can distribute costs to markets with less elastic demand to optimize revenues.
- Over the last years hardly any movement of airlines between hubs indicates that demand for airport infrastructure is inelastic



The economic market power of Amsterdam Airport Schiphol

Study of the economic market power on the relevant market(s) for aviation and aviation-related services on the Amsterdam Airport Schiphol

Berlin, April 2010

2. Market for the access to infrastructure for groundhandlers & others

...passenger handling services

...freight and mail handling services

...aircraft handling services

...refueling services

...catering services

Supply/ Demand side substitution

Schiphol is monopolist, i.e. only supplier of infrastructure: no alternatives, locations outside terminal are not real alternative

Price increase analysis

Schiphol increase current concession fee on fuelling or charge access fee for each of other ground handling services, therefore there is market power as these charges can be passed on to airlines because opting out is not likely for airlines.

→ **Market power in all five markets**