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Structural changes in the Spanish scheduled flights market as a result of air transport deregulation in Europe

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Abstract

This paper describes the main changes affecting the structure of the Spanish scheduled flights market and the companies competing within it, during the period 1993–1997. This is a time span that allows us to register the first effects of deregulation. The results reveal that when new private companies from the charter sector came into the open market, pursuing an initial strategy of price reductions, overall competition increased in the Spanish market, and particularly, in the domestic sphere. Secondly, they show that the reaction of the national company, Iberia, to the appearance of new competitors was slow to begin with, although it eventually reacted by lowering fares until on a par with those offered by competing companies. Finally, it is seen that deregulation has led to the consolidation of a competitive environment in the domestic Spanish market, with Iberia currently having less than a 50% market share.

Keywords: Air transport; Deregulation; Market share; Prices

1. Introduction

Air transport deregulation in Europe was introduced relatively recently, taking its first timid steps on December 31, 1987 with the publication of four Council provisions in the Official Journal of the European Communities, comprising two Regulations concerning the defense of competition, a Directive on fares and a Decision on bilateral air transport agreements. This constituted the First Package of measures in what was known as 'EEC air transport deregulation'. These provisions were later brought to completion with Commission Regulations governing the defense of competition in the field of air transport.

Two more sets of deregulation measures came into force between 1993 and 1997, after which any company from any Community country could apply for authorization to provide passenger transport services between any two destinations in the Community, with absolute freedom to determine their air fares. In general, these steps have brought about a substantial change in the way in which air companies operate. The former Spanish national company Iberia is no exception and deregulation had an effect on its prices and on the structure of the Spanish domestic market, as well as producing a real increase in internal competition.

Analysis of these changes is based on information supplied by the State Office for Civil Aviation (Ministry of Public Works and Buildings) covering twelve domestic market routes[2] and relates to the number of seats offered by airlines. The information relating to fares was obtained from various sources. Some of it was taken from the publication *ABC World Airways Wide*, that has not supplied any information concerning the Spanish domestic market since 1994, while the statistics for Iberia's air fares are those published by the company for 1991 and 1992. Companies' quarterly fare changes come form the computer reservation systems used by travel agencies.

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[2] The routes are those that linking Madrid with Barcelona, Alicante, Bilbao, Málaga, Santiago, Seville, Valencia, Palma de Mallorca and the Canary Islands, as well as the Barcelona-Málaga and Barcelona-Seville routes.

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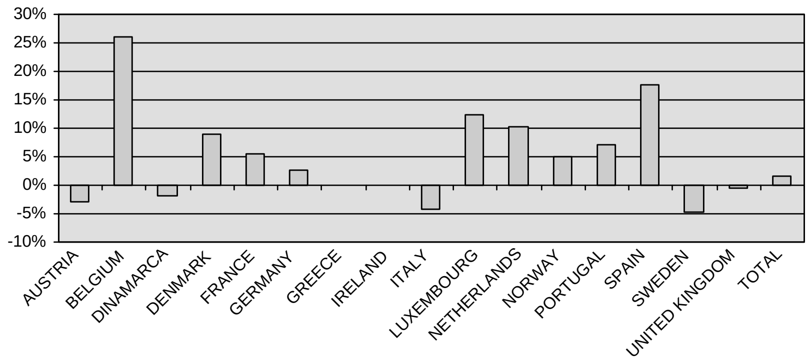

Fig. 1. Growth of European airlines providing scheduled flights within EU member states (1989–1995). *Source*: UK Civil Aviation Authority (1995).

2. Growth of companies in the domestic market

Although air transport deregulation in Europe commenced in 1987 it did not take full effect until 1993, when the Third Package of community measures came into force, permitting new companies to access the market. This introduced changes both within the Spanish domestic scheduled flights market and where flights to other European countries were concerned.

Nevertheless, between 1993 and 1997 competition within the Spanish market was limited. First, entry of foreign companies was restricted until April 1997, after which entry was open to any company from any country in the European Community. Second, the state-run firm AENA[3] had a monopoly of handling activities, a situation that lasted until 1996. At present, Iberia is the prime handling operator for all airports in Spain, with 250 airline companies as customers. In 1999 Iberia handled 448,283 airplanes and 82,761,493 passengers. Finally, there are problems in gaining access to time slots, traditionally the monopoly territory of Iberia. The effects of airport congestion heightened these difficulties.

In spite of these limitations, companies entered the market in Spain between 1989 and 1995 at a rate faster than the average for other European countries. Fig. 1 reflects the sharp disparities existing in this regard. On average, the annual growth rate for the number of companies in the countries selected was 1.6%. In Spain, the annual cumulative growth rate of the total number of companies stood at around 18% for the period, a figure exceeded only by Belgium.

The first consequence of the implementation of the Third Package on the Spanish domestic market was the penetration of the scheduled flights market by Air Europa and Spanair that had previously offered only charter flights. Air Europa was the first to compete on routes between the peninsula and the Canaries and Balearic Islands during the winter of 1993/1994. By summer 1994, its activity also included flights between Madrid and Barcelona, where domestic traffic is the densest. Over the following months, it gradually extended to other routes of both high and low density.

Spanair began to provide scheduled flights in the summer of 1994 between Madrid and Barcelona, and between the peninsula and the islands. Its activity later broadening out to other routes. In 1995 and 1996, two new competitors sprang into existence, Air Nostrum and Panair, offering a more specialized profile, due in part to the capacity limitations of the airports. Air Nostrum, which eventually signed a franchise agreement with Iberia, currently operates on three routes Madrid–Bilbao, Madrid–Valencia and Madrid–Seville, although it is only residual and intermittent in the case of the latter. The last companies to setup were Panair and Air Truck. The first did so in 1996 and its activities have been restricted to linking Madrid and Barcelona with Malaga. Air Truck was a very small-scale company offering sporadic flights between Barcelona and Pamplona: it has now left the market.

As a result of the arrival of these newcomers, Iberia's market share gradually declined (Fig. 2). The sharpest fall in Iberia's share of the market was registered between the winter of 1993–1994 and the summer of the following year, coinciding with the appearance of Air Europa and Spanair. These companies likewise continued to increase their market share until it reached 28% in the summer of 1997. The impact of the other incoming companies was, in contrast, very low. The progress of both private companies was not, however, identical; Air Europa's share remained stable, whilst Spanair's steadily increased.

The culmination of the market deregulation process in April 1997 might have been expected to lead to a considerable increase in new companies offering their

[3] AENA is a public company, founded in 1990. Attached to the Ministry of Public Works and Buildings, it is responsible for Spanish civil airports.