

Unclassified

DAF/COMP/WD(2014)26

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

28-May-2014

English - Or. English

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

DAF/COMP/WD(2014)26
Unclassified

AIRLINE COMPETITION

-- Note by Bulgaria --

18-19 June 2014

This document reproduces a written contribution from Bulgaria submitted for Item IX of the 121st meeting of OECD Competition Committee on 18-19 June 2014.

*More documents related to this discussion can be found at
<http://www.oecd.org/daf/competition/airlinecompetition.htm>.*

JT03358326

Complete document available on OLIS in its original format

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

English - Or. English

1. Bulgaria has 4 main airports, Sofia (In its capital), Varna (on the coast in the East), Burgas (South East of Bulgaria) and Plovdiv (South East of Sofia)¹.
2. The major international airport is located in the capital and it is the main airport for regular scheduled flights. With a manageable volume of traffic of around 3, 2 mill² passengers it is still one of the smaller airports in Europe. Bulgarian airlines account for around 25, 5 % of the traffic and foreign airlines – 76 %.
3. Scheduled international flights from/ to Varna and Burgas airports are relatively small proportion and they are mainly operated by foreign airlines. Bulgarian airlines accounts mainly for inland scheduled flights.
4. Bulgaria Air is the national air carrier of the Republic of Bulgaria. It was privatized in 2006. The Commission on protection of competition (CPC) approved its acquisition³ by Balkan Hemus Group won the two-stage tender for Bulgaria Air sale. Balkan Hemus Group also controlled another Bulgarian air company - Hemus Air. After the acquisition, all of Hemus Air' s destinations were carried out under the plate of Bulgaria Air. In its decision the CPC came to the conclusion that the purchase would not result in a dominant position. According to CPC the numerous foreign and Bulgarian air companies operating in the country guaranteed enough competition on the market. The relevant markets in the case were defined to be: market for scheduled and charter international flights from/ to Bulgaria where each destination should be considered as a separate product market; market for inland scheduled flights with national geographic scope.
5. No other merger cases involving airlines have been notified to the CPC. Airlines have also never been subject to antitrust investigations. The CPC never received complaints or any other market information concerning potential anti – competitive practices.
6. Most of the cases dealt with by the CPC concern airport administration activities as well as ground handling services. Nevertheless those cases impact on airlines competition.
7. Pursuant to Directive 96/67/EC state authorities are required to introduce competition (minimum number of 2 operators) in the provision of ground handling services. The market for ground handling services includes all the activities carried out at the airport to enable airlines to carry out air transport activities.
8. Competition in ground handling services is very important to ensure that airlines can benefit from advantages – such as competitive prices and quality of services. Such benefits are expected to be passed – on consumers - passengers. Airline deregulation has generated economic benefits for passengers such as lower airfares and better quality of services. But if airlines cannot gain access not only to gates and other essential airport facilities (provided by airports themselves) but also to passenger-related services as baggage claim areas, passenger check-in and hold rooms (provided by ground handling operators) on reasonable terms, they will be unable to compete successfully against air carriers that do have such access. From this prospective ground handling is also important to encourage market entry of new carriers.

¹ International scheduled flights from/ to Plovdiv airport are a very small number and are operated only by Ryanair.

² According to the 2013` s statistics of the Bulgarian Airlines association <http://www.association-aba.org/?lg=en>.

³ CPC Decision 328 № / 28.12.2006.

9. Ground handling includes a large array of services necessary to maintain and operate the airline, such as fueling, air conditioning, ground power, baggage handling, communications access, towing, catering, minor maintenance, and similar services.

10. Sofia airport is the only one national airport handling more than two million passengers by year. The undertaking is acting as airport administration as well as a ground handling operator. Since 06.2007 a second operator has been granted a license for this activity – Swissport. In 2010 a third operator entered the market – Goldair. Bulgarian legislation allows airlines to be licensed to handle themselves. This will usually ensure them lower cost than airlines would pay to a fixed base operator or a third-party contractor. Still a new entrant may not have the crew and facilities available at an airport to begin self-handling. This might be obviously the case at Sofia airport where only the national carrier has been licensed for self – handling. By a Decision of 19.12.2013⁴ the EU Commission accepted as compatibles with the common market the concentration by which Bulgarian Airways Group EAD and Swissport International AG (Switzerland) acquire joint control of Swissport Bulgaria by way of purchase of shares. Bulgarian Airways Group controls the national carrier Bulgaria Air. Swissport is now providing ground handling for the latter.

11. In a first case⁵ Sofia Airport EAS has been addressed a statement of objections for eventually abusing its dominant position on the market for services for administration, management and operation of Airport Sofia, provided by the airport operator to the ground service operators. The operator refused access to airport facilities to its competitor – such as system for passenger registration, business class lounges, lost and found counter. The airport accepted commitments.

12. The case has been opened on the bases of a complaint of the sole at that time downstream competitor of the airport – Swissport. It claimed based on information from airlines that Sofia Airport promised at least 50% lower prices for ground handling services to air carriers willing to terminate its contract with the complainant as well as to new entrant air carriers.

13. The downstream competition was based on providing two types of services for air carriers. The first one was the “on-land” service for airplanes and the second one was for servicing the passengers of every landed plane. These two services formed the product market itself. Air carriers travelling to Sofia needed to sign a contract with one of the “on-land” firms. Based on a price cost analyses the CPC concluded that Sofia Airport do not abuse its dominant position on the downstream market for the provision of ground services on the territory of Sofia Airport by charging predatory prices.

14. Recently the CPC issued a Statement of objections⁶ to Sofia airport for the same type of infringement. The CPC found that the price offered by the undertaking to carriers fails to cover the cost of the production of the service in a long-term period, taking into account that a downward trend and an overall cost reduction was observed. A main difference with the previous case is that in 2010 a third operator entered the market. In its reply to the CPC` s statement of objections Sofia airport discussed mainly its dominant position. At the current stage of the proceedings the CPC is analyzing and checking out all arguments underling Sofia airport` s observations concerning the definition of its dominant position on the market for ground handling services. Possible arguments for the CPC to reconsider its previous statement are the following factors concerning Sofia` s airport position on the market: decreasing market share, decreasing incomes and profits after the new operator entry, indications for dependence of its pricing policy from competitors` decisions and airlines demand. A final decision on the case is attended by the end of May 2014.

⁴ Case No Comp/m.7079 - Bulgaria airways group/ Swissport international/ Swissport Bulgaria.

⁵ CPC Decision № 1409 of 17.12.2009.

⁶ Statement of objections № 897 от 17.07.2013г.