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## Concession bargaining in the airline industry: Ryanair's policy of route relocation and withdrawal

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Hochschule für  
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Berlin School of Economics and Law

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# Concession Bargaining in the Airline Industry: Ryanair's Policy of Route Relocation and Withdrawal

Authors: Florian Thomas Olisher, Christoph Dörrenbächer

Working Papers No. 73

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Editors:

Gert Bruche | Christoph Dörrenbächer | Friedrich Nagel | Sven Ripsas

RESEARCH PAPER

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**Florian Thomas Olischer  
Christoph Dörrenbächer**

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## **Abstract:**

This paper examines the European low-cost airline industry by analysing how the rise of low-cost carriers (LCCs) has influenced the relationship between airlines and airports. Publicly funded infrastructure is a necessary precondition for any business, and utilization charges are an important cost issue for firms, especially in the transportation industry. While cost cutting is an integral part of every business model, LCCs excessively focus on low costs, with airport charges being an important target for cost cutting measures. In order to drive down airport charges and shape airport services to fit its low cost business model, Ryanair has threatened to relocate and/or withdraw routes several times. This paper looks into such processes of concession bargaining and aims to uncover how LCCs put themselves into the position to gain a degree of market power, which make them important actors shaping the macro-political system around the aviation industry.

## **Zusammenfassung:**

Flughafengebühren sind ein wesentlicher Kostenblock in der Luftfahrtindustrie. Für Low-Cost-Carrier (Billigflieger) sind sie deshalb ein wichtiger Ansatzpunkt ihrer auf Kostenführerschaft ausgerichteten Strategie. Um Gebühren zu senken und um den Service von Flughäfen ihrem Geschäftsmodell anzupassen, hat Ryanair in der jüngeren Vergangenheit häufiger gedroht, Flugrouten einzustellen oder zu verlagern. Die Untersuchung der mit solchen Verlagerungsdrohungen einhergehenden Verhandlungen zeigt, dass Low-Cost-Carrier häufig auf ein sie begünstigendes Machtungleichgewicht zurückgreifen können. Dieses speist sich aus vier Quellen: (1) aus der Verfügbarkeit von sog. Secondary Airports, (2) aus der häufig gegebenen Abhängigkeit der Secondary Airports von wenigen Fluggesellschaften, (3) aus der grundsätzlichen Unsicherheit über das Marktpotential eines Flughafens und (4) aus der relativen Einfachheit mit der Verlagerungsprozesse in der Luftfahrtindustrie vollzogen werden können.

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## 1. Introduction

Ever since the deregulation of the airline industry in the US and later in Europe allowed for the formation of low-cost carriers (LCCs), observers were astonished about their financial success. Pate and Beaumont (2006: 322) for instance wondered: "How to add value in an industry setting where there is such an emphasis on keeping costs down?" Similarly, Button and Ison (2008: 1) asked as to how airlines, which decided to compete on the basis of costs underlying their flights, were not only able to generate profits which are much higher than those of competitors within the same industry, but also to outperform the respective average domestic financial market in general.

Mainly focusing on Southwest Airlines and its European clone Ryanair, research uncovered that the secrets of the financial success of LCCs lie in numerous characteristics of the original LCC business model introduced and executed to full potential for the first time by Southwest Airlines. In particular a fleet of standardized aircraft, a short turnaround time, strict internet booking, point-to-point traffic and the use of secondary airports and cheap labour were seen as drivers of financial success, next to a corporate culture that is dedicated to permanent cost cutting. (Alamdari and Fagan 2005).

While some aspects of the business model represent a smart interpretation of conditions prevalent in the industry (e.g. using a standardized fleet brings tremendous cost savings with regard to ordering and handling aircraft), other aspects clearly represent attempts of LCCs to shape their environment in a way to fit their cost cutting / profit maximization strategy. This in particular has been discussed with regard to labour cost and standards. Barry and Nienhueser (2010) for instance showed that national and international pressures and preferences of employment relation actors (most notably LCCs) have prompted a divergence in the pattern of employment relations from the one typically associated with Germany. Compared to flagship carriers, LCCs pay lower wages and offer worse working conditions or, as Lillie (2010) put it, they bring offshore conditions ashore. This process of bringing offshore conditions ashore is basically what this paper aims to examine.

Our focus, however, is not employment relations but a second strategically important issue (and main cost driver) for airlines, i.e. the use of airports and the charges and conditions associated with it. Here Ryanair has threatened publically several times to relocate and/or withdraw routes from particular airports in order to influence charges and conditions.

Investigating two of these cases in depth, this paper aims to elucidate what in particular empowers Ryanair in concession bargaining processes with publicly funded airports to lower charges and shape conditions. In general, the paper tries to find out what put LCCs in the position to gain a degree of market power to turn them into a political actor, able to bring offshore conditions ashore.

The paper starts out by reviewing literature on the relationship of private companies and public politics; most notably literature investigating how entrepreneurial conduct influences the sovereignty of tax financed public actors. This is followed by a short section in which - using the example of Ryanair - the peculiarity of the business model of LCC is explained. Next the overall research question is

specified along with some methodological remarks on the two case studies to follow. The paper closes with some conclusions on what empowers LCCs such as Ryanair to threaten with the relocation or withdrawal of routes

## **2. The changing business politics relationship**

Along with the strongly increasing number of MNCs entering the scene after the Second World War, and hand in hand with the formation of 'International Business' as a new academic discipline, the relationship between the nation state and the activities of MNCs has become a topic of ongoing interest. Rather early on Vernon (1971: 3) indicated that the nation state is strongly challenged by the advent of MNCs: "Suddenly, it seems, the sovereign states are feeling naked. Concepts such as sovereignty and national economic strength appear curiously drained of meaning".

Going back for a moment, it is common sense that domestic politics are dependent on the performance of their economy and therefore, in detail, on the performance of single, private actors within that economy. A wealthy country promises more safety and opportunities for its inhabitants than a developing one. This dependence potentially has increased due to the economic competition between nation states and their fishing for foreign direct investments (FDI) (Rugman and Verbeke 2001). While small and medium-sized companies are often described as the heart of the domestic economy by politicians in charge, MNCs are the key figures in international business, where there are theoretically lesser limits regarding the firm's growth. The importance MNCs gained with growth and the increased interdependence between private companies and public politics limits the control of the state over the domestic economy (Kobrin 2001: 190). The relative power of the MNC against the relative power of a country gains in importance (Strange 1988, 1997).

Following Kobrin (2001), two distinct eras in the business politics relationship (between states and MNCs) can be distinguished. The first era is called "Sovereignty at Bay" and is considered to have taken place from the 1950s to the 1980s. In this era the transnational activities of MNCs were seen as basically supportive to the political goals of Western industrialized nation states aiming at international coordination with the help of political and economic agreements. Many observers saw the actions of MNCs at that time therefore rather as sovereignty affirming than violating (Kobrin 2001: 192). Nevertheless, Kobrin already detected during this period that "nation-states may still be the most important, but not the only significant actors" (1976: 107).

The following era from the 1990s up until the present is labelled "Sovereignty @ Bay" by Kobrin. Now MNCs are considered to have become extremely mobile, partly due to the decreasing importance of borders and frameworks introduced to liberalize worldwide business activities (Kobrin 2001: 192). It is by this mobility that "regulatory authority can emanate from states, but also from firms, business associations, trade unions, professional bodies, standard bodies, or a great many other regulatory locations" (Lillie 2010: 685). Indeed, MNCs have increasingly gained the ability to exploit particular factor endowments offered by states other than their home country to their own benefit by relocating



activities across borders (Dörrenbächer and Becker-Ritterspach 2009). Furthermore, escapist strategies and regime shopping is only one aspect. Lillie argues that while searching for a better business environment capital has gone offshore to escape from domestic compromises despite being used to and also dependent on the conditions onshore it flew from.

This ends up in MNCs seeking to recombine factor conditions without really executing mobility, by pressuring for the implementation of offshore conditions within the national territory. The implementation then typically takes the form of special economic zones, exit clauses or special rights. Following Spar, this shows that MNCs, without breaking the law, “[...] increasingly are able to exert pressure on how rules are created and enforced” (2009: 220). Such changes in the economic governance, last but not least caused by regulating international affairs unilaterally on a national basis were already present in earlier times (Kobrin 2001: 192), even though they have likely not been as present as they are now in a globalized world within a networked world economy where most nations are essentially part of and compete for investments.

Next to undermining state sovereignty through entrepreneurial conduct and in conflict with political actors, some MNCs receive, willingly or not, public responsibilities. This is the case when MNCs sell essential goods such as pharmaceuticals or food, offering essential services, such as running hospitals, or are active in politically salient industries such as oil, power generation, public transport etc. Such activities have been described as “private-hybrid” activities by Kobrin (2008: 31) and it is assumed that such activities will gain in importance (Kobrin 2011). As MNCs engaged in private-hybrid activities are both object and subject of regulatory activity, struggles between companies’ goals on the micro-level and the governments’ goals on the macro-level then might become evident, leading to similar effects of undermined sovereignty, here more likely as hidden side effects.

In sum, a nation state's sovereignty can hardly be seen as something fixed anymore, but rather as something dynamic driven by processes that create inroads for particularistic private interests in the national economic governance (Lillie 2010: 686). The ultimate underlying reason is that MNCs and capital are mobile while states are not and cross-border economic coordination is plagued with problems of trust and heterogeneous interests. Looking ahead, a common assumption is that private authority will further compromise state sovereignty, even though it seems unlikely that the state as such will become obsolete. Nevertheless, this is not the same as saying that the government will remain *the* supreme authority (Kobrin 2001: 201). Still, in democracies politics are expected to be shaped by people who were elected and not by actors who were not.

### **3. Mobility and the threat of relocation**

Given the influence the mobility of firms, in particular of MNCs, has on the relative demise of state sovereignty, it is useful to take a more in-depth analysis into the matter. Next to some research on the mobility of MNC headquarters (e.g. Barner-Rasmussen et al. 2007, Birkinshaw et al. 2006), most research on the mobility of firms has dealt with cross-border production relocation.

Cross-border production relocation can be defined as an internal change of the location of manufacturing facilities. This has to be distinguished from outsourcing across borders (often called offshore outsourcing) where parts of the value chain are relocated to an external organization abroad. Dörrenbächer and Becker-Ritterspach (2009) showed that MNCs have the ability to escape from sovereign regulatory authority and local factor endowments by relocating certain activities within the value chain across borders. Especially in Europe multinationals have made extensive efforts to optimize their production configurations, often relocating labour intensive production steps to countries with lower wages in Southern and Eastern Europe (Wortmann et al. 1999). More recently production relocation focused on Asian countries as targets, most notably China and India. Overall research supposes an increased willingness of the management to relocate production sites for reasons of cost arbitrage (Dicken 1998; Beck 2000) with many of these relocations not really having a long-term alternative (Wortmann 2008). This of course does not offset other reasons that impact relocations, most notably market access.

Not only did the actual relocation of production increase, but also the instrumental use of real or alleged mobility in processes of concession bargaining. A growth in the number of such bargaining processes and its consequences have been documented by Beck (2000). Referring to employment relations, studies by Zagelmeyer (2000) and Jürgens and Krzywdzinski (2009) also showed that trade unions and work councils are increasingly confronted with concession bargaining and increasingly agreed to negotiations that benefited the management side.

To effectively negotiate concessions, the relocation threat needs to be credible for negotiation partners. This is a problem since in many cases it is difficult for a company to assess whether the relocation of production will be worth the cost. The central task here is weighing up the cost of moving the relocation promises against future savings. On the other hand, negotiation partners face even stronger problems when analysing costs and benefits of announced relocations, in order to seize the probability of the relocation as there is typically an information asymmetry not only referring to cost and benefit data, but also with regard to the long-term strategic predisposition of the firm/management. A question here is to what extent and for how long are concessions able to prevent relocation.

A precondition for any relocation or its use in concession bargaining is the availability of a sufficiently effective alternative. In the airline industry production relocation means cancelling flight routes at airport A, and using the aircraft on other routes involving other airports and interesting catchment areas (or lease them out respectively sell them).

Before turning to our empirical investigation as to what empowers Ryanair to successfully use relocation threats to impact airport charges and conditions, we will briefly consider the business model of Ryanair to better understand why the company so vigorously engages in such conflict ridden practices.

#### 4. Ryanair and the LCC business model

The switch of Ryanair's mindset from a traditional business model to a low-cost model was executed during the 1990s shortly after Ryanair's CEO Michael O'Leary visited Southwest Airlines. Whereas most low-cost airlines offered more comfort and abandoned the original low-cost business model invented by Southwest Airlines over time, Ryanair stands out in terms of the adoption of the original no-frills model. This is seen as the main reason behind the consistently high operating margins of Ryanair (Alamdari and Fagan, 2005; Mason and Morrison 2009). Portrayed as the industries "lowest cost carrier" (Mason and Morrison 2009: 84) Ryanair excels in constant attempts to cut costs as much and wherever possible. This is a purposefully strategy, with Ryanair's CEO O' Leary grandiosely claiming to be the only low-cost carrier in the entire industry (Die Zeit, March 10<sup>th</sup>, 2011).

A key aspect of the LCC business model is to operate with a standardized *fleet*. The fleet of Ryanair solely consists of Boeing 737-800s, an aircraft well known for its efficient handling. Ordering large quantities of the same type of aircraft allows for big discounts when purchasing. Moreover, Ryanair airplanes were made to employ one single service class facilitated by dense seating and no-reclining seats without seat-back pockets (Button and Ison 2008: 2). There is no business or first class. Due to that, Ryanair's management receives flexibility in organizing the crew and it also makes it easier for them to standardize the processes of cleaning and maintenance where saving potentials can also be found.

The *service* offered by LCCs differs strongly from the one passengers are used to from legacy carriers such as Lufthansa, British Airways or Air France. Ryanair does not offer free meals, drinks or entertainment. They made it in the headlines when thinking about a toilette fee or asking passengers whether they would consider standing during a short flight as an option in exchange for a cheap fare.

As with almost all other LCCs, *booking* at Ryanair is mostly via the internet (on the Ryanair homepage). A small and even decreasing number of flights are booked via call centres. Flights are not available in travel agencies (Button and Ison 2008: 2) and seats are allocated on a first-come-first-serve basis. Booking rates at Ryanair are up to 85 percent with a break-even point at around 65 percent of capacity, which secures high revenues (Alamdari and Fagan 2005: 382-385). There are additional fees for passengers when rearranging flights, checking-in luggage or executing an online check-in. A preference for hand luggage is obvious, because passengers are expected to carry luggage by themselves all the time (ibid. 385). The most expensive fee of €110 occurs when a passenger wants to change the name on a Ryanair ticket that was previously booked.

The *workers* at Ryanair are comparatively badly paid. On the lowest tier flight attendants earn only slightly more than half of a monthly wage of a Lufthansa employee (Barry and Nienhueser 2010: 222). Cabin crew of Ryanair is hardly unionized. Ryanair claims that an "employee share option programme" (Ryanair 2010a, Annual Report 2010: 17) allows workers to influence the firm's decisions. This has been considered as an instrument for not recognizing trade unions (ITF 2002). Some sources claim,

that workers are not allowed to join a union and furthermore that they have to pay for uniform and training by themselves.<sup>1</sup> While cabin crew is badly or not organized at all, pilots are generally represented by a union (e.g. VC in Germany) (Barry and Nienhueser 2010: 222). Overall work is strongly intensified at Ryanair aiming at a better use of money spent on labour. Compared to other LCCs, Ryanair has a much higher passenger-per-employee-ratio. When using the financial year 2010 as benchmark, EasyJet flies 4,375 passengers per employee while Ryanair flies 15,000 passengers per employee.<sup>2</sup>

The most important factor of the LCC business model for the purpose of this paper is that most LCCs focus on *point-to-point traffic* involving *secondary airports*. Point-to-point traffic decreases the necessity for luggage management at the arrival airport and reduces the risk of missing connection flights. Consequently, LCCs perform much better regarding punctuality or lost bags (Ryanair 2011b: 2). Secondary airports, i.e. airports in the periphery of big cities and densely populated areas,<sup>3</sup> offer two basic advantages for LCCs. (1) The typically low air traffic at secondary airports facilitates a rather *short turnaround* time of below 30 minutes (described by Michael O'Leary as a "formula 1 pit-stop") (Die ZEIT, March 10<sup>th</sup>, 2011). This again allows for a maximized utilization of aircrafts of more than 10 hours per day. Primary airports, especially international hubs, usually are not able to guarantee such short turnaround times due to their much bigger number of flights. (2) Secondary airports do have traffic slots available and they are willing to offer them at a relatively low price. Following Steinrücken and Jaenichen (2004) LCCs such as "Ryanair [have] recognised that in industrial locations on the outskirts of densely populated areas and in places with few inhabitants there is a willingness to pay for a connection to national and international airport networks." The price of traffic slots matters as airport charges are an import item in the cost structure of airlines. According to a very rough estimation, an average of 10-20 % (depending on the airlines studied and the cost items included) of all costs of running an airline can be associated to airport charges (landing fees, ground services, parking fees, etc.).<sup>4</sup> Secondary and primary airports show strong differences, which become obvious when e.g., comparing Frankfurt International Airport (FRA) and Frankfurt Hahn Airport (HHN), the latter being one of the major hubs of Ryanair in Germany. Separated by 110 road kilometres only, slots in FRA are hardly available and very expensive while slots for passenger airplanes with an average turnaround time below 30 min are free of charge in HHN<sup>5</sup> (leading to the fact that FRA operates just 3.6% low-cost flights compared to 99,8 % at HHN, cf. DLR 2011: 12).

Ryanair as a whole operates more than 1,300 routes from 160 airports in 27 countries based mainly on the European soil. 45 airports are used as a base. Within Germany Ryanair connects from eight

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1 See: [www.ryan-be-fair.org](http://www.ryan-be-fair.org) [21/8/2012]

2 Numbers variously extracted from annual reports (2010) and company profiles. EasyJet: 35m pax., 8,000 employees - Ryanair: 75m pax., 5,000 employees (numbers rounded)

3 Secondary airports typically have no notable international traffic before they are 'discovered' by LCCs (Alamdari and Fagan 2005: 386; de Neufville 2008: 46).

4 This is based on consultant estimations: Cf. Beisel (2006), Rajco Aviation (2012)

5 See airport charges at the respective airport retrieved from: FRA [www.frankfurt-airport.de/content/frankfurt\\_airport/de/business\\_partner/airlines/entgelte.html](http://www.frankfurt-airport.de/content/frankfurt_airport/de/business_partner/airlines/entgelte.html), HHN [http://www.hahn-airport.de/default.aspx?menu=airport\\_charges&cc=de](http://www.hahn-airport.de/default.aspx?menu=airport_charges&cc=de) [20/8/2012]

airports, all of them secondary airports (Ryanair 2011b, 2011c). Three of them are currently used as a base (marked with an asterisk).

Baden-Baden	Berlin-Schönefeld
Bremen*	Cochstedt
Hahn*	Lübeck
Memmingen	Weeze*

Following O'Leary, Germany is good for "at least 12 bases" run by Ryanair. These can be primary or secondary airports according to O'Leary as long as they fulfill the requirements of Ryanair's low-cost business model, such as a guaranteed 25 minute turnaround (Die ZEIT, October 17<sup>th</sup>, 2010). What happens in the relationship between airports and Ryanair, and when airports Ryanair already flies to and from threaten to not comply with the requirements set by Ryanair's low-cost business model is explored below.

## **5. Data and methodology**

As the relationship between LCCs and secondary airports has hardly been studied so far, this paper engages in an exploratory case study using Ryanair as an example. In particular, what makes up Ryanair's market power and how Ryanair used its market power vis-à-vis secondary airports in order to bargain concessions or to shape business conditions according to their requirements is analysed.

As table 1 indicates, the two short case studies sketched out below are taken out of a larger amount of similar cases where Ryanair has publicly threatened to relocate or withdraw flights in order to reach certain ends related to its business model.

Table 1: Ryanair's Concession Bargaining and Relocations

Airline / Date	Initial Airport	Reason	Alternative Airport	What happened	Sources	Executed?
Ryanair (Spring 2009)	Weeze	Operating hours	- not directly mentioned (guess Aachen-Maastricht)	Court ruled not to shorten operating hours	<a href="http://bit.ly/NIMOQF">http://bit.ly/NIMOQF</a>	No
Ryanair (July 2012)	Weeze / Köln-Bonn	Aviation Tax in GER	Aachen-Maastrich (based in NL)	Aviation Tax since 2011 (late reaction by Ryanair?)	<a href="http://bit.ly/Pb2skt">http://bit.ly/Pb2skt</a> <a href="http://bit.ly/MqiAat">http://bit.ly/MqiAat</a> <a href="http://bit.ly/Mp8x86">http://bit.ly/Mp8x86</a> <a href="http://bit.ly/Mp8J7k">http://bit.ly/Mp8J7k</a>	Partly (new routes in AM, less in W/K-B)
Ryanair (Autumn 2010)	Altenburg	Airport fee's	Cochstedt	Relocation from Thüringen to Sachsen-Anhalt	<a href="http://bit.ly/MIMOSi">http://bit.ly/MIMOSi</a>	Yes
Ryanair	Pau	Pau rejected Ryanair's wish of an increase in marketing budget	Lourdes	-	n.a.	not sure
Ryanair	Rhodes / Kos	Not enough Marketing support by government	-	Ryanair cancelled all flights from October 2012 on	<a href="http://bit.ly/JU1zam">http://bit.ly/JU1zam</a>	so far just cancelled
Ryanair	Strasbourg	Illegal subsidies	Baden-Baden	Payments from airport classified as illegal subsidies (court judgement)	See below	Yes
Ryanair	Hahn	Hahn-Taler	-	Hahn-Taler not introduced ("Ryanairs threat too serious")	See below	No
Ryanair	Belfast	Promised runway not built in time	-	O'Leary: "they do not provide us with the necessary infrastructure"	<a href="http://bbc.in/bYVsxu">http://bbc.in/bYVsxu</a>	Yes

Ryanair cancelled all national flights within Germany after the introduction of the German aviation tax in 2011. This led to a cut in the German market of 11% (see <http://bit.ly/LkH8XI>)

The first case refers to Aéroport International Strasbourg: Following a court judgment in 2003, Ryanair had to pay back subsidies due to improper use for business done at Aéroport International Strasbourg. As a result, the Irish airline relocated its routes across the border to Baden Airpark in Germany, located about 50 kilometres away from Aéroport International Strasbourg.

The second case refers to Frankfurt Hahn Airport: In 2008, representatives of Frankfurt Hahn Airport proposed an additional charge of €3 per passenger per flight to reduce the amount of subsidies and to make the airport more flexible regarding future investments. The additional charge was nick-named as Hahn-Taler (Hahn-Coin) in the German press. Ryanair obviously feared to lose passengers when increasing ticket prices by €3 and as a result threatened to withdraw routes in case the Hahn-Taler would be introduced. In early 2009 the airport succumbed to Ryanair's threat and decided not to introduce Hahn-Taler.

Both case studies are exploratory in their nature and incorporate primary and secondary data from annual reports, press releases, academic papers, newspaper interviews and a few interviews with airline experts. To ensure validity and reliability, information included was triangulated by the sources described above.

## **6. Ryanair's policy of route relocation and withdrawal: Two short case studies**

### **Ryanair at Aéroport International Strasbourg<sup>6 7</sup>**

In 2003, Air France accused Ryanair at the administrative court of receiving illegal subsidies due to their flights operated between Aéroport International Strasbourg and London-Stansted. Ryanair started flying this route at the end of 2002. An Air France subsidiary, Brit Air, who was a rival of Ryanair on that route, had to cancel Strasbourg-London because passengers preferred the cheaper fares offered by Ryanair.

Indeed the launch of the Strasbourg-London route by Ryanair was spurred by the Alsace branch of the Chamber of Industry and Commerce in France (CCI) granting financial support to Ryanair for promotional measures to attract British tourists. Ryanair's business model worked in Strasbourg also due to governmental support. According to the press, Ryanair received €1.4 million annually over the stretch of five years until 2007.

According to the court decision, Ryanair advertised their cheap fares on promotional material rather than touristic attractions as required by the contract with CCI. As a result the court classified the financial support by CCI as a subsidy. This automatically made it an illegal act. The CCI now had to decide whether to stop or continue with the payments to Ryanair, and paying a penalty to the state. In order to avoid double financial burden, the CCI decided to stop payments

For Ryanair this represented a decisive deterioration of business conditions, considering that Ryanair started this route with the agreement of receiving financial support over the stretch of five years. The airline immediately answered with a threat to relocate all its flights from Aéroport International Strasbourg to Baden Airpark if the airline "does not receive a stay on the court decision (or win the appeal)." Furthermore, Ryanair expected the original decision of the court to be overturned (Ryanair 2003a). When it became clear that the decision would not be overturned, Ryanair executed the relocation of flights. While routes to and from Strasbourg ended on September 24<sup>th</sup>, 2003, the routes from and to Baden Airpark, located just 50km away across the German border, were launched the day after, commented by CEO O'Leary as follows: "Strasbourg's loss today has been Baden Baden's gain" (Ryanair 2003b). After Ryanair had relocated its flights to Baden Baden, Air France located machines

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6 This court judgment drew some attention of business and law research. There are conclusions claiming that the court's decision was wrong (e.g. Steintrücken and Jaenichen 2004). Nevertheless, this paper focuses on the underlying effects of entrepreneurial behaviour and its influence on domestic politics and the states sovereignty. Not on legal issues.

7 Source: In addition information of the press was extracted from Agence France Press (August 1<sup>st</sup>, 2003) and DPA-AFX (July 25<sup>th</sup>, 2003; July 29<sup>th</sup>, 2003; August 13<sup>th</sup>, 2003; September 18<sup>th</sup>, 2003).

to Aéroport International Strasbourg and operates flights to various destinations within Europe, though not to London.<sup>8</sup>

In this case neither airports finances nor public funds were seriously damaged by Ryanair's decision. Certainly the airline received money for advertising their product, which can be considered as an improper use of tax revenues, nevertheless, Michael O'Leary commented, that "everything what we receive, is accessible to every airline" (Süddeutsche Zeitung, February 28<sup>th</sup>, 2011). Meanwhile, the reason why this act of retaliation did not cause serious financial damage is only due to the fact that there has been demand by further airlines which were eager to take over Ryanair's slots and therefore indirectly came up for the losses that would have resulted from Ryanair's decision to relocate routes to Baden Airpark.

### **Ryanair at Frankfurt-Hahn Airport<sup>9</sup>**

Frankfurt Hahn Airport (HHN) ranks 11<sup>th</sup> in total passenger transport and 4<sup>th</sup> in cargo in Germany (HHN 2008). This success goes back to 1999, when Ryanair included HHN into its network of airports. Later HHN turned into Ryanair's second-biggest European hub following London-Stansted. Regarding the beginning of Ryanair's activity at HHN, Michael O'Leary said the airport begged for Ryanair's service. Allegedly HHN representatives said: "Please, please, fly from here" (Die ZEIT, March 10<sup>th</sup>, 2011).

Over time, HHN became one of the most important employers in the economically rather underdeveloped Hunsrück area. A total of 3,200 jobs at the airport<sup>10</sup> in addition of even more jobs in the catchment area were created. In 2005, Ryanair announced a \$1 billion investment by the year 2012, consisting of 18 based aircraft, more than 50 routes, 8 million passengers, 8,000 jobs<sup>11</sup> and a €12.5 million loan for a new terminal to manage the expected growth in number of passengers (Ryanair 2005). Furthermore, O'Leary thanked "Fraport and the government of Rhineland Palatinate" for their contribution to this project (ibid.). (Fraport was one of HHNs major shareholders at that time).

Despite continuously growing cargo and passenger traffic at HHN, exceeding four million passengers annually by 2007 (HHN 2008), the airport still could not manage sustainable profit. HHN generated profits for the first time in 2006 after 13 years of operation and tax revenues amounting to €52 million (HHN 2008). In the meantime, Ryanair had become the busiest airline at HHN, operating more than 95 percent of all passenger flights (HHN 2006). At that point, HHN was owned by Fraport (65 percent) and the states Hesse and Rhineland-Palatinate (each 17.5 percent), who altogether invested €210 million in airport infrastructure between 1998 and 2007 (HHN 2008). There were further plans to invest €120 million until 2011 because of the necessity of a bigger terminal resulting from the increase in

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<sup>8</sup> See section "Destinations": [www.strasbourg.aeroport.fr](http://www.strasbourg.aeroport.fr) [20/8/2011]

<sup>9</sup> Source: In addition information of the press was extracted from Frankfurter Rundschau (January 14<sup>th</sup>, 2009a; January 14<sup>th</sup>, 2009b, January 14<sup>th</sup>, 2009c) and Wiesbadener Kurier (January 13<sup>th</sup>, 2009)

<sup>10</sup> [http://www.hahn-airport.de/default.aspx?menu=job\\_statistics&cc=de](http://www.hahn-airport.de/default.aspx?menu=job_statistics&cc=de) [21/8/2011]

<sup>11</sup> Ryanair always uses the ratio of 1 job per 1,000 passengers in press releases when jobs are created or lost in areas where they will operate or have operated.



passenger numbers (ibid.). This time, shareholders did not want to bear that investment by themselves.

Through aiming at higher non-aviation revenues to facilitate the development of sustainable profits, the airport owners came up with an idea that has become known as Hahn-Taler (Hahn-Coin) in the German press. According to this idea, every passenger would pay a development fee of €3 (Hahn-Taler) for using the terminal in order to raise funds for the further development of the airport. In return, the passengers receive a card granting them a ten percent discount on every purchase they make at the airport. Therefore, when spending more than €30 in duty-free shops, the deal was designed to be worthwhile for passengers.

Ryanair's reaction was not long in coming. Its Chief Operating Officer Michael Cawley spoke of a "foolish decision" and announced that "Ryanair will withdraw a big amount of routes" if the fee was introduced as planned along with the summer schedule in April 2009. Considering Ryanair's market-share of more than 95 percent at HHN, this threat was very serious for the airport operators. A 50 percent decrease in flights would have automatically caused a decline of nearly 50 percent of the airports revenues generated through passenger flights. Hence, the dependence of HHN on Ryanair was clearly given. What followed was, to cite Graham Allison's memorable phrase, "the pulling and hauling that is politics" (Allison 1999). After three weeks of negotiations and threats, the airport operating company finally decided not to introduce the Hahn-Taler. Hendrik Hering, Minister of Transport in Rhineland-Palatinate explained this as follows: "We had to pull the ripcord. Ryanair's threat was too serious." Criticism came from Martin Gaebges, general secretary of BARIG, who commented: "This is something similar to blackmail. Politics have to set overall conditions, but they are not allowed to distort competition."

HHNs fear of becoming another black hole in Germany's investment landscape prevented Ryanair losing the business conditions they were used to over several years. Not only the airport representatives made a U-turn in this process. Instead of cancelling routes, Ryanair now wanted to hold on its expansion plans at Hahn, they already had announced in 2005. Nevertheless, COO Michael Cawley did not miss to underline Ryanair's market power: "We do not have to be in Rhineland-Palatinate, we do not even have to be in Germany."

In the aftermath of the Hahn-Taler affair, Fraport sold its shares to the state of Rhineland-Palatinate for a symbolic price of €1. Stefan Schulte, vice chairman of Fraport motivated this step as follows: "As a stock-listed group of companies, a decisive criterion for Fraport is the earning power of its subsidiaries and associated companies. We cannot afford permanently loss-making operations" (Fraport 2009). With the Länder government now owning HHN entirely, the terminal was enlarged to manage future increases in number of passengers (HHN 2009).

In the case of the Hahn-Taler, Ryanair achieved its goals and prevented a deterioration of their short-term business conditions by using the threat of route relocation and withdrawal as a tool of concession bargaining. However, it did not take long until Ryanair received another opportunity for action. Shortly

after Ryanair announced to build its next maintenance hangar at HHN and not in Ireland (Ryanair 2010b), the German government decided to introduce an aviation tax. Already in 2008, Ryanair warned of such a “discriminatory” tax when the Irish government shared similar thoughts (Ryanair 2008). Ryanair called for a “level playing field” and proposed a similar tax on ferry passengers (ibid.). In the following, Ryanair announced “travel tax cuts” in Berlin, Bremen, Dusseldorf/Weeze and Frankfurt Hahn, amounting to 3,000 job losses (Ryanair 2010c, 2010d). Ever since the introduction of the aviation tax, no German domestic flights have been operated by Ryanair. In the following, HHN accused the government of ruining their business through increasing the fares in Hahn by an average of 20 percent (HHN 2010). This time, Ryanair was not powerful enough to enforce its standards. Nevertheless, in both cases there was a clear attempt to undermine state sovereignty.

## **7. Discussion and conclusion**

Both in Strasbourg and Hahn, Ryanair’s market power allowed the airline to put pressure on decisions taken by governmental entities. In the Strasbourg case a decision by a court of justice was challenged. In the case of Hahn, a decision by a publicly owned airport operating company was objected. Despite the fact that both cases ended differently, the bluntness by which the threat of route relocation and withdrawal has been used to shape conditions in the business environment is intriguing. In the remainder of the paper, we therefore discuss what in particular empowers LCCs such as Ryanair to challenge state sovereignty and to shape environmental conditions to fit the low-cost business model. Our empirical findings reveal four basic reasons discussed below.

### **The frequent dependence of secondary airports on one or a few airlines**

As in the case of Ryanair and Hahn, secondary airports often grow with the help of a particular LCC. There are two points that spur such a development: one is the decision of an airline to place a base at a particular secondary airport, and two (and related to point one) is the desire to be the first and preferably only airline to fish in a new catchment area. These processes then turn airlines into the dominant customer at a secondary airport, with a lot of bargaining power vis-à-vis the airport. Such a development is not necessarily always the case. Some airports have managed to maintain a broader customer base, as our example Aéroport International Strasbourg indicates. A similar case is the Girona-Costa Brava Airport. This airport also grew with Ryanair’s help, but managed to operate flights with thirteen different airlines, leading to higher independence, although some airlines only operate seasonally. However, as in the case Aéroport International Strasbourg, this did not foreclose political maneuvering of Ryanair. At Girona-Costa Brava Airport, Ryanair announced cuts as retaliation for some undesired changes the Spanish government had agreed on (Ryanair 2011d). While the cuts at Girona along with the withdrawal of flights from Aéroport International Strasbourg did not succeed in altering the sovereign decisions they were unleashed by, the steps taken by Ryanair were clearly a signal to other airports and governmental entities that Ryanair is playing hardball and retaliating any decision that is against its interest by a relocation or withdrawal of flights.

### **The availability of many alternative airports**

As mentioned above, any relocation threat needs to be supported by a credible alternative. In the aviation industry this means first and foremost that alternative airports that are appropriate to deal with the particular requirements of the LCC business model (such as short turnaround times) need to be available.

In Europe, relics of the Second World War and the Cold War offer many potential alternative airports. In Germany alone there are 549 airports according to the CIA World Factbook (2010); 330 of them have paved runways, of which 66 have a runway length of at least 2,438 meters. Following the requirements of Annex 14 by the International Civil Aviation Organization (ICAO), these 66 runways are sufficient for a standard passenger plane such as the Boeing 737-800, which is the type of aircraft used by Ryanair.<sup>12</sup> Missing infrastructure at such airports such as a control tower, lightning, ground personnel and access to public transport always can be rather easily built in order to ready another airport.

This “generous scattering of military bases in far-flung places awaiting better use” has been described as a “positive legacy of the cold war” considering the economic potentials a LCC can give to rural areas (Newsweek International, March 16<sup>th</sup>, 2006). This links up to another important precondition for a credible threat with flight relocation, i.e. the need of a sufficiently attractive alternative catchment area.

### **The uncertainty about attractive alternative catchment areas**

As just discussed, from the perspective of airlines based in Europe there are many alternative airports available, even though it remains questionable before relocating or starting a route whether the catchment area and its customers fulfill the airlines’ requirements for profits. Beyond the location of the airport, income level of passengers and the level of transport connections in the respective area are important (Müller et al. 2010). Even though airlines try to map the potentials of a catchment area, there always remains a strong uncertainty about the actual potential as expressed in the following interview quotation of one of our Interview partners, a top manager and expert in flight planning with long work experience both in a low-cost airline and in a flagship carrier: “[...] The methods used by Ryanair with regard to positioning and relocation follow a trial and error principle. There is no feasible way to measure ex ante either the people’s demand for flights or the people’s willingness to drive long distances to the airport. [...] Especially when you work primarily with secondary airports it is mostly hard, maybe even impossible, to define a catchment area. Of course you can guess or estimate with assistance of observed data, but that is not reliable. So basically you end up with going for an experiment.” The fact that any relocation of flights that touch upon alternative catchment areas turns out as a trial and error process empowers airlines vis-à-vis airports, as airports have little or no chances to substantiate the credibility of relocation threats based on own assessments of alternative

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<sup>12</sup> See [www.boeing.com/commercial/737family/pf/pf\\_800tech.html](http://www.boeing.com/commercial/737family/pf/pf_800tech.html) for maximum takeoff weight of 79 tons and [www.scribd.com/doc/5509407/Annex-14-ICAO](http://www.scribd.com/doc/5509407/Annex-14-ICAO) for runway length of 1,800 meters. At least 66 airports plus an unknown share of the 59 airports with runway lengths between 1,524 and 2,437 meters consequently can handle a Boeing 737. [20/8/2011]

catchment areas. This is further complicated by the fact that LCCs seizing the potentials of alternative routes are typically negotiating with local entities about financial supports (see the case of Aéroport International Strasbourg discussed above)

### **The relative ease of executing relocation in the airline industry**

The ability to apply a trial and error approach to new, potentially interesting, catchment areas is in essence due to a final fact playing into the hands of low-cost airlines. This is the relative ease by which a relocation of flights can be realized technically compared e.g. with a relocation in the manufacturing industry. For instance, moving a company from the automobile industry is more difficult than moving one from the airline industry. While the car manufacturer needs machinery to produce tangible goods, an airplane serves as the machinery and product (service of flying passengers) simultaneously. Relocating an aircraft is simply done by flying the aircraft to the new location and does not imply a decrease in output as long as the substitute airport is equipped with sufficient infrastructure.

Next, HRM apparently is not a problem in relocating flights and airlines. "Personnel can be easily reorganized in a couple of weeks. Mobility as such can be considered as a mandatory condition of employment for pilots and cabin crew. Furthermore the work of the cabin crew it is a pretty simple that barely requires any training besides country-specific language skills. So, either you take the existing crew with you or you hire a new one" (Interview, flight planning manager).

Last but not least, relocations can be transacted efficiently at rather short notice. A decision of leaving an airport should be made "at least eight weeks in advance" provided that the airplane is not well booked until then. "Afterwards this decision becomes expensive." When starting a new route "forward planning of three to four months is recommended, in case you want to have the aircraft [on the new route] fully booked right from the first flight on" (ibid). This applies on to secondary airports and not necessarily major hubs such as FRA.

Summing up, LCCs in Europe can draw on a number of factors that support a strategic policy of flight relocation and withdrawal. The fact that secondary airports are often dependent on individual LCCs, the availability of many alternative (secondary) airports, the uncertainty zone with regard to alternative catchment areas and the relative ease of executing relocations in the airline industry empowers LCCs to engage in concession bargaining and to challenge decisions made by state authorities or state run airports. In the case of success, LCCs undermine state sovereignty and often lead to the implementation of offshore conditions ashore (Lillie 2010).

This paper has looked in particular at Ryanair's policy of flight relocation and withdrawal. It finds that Ryanair is making a strong use of the structural imbalance sketched out above favouring LCCs over (publicly funded or run) secondary airports. This is very obvious as Ryanair applies a rather offensive style, in which relocation threats are communicated in public. Surely, Ryanair stands out as a rather powerful and aggressive LCC. Moreover, pressuring airports in processes of concession bargaining and celebrating relocations in public somehow fits with the public image of the company, i.e. being an uncompromising cost cruncher. However, relocations have also been carried out by other (probably

less powerful and aggressive) players in the market. For instance, Germanwings relocated a domestic route (Köln-Bonn - Berlin) to nearby Netherlands (Maastricht - Berlin) after the introduction of the German aviation tax (Germanwings 2010).

As a consequence, next to investigating cases of relocation threats deeper (including more primary sources and concentrating on actual decision processes and influential arguments), further research needs to engage in a comparative study of several LCCs worldwide. The basic aim of such a study would be to uncover whether Ryanair stands out in structural power and in strategically using relocation threats or whether this is a common option and policy among LCCs, but practiced in a more discreet way.

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