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English and French only

OPENING UP OF THE SPANISH DOMESTIC MARKET UNDER LIBERALIZATION

(Submitted by Spain)

1. INTRODUCTION

1.1 Key geographical features of the Spanish domestic market are the location of its 40 million inhabitants and the uneven topography of its territory: Madrid and its region (5,4 million inhabitants) situated in the geographical centre of the Iberian Peninsula, two groups of islands being important tourist resorts, i.e. the Canary and Balearic Islands (2,8 million inhabitants and 11 airports), and a population spread out on the periphery of mainland Spain (26 million inhabitants and 26 airports). Such features ensure that air transport is a transport mode of strategic importance.

1.2 In 1993, the Spanish market was fully liberalized. Before that date, scheduled air services were reserved for the airlines of the Public Group Iberia, under a state concession. Non-scheduled services were practically liberalized but reserved for national airlines. The following table illustrates the situation in 1992 and 2001.

Table 1

1992		2001	
Scheduled services	Non-scheduled services	Scheduled services	Non-scheduled services
Grupo Público IBERIA	Aviaco (partially)	Iberia L.A.E.	Air Europa
Iberia L.A.E.	Viva Air	Spanair	Futura
Aviaco	Air Europa	Air Europa	LTE
Binter Canarias	Spanair	Aebal	Iberworld
Binter Mediterráneo	Futura	Air Europa Express	Islandflug
Viva Air (non-scheduled)	LTE	Air Nostrum	
	Oasis	Binter Canarias	
	Centenial	Binter Mediterráneo	

1.3 In 1992, the Public Group Iberia was formed by five airlines. Non-scheduled traffic accounted for 15% of overall domestic traffic and was served by eight airlines.

1.4 In 2002, Iberia L.A.E remains as the sole operator of the privatized Group after the take-over of two of them (Aviaco and Viva Air) and the selling of two others (Binter Canarias and Binter Mediterráneo). Seven other private airlines provide scheduled air services. Non-scheduled traffic accounts for scarcely 2% of the total and is served by five airlines.

1.5 On some routes other Community airlines have sporadically operated by providing consecutive cabotage services. Their participation has been marginal anyway because of both the periods of operation and their market share in the overall market.

2. THE NUMBER OF ROUTES IN WHICH THERE IS NOW REAL COMPETITION COMPARED WITH PRE-2002

2.1 The impact of liberalization can be assessed from the number of routes where there is real competition and the volume of traffic on such routes (see Table 2). Two or three airlines operate on the 40% of the routes accounting for 82% of traffic. The highest degree of competition exists on the route Madrid-Barcelona and on the routes from Peninsular Spain to the island regions of the Canary Islands (81% of the routes with three operators) and Balearic Islands (94% of the routes with three operators) where the three major operators compete (Iberia L.A.E, Spanair and Air Europa).

Table 2. Competition in routes for 2001

Operators	three	two	one
Routes	30	24	79
Traffic %	68	14	18

2.2 Special mention is made of the Canary Islands interisland traffic (16 routes) with 2.2 million passengers for the year 2001 where Binter Canarias (Regional company with eleven 72-seat turboprops) operates almost exclusively, under public service obligations in accordance with the provisions of Regulation EC 2408/ 92 where the principle of free market access is maintained.

3. INFORMATION ON FARES ON A SAMPLE OF ROUTES WITH THE LINK BETWEEN INCREASED COMPETITION AND THESE FARES BEEN DRAWN OUT

3.1 In 2001, on most of the high density routes (82% of the traffic volume) even though there was a general rise in the prices of the basic fares(see Table 3) competition ensured that a great majority of air transport users had an opportunity to travel at really attractive prices, as a consequence of the extensive use of promotional fares made by all airlines. In 1992, fares required government approval and their prices were closely related to the operating costs and mileage of the route to be operated. The use of promotional fares was scarce. At present, fares are freely set following market criteria, even the fares for those routes with little competition.

Table 3. Fare Development. 1994-2001

Submarket	2001 Traffic %	Basic Fare Increase	Yield Increase
Madrid-Peninsula	27.4	30%-50%	5% -8%
Peninsula-Balearic Islands	18.3	25%-50%	2% - 4%
Peninsula-Canary Islands	15.2	30%-40%	-2% - +2%
Madrid-Barcelona	14.7	29%	22% - 26%
Barcelona-Peninsula	12.1	40%-50%	2% - 5%
Interpeninsular	3	100%-120%	40% - 50%

3.2 In the period 1994-2001 the Consumer Price Index experienced a 24% increase in Spain.

3.3 For the group of routes having a notable tourist character or strong competition and linking mainland Spain and the Balearic and Canary Islands or with origins in Madrid and Barcelona, despite the strong increases in the basic fare prices, the average fare prices (yield) in 2001 remained at levels which were similar to those reached in 1994.

3.4 Where business traffic prevails (Madrid-Barcelona), as well as on the routes where one or two airlines operate, the market not being a tourist market, the routes are low density routes and regional airlines operate with high unit costs, the impact on prices was less significant on these routes.

4. AN INDICATION OF ANY ROUTES THAT ARE NO LONGER SERVED SINCE LIBERALIZATION WAS INTRODUCED

4.1 The whole network of domestic routes experienced a certain restructuring from Summer season 1992 to Summer season 2001. Throughout that period operations ceased on 19 routes, but services started on 42 new routes, with a favourable balance of 23 routes.

4.2 The most significant changes occurred as a result of a concentration of traffic by the three major airlines at Madrid and Barcelona airports, of the incorporation of new regional operators with medium sized fleets into routes with weak traffic, and the opening of new routes in the tourist Balearic market and the inter-island market of the Canaries.

5. DETAILS ON MARKET ENTRY/EXIT AIRLINES

5.1 Access by new airlines to the scheduled market began in the period 93/ 94 when the airlines Air Europa and Spanair started their operations on higher density traffic routes (Madrid-Barcelona air shuttle, Madrid-Canary Islands, and Madrid-Balearic Islands). These two airlines, which operated in the intra-European charter market up to that time, assigned a significant part of their medium range fleet to the scheduled market. As from 1995, three new regional operators: Air Nostrum (1995) (operating as from 1998 under a franchise agreement with Iberia), Air Europe Express (1998 - Air Europe subsidiary) and Aebal (2000 - Spanair subsidiary) entered the market to form a group of 8 airlines in Summer season 2001, sharing passenger traffic as indicated in Table 4.

Table 4. Scheduled traffic distribution in 2001

Airline	Iberia/ Air Nostrum	AirEuropa/ Air Europa Express	Spanair/ Aebal	Binter Canarias
Traffic %	59%	18%	14%	8%

5.2 Only two companies, Pan Air and Air Europa Express, have abandoned in 2002 the scheduled market after a short operating period.

6. INFORMATION ON FREQUENCY/CAPACITY ON A NUMBER OF SELECTED ROUTES

6.1 Another positive effect of liberalization with a strong increase in the weekly frequencies of scheduled air services (see Table 5), has originated from the simultaneous development of Madrid and Barcelona airports as hub airports, together with the entry of regional operators into the interpeninsular market as well as from the effect caused by the “schedulisation” of the greater part of non-scheduled traffic destined to the tourist markets of the Canary and Balearic Islands.

6.2 The growth on the route Madrid - Barcelona (294%) which increased from 112 weekly frequencies in 1994 to 441 in 2001 is remarkable if compared to other routes. The three major airlines serving the route are in strong competition and operate under the air shuttle regime with an average fleet size being similar in both seasons. The growth is lower in markets where operations with small aircraft (50/ 70 seats) and high frequencies (Canary Islands) have been operating since 1994.

7. IMPLICATION FOR PASSENGER OF ANY AIRLINE FAILURES

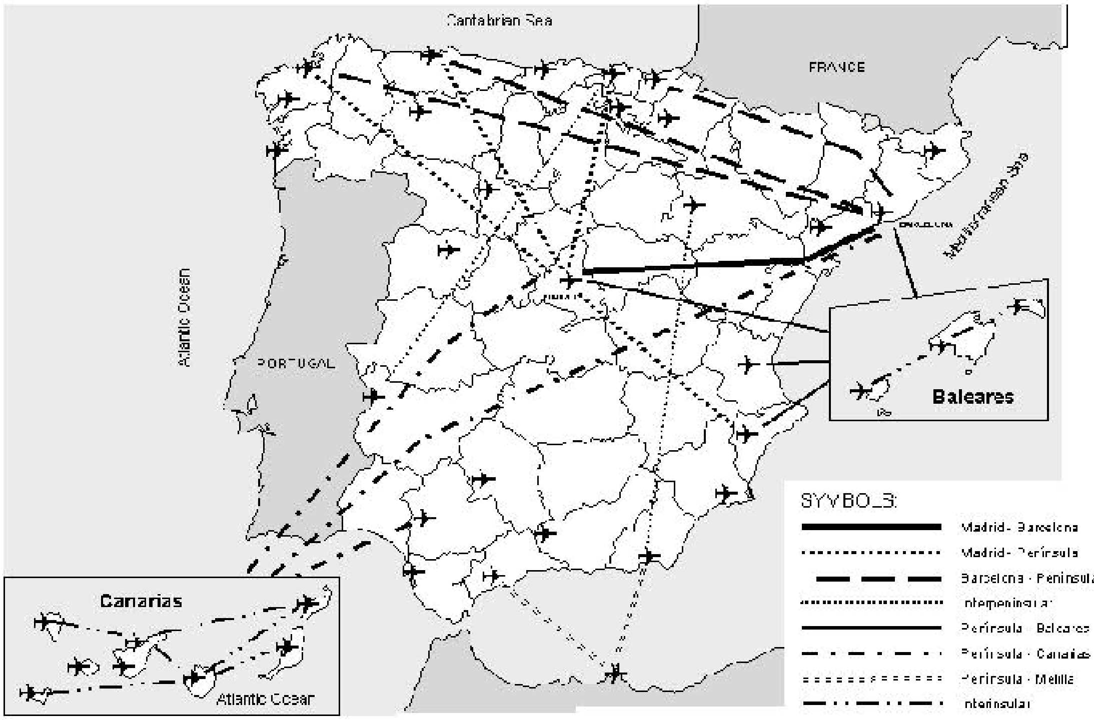
7.1 The effect caused by the exit of airlines due to changes in the route schedule to be operated or simply due to the exit from the market after ceasing their operations is practically non-existent. All airlines which had won market access (except some small airlines, with small number of aircraft) continued their operations in 2001.

8. OVERALL, HAS THE MARKET GROWN OR CONTRACTED UNDER LIBERALIZATION?

Table 5. Market development (in million passengers) and number of weekly frequencies

Submarket	Passengers 1992	Distribution %	Passengers 2001	Distribution %	Passenger Increase %	Frequency Increase %
Madrid- Peninsula	4,65	27.9	7,74	27.4	66.3	100
Peninsula-Balearic I.	2,57	15.4	5,18	18.3	101.7	122
Peninsula –Canary I.	2,17	13.1	4,28	15.2	97.0	60
Madrid-Barcelona	2,18	13.1	4,16	14.7	90.8	294
Barcelona-Peninsula	1,86	11.2	3,43	12.1	84.4	125
Interisland Canary I.	1,94	11.7	2,32	8.2	19	70
Other submarkets	1,26	7.6	1,15	4.1	-9	244
Total Scheduled	16,63	100	28,26	100	69.7	
Total Non-scheduled	2,98		0,74		-74.8	
Total Domestic	19,61		29,00		47.8	

8.1 The overall scheduled and non-scheduled domestic market (see Table 5) has experienced a significant growth, of 47.8% during the period from 1992 to 2001 which is well over the 30% growth of the GDP at constant prices. The strong fall in non-scheduled traffic, which has simply become “schedulized” thus producing the strong increase in the scheduled traffic carried to the tourist regions of the Canary and Balearic Islands, must be underlined. Traffic originating in Madrid and Barcelona has grown steadily as a result of the development of these airports into hub airports of the three major airlines. While the overall traffic grows by 47.8%, domestic traffic at Madrid and Barcelona airports has grown by 74% and 64% respectively.



ANNEX 1 - SPANISH DOMESTIC MARKET

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