

# Aviation Deregulation and Tourism in Cyprus following EU Accession

## Cutting Edge Research in Tourism Conference – University of Surrey, June 2006

### AVIATION DEREGULATION AND TOURISM IN CYPRUS FOLLOWING EU ACCESSION

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ΠΑΝΕΠΙΣΤΗΜΙΟ ΑΙΓΑΙΟΥ  
ΤΜΗΜΑ ΔΙΟΙΚΗΣΗΣ ΕΠΙΧΕΙΡΗΣΕΩΝ

Cutting Edge Research in Tourism Conference  
University of Surrey, 6<sup>th</sup> – 9<sup>th</sup> June 2006



### Deregulation: Rationale and Framework



- Rationale: why Competition is Beneficial
  - *thick routes, market entry and rivalry*
  - *thin routes and contestable markets theory (what matters is potential, not actual competition)*
  - *spatial self-organisation and limited scope of agglomeration economies*
- Framework: Removal of Regulatory Restrictions
  - *domestic markets: USA (1978) and EU (3 packages)*
  - *international markets: renegotiations of previous agreements*

### Air Transport Liberalisation in the EU



- Stepwise approach as opposed to the US shock policy
- Implementation of three packages between 1988-1997 to create a European Common Aviation Area (ECAA) among the EU and the EEA members
- First (1988-90) and Second Package (1990-93)
  - *multiple designation;*
  - *fifth freedom rights;*
  - *automatic approval of discount fares;*
  - *double disapproval rule applied to full fares.*

### The Third EU Liberalisation Package



- Implemented from Jan 93 to Apr 97
- Free pricing on all fares
- From Apr 97 full access to all routes including cabotage. From Jan 93 to Apr 97 the domestic sector had to be combined with a route to a carrier's home country and was restricted to 50% of capacity
- Abandonment of distinction between charter and scheduled carriers
- Protection for routes designated as public service obligations (PSO)
- Retention by the Commission of the right to intervene against excessive fares, predatory pricing and seat dumping
- However, air services between EU and third countries are still subject to nationality restrictions in bilateral ASA. In most cases, EU airlines can only operate flights to third countries from their home base.



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#### Intra-EU Aviation Markets

- Previous Regulatory Environment
  - *single designation, double approval*
  - *looser with Germany, UK and Greece*
  
- Implications of Liberalisation
  - *limited on most routes (see table)*
  - *traffic creation in CY-GR, CY-UK*
  - *airport hub in Cyprus*
  - *political reunification*

Countries	Charter Tourist Arrivals	Air Traveller Arrivals	Charter Share
UK	931.658	1.354.156	68.80
Greece	5.059	396.820	1.27
Germany	122.147	189.357	64.51
Sweden	95.126	95.897	99.20
Netherlands	17.597	66.377	26.51
Norway	52.581	49.773	106.71
Finland	2.475	45.941	5.39
Austria	8.473	43.315	19.56
Ireland	29.857	41.709	71.58
France	2.841	38.179	7.44
Denmark	30.990	34.301	90.35
Italy	356	27.230	1.31
Belgium - Lux	10.657	23.117	46.10
Spain	71	1.138	6.24
Portugal	n/a	0	
Iceland	n/a	0	
<b>Total E.C.A.A</b>	<b>1.309.888</b>	<b>2.406.810</b>	<b>54.42</b>
Czech Republic	13.866	35.309	39.27
Hungary	2.907	24.590	11.82
Poland	10.473	21.040	49.78
Slovakia	1.916	4.674	40.99
Baltic Countries	2.156	1.188	181.48
Slovenia	48	n/a	
<b>Total New EU</b>	<b>31.366</b>	<b>86.801</b>	<b>36.14</b>
Russia	97.199	161.749	60.09
Other CIS	6.732	n/a	
Switzerland	43.538	74.317	58.58
Lebanon	n/a	41.198	
Egypt	n/a	37.007	
Israel	8.913	33.873	26.31
UAE	n/a	23.021	
Syria	n/a	20.765	
Bulgaria	1.339	10.330	0.68
Romania	426	10.427	4.09
USA	0	0	
<b>Total Market</b>	<b>1,520,930</b>	<b>3,028,939</b>	<b>50.21</b>

Source: Cyprus Tourism Organisation (2003) and personal calculations

#### Recent Changes in Tourism Flows

	JAN-JUL 2005	JAN-JUL 2004	Δ% 05/04	JAN-JUL 2003	Δ% 04/03	Δ% 05/03
UK	756.177	713.675	5,96	712.471	0,17	6,13
GERMANY	106.465	85.677	24,26	61.028	40,39	74,45
GREECE	77.240	77.335	-0,12	58.274	32,71	32,55
SWEDEN	45.449	43.168	5,28	46.349	-6,86	-1,94
FRANCE	32.890	27.078	21,46	16.844	60,76	95,26
NORWAY	27.077	29.219	-7,33	32.424	-9,88	-16,49
IRELAND	26.077	24.930	4,60	33.492	-25,56	-22,14
AUSTRIA	25.097	16.311	53,87	12.532	30,15	100,26
DENMARK	17.641	17.244	2,30	16.790	2,70	5,07
NETHERLANDS	16.857	18.107	-6,90	17.365	4,27	-2,93
FINLAND	15.682	16.770	-6,49	16.147	3,86	-2,88
BELGIUM/LUX.	13.523	11.854	14,08	11.157	6,25	21,21
ITALY	10.421	10.573	-1,44	6.070	74,18	71,68
POLAND	7.800	8.877	-12,13	5.990	48,20	30,22
CZECH REP.	6.551	9.284	-29,44	5.489	69,14	19,35
HUNGARY	5.197	5.893	-11,81	3.705	59,06	40,27
SLOVAKIA	2.954	2.432	21,46	1.905	27,66	55,07
SPAIN	2.587	2.357	9,76	1.484	58,83	74,33
PORTUGAL	569	503	13,12	214	135,05	165,89
ICELAND	115	337	-65,88	411	-18,00	-72,02
<b>TOTAL</b>	<b>1.196.369</b>	<b>1.121.624</b>	<b>6,66</b>	<b>1.060.141</b>	<b>5,80</b>	<b>12,85</b>

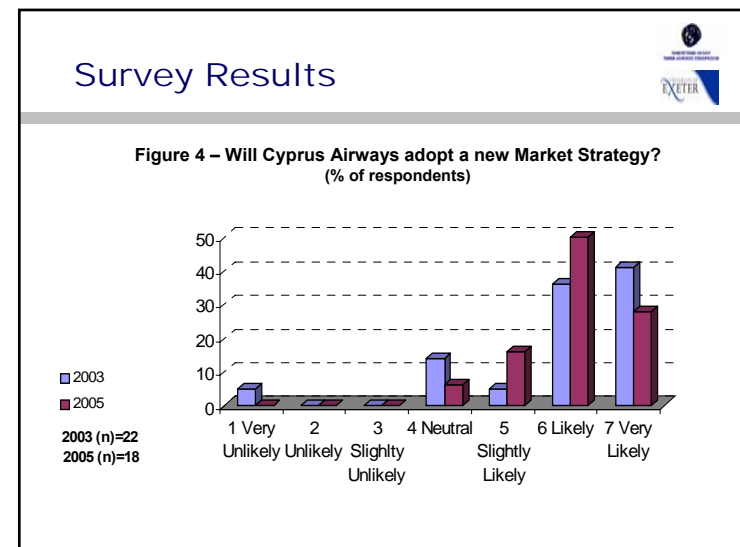
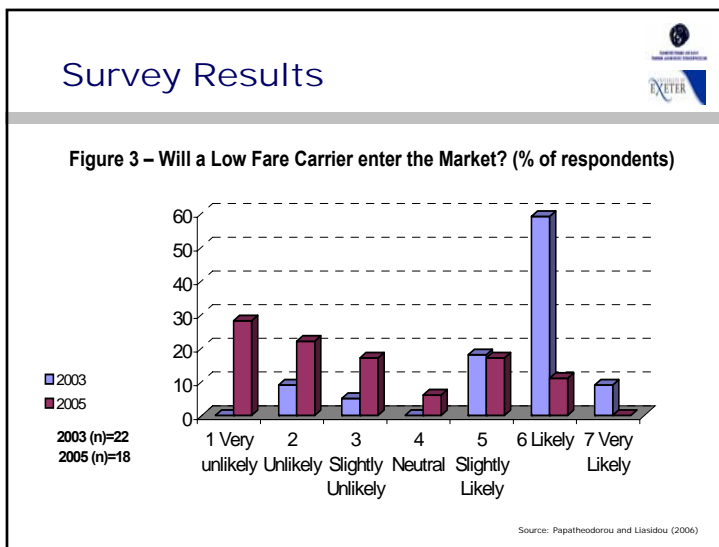
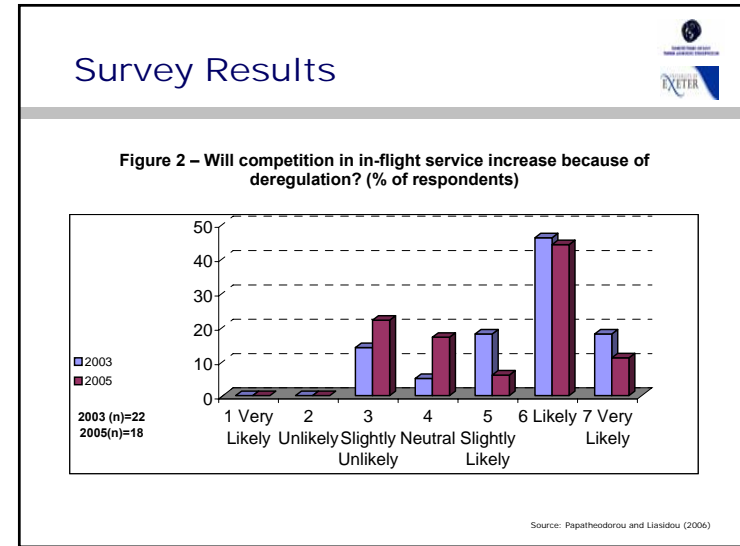
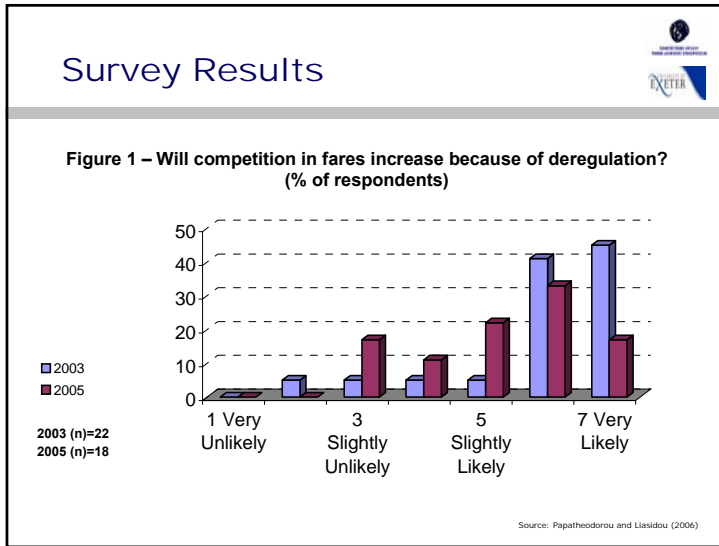
Source: CTO (2006)

#### List of Interviewees

Public Sector	2003	2005	Private Sector	2003	2005
Ministry of Commerce, Industry and Tourism	2	2	Cyprus Hotel Association (CHA)	1	1
Ministry of Communications and Works	1	1	Association of Tourism Enterprises (ACTE)	1	0
Cyprus Airways	2	1	Hotel Industry	2	3
Cyprus Tourism Organisation	1	1	Association of Cyprus Travel Agencies (ACTA) Travel Agencies	1 4	1 3
Cyprus Civil Aviation Department	3	1	Helios Airways	1	0
Higher Hotel Institute of Cyprus	1	1	Academics from private Colleges	2	3
<b>Total No</b>	<b>10</b>	<b>7</b>		<b>12</b>	<b>11</b>

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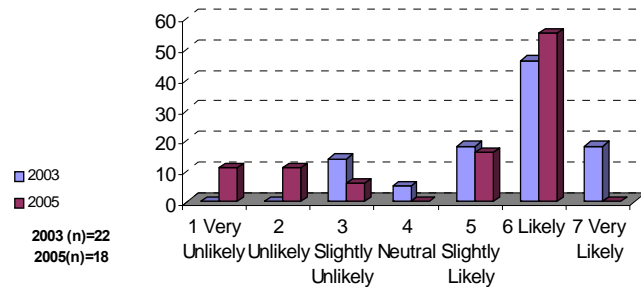


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#### Survey Results

**Figure 5 – Will Cyprus become a more competitive destination following deregulation? (% of respondents)**



#### Constraints on Tourism Expansion

- Hard Constraints
  - energy (air conditioning and infrastructure), and water supply (desalination)
  - available land and further urbanisation
  
- Soft Constraints
  - congestion, seasonality and clustering of tourism activities
  - cultural impact of tourism (negative demonstration effects but it pays the bills...)

#### Political Issues in Cyprus

- Implications of 1974 de facto Partition
  - Republic of Cyprus (southern part) and Turkish Cypriots (northern part)
  - political isolation of northern part: distortion of transport geography and accessibility
  
- Challenges of Potential Solution
  - stability: new investment and traffic flows
  - flag carrier and airport development

#### Conclusions

- Air transport liberalisation is a major challenge for Europe: so far, the creation of the ECAA has been successful despite occasional problems
  
- The impact of aviation market liberalisation can be complicated even for a small island state highly dependent on tourism
  
- Aviation deregulation can only succeed if applied constructively in the context of wider integrated policies

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Thank you for Your Attention!



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