Predatory Behaviour and Pricing in Aviation: Theory and Examples from EU, US and Turkish Markets

Uğur Erdoğan
University of Istanbul, ugar.erdogan@istanbul.edu.tr

ABSTRACT
After the deregulation of airline industry in many countries, lots of low-cost carriers and new airlines began to enter aviation markets. Before deregulation, these markets are generally dominated by national carriers and flag carriers. Economically, when a new-comer airline enters a market, generally prices fall down and a strong competition begins. New-comer airlines generally seen as a threat by big national carriers, so they establish some strategies for the competition. One of the most important and arguable aspect of their competition strategy is predation.
Predation is defined as selling a product below its costs to induce the rival to exit the market and to gain monopoly profits afterwards. There are two main aspects of economic view about predators’ behaviours. There is a view that predation is irrational, because the predator can never earn back the losses from price-cutting, even they are successful to push the new entrant out of market. The other view says that under certain circumstances predator can keep its monopoly position, because they have “deep-pocket”, and they enough money to lose during price cutting.
Predatory behaviour is a concept defining a larger group of predatory activities including also predatory pricing. National network airlines are afraid of competition from new comers especially low-cost carriers, so predation can take place in many forms. Adding more frequency to the new entrant’s routes, adding a flight very close to new entrant’s departure time on a certain route, or even establishing a low-cost carrier brand under its main airline group. There are three legs of predation in aviation markets; the national airline’s competitive strategy, new-entrant’s competitive strategy, and the most important thing is the policy and view of competition authorities.
This paper gives a brief description of predation, predatory behaviour and predatory pricing. Then analysis predation in aviation markets. Examples from EU, USA and Turkish aviation markets given and difference in these markets also discussed.

© 2017 PESA All rights reserved.  Keywords: Predation, Predatory Behaviour, Predatory Pricing, Flag Carrier, Low-Cost Carrier, Competition.