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Airport Regulation in Europe: Where is it heading to?

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Outline

- Airport Privatization
- Airport Regulation
- Challenges
- Points for discussion

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Airport Privatization

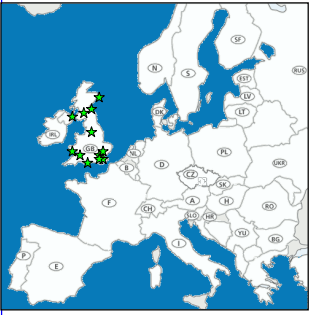
1. How has airport privatization developed in Europe since the privatization of BAA in 1987?
2. How has public airport management changed in the last two decades?
3. How have incentives changed and what are the effects on cost and allocative efficiency?

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Fully privatized airports in Europe



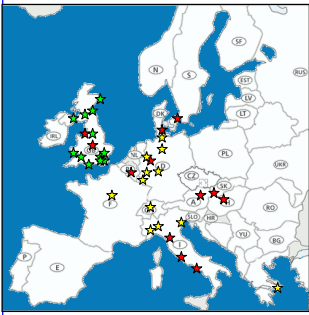
★ Fully privatized airports

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Fully and partially privatized airports in Europe



- ★ Fully privatized airports
- ★ Partially privatized airports with a majority share
- ★ Partially privatized airports with a minority share

• Malta International Airport has been partially privatized as well (Minority share privatization)

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Airport Privatization

1. How has privatization developed in Europe?
 - Privatization has not changed the nature of the industry as it has in the UK, but it has made airports in mainland Europe more profit-oriented.
 - The typical private airport in Europe is a partially privatized airport which tries to pursue a wide range of objectives such as regional development, job creation and tourism growth.

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Airport Privatization

Ownership and organization patterns of public airports in Europe		
	Organization	
Ownership	Bureau	Corporatised firm
National Ownership	CAA of Latvia, Greece	AENA, Dublin Airport Authority, Riga International Airport, Oslo Airport, Finavia, LfV
Regional	n/a.	Austrian and German International Airports, Manchester,
Municipality	Ventspils Airport (Latvia)	Small regional German airports; Liepajava (Latvia)

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Airport Privatization

2. How has public airport management changed in the last two decades?

- The typical public airport is not a public bureau, but a commercialized entity with private management tools for cost control and marketing.
- Restrained profit making becomes an objective in public airport management.

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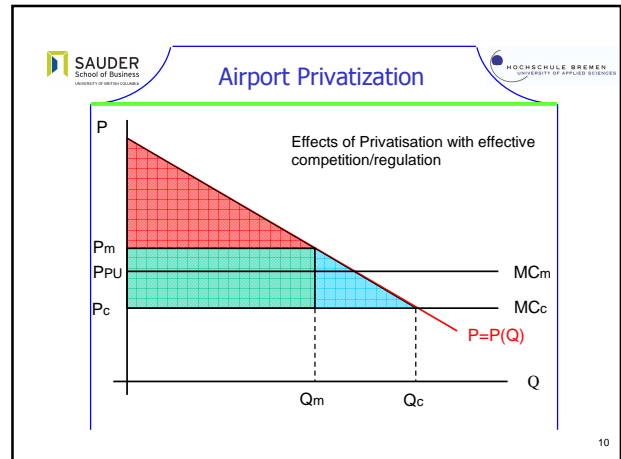
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Airport Privatization

3. How have incentives changed and what are the effects on cost and allocative efficiency?

- No, clear cut effects like in the cases of privatization with intense competition or effective regulation.

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Airport Privatization

3. How have incentives changed and what are the effects on cost and allocative efficiency?

- Cost cutting especially in ground handling
- Development of non-aviation business
- Some effects towards price differentiation (discounts for route development), but not towards peak pricing

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Airport Regulation

1. How has economic regulation changed in Europe?

- Are airports regulated by institutions which guarantee a fair process?
- How low or high powered are the regulatory systems?

2. How have incentives changed and what are the effects on cost and allocative efficiency?

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Regulation of European airports

(C) Independent regulator (all with user consultation)
 (S) User consultation (but no independent regulator)

* User consultation at Malta International Airport

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Airport Regulation

- Are airports regulated by institutions which guarantee a fair process?
 - Improved consultation, but in the vast majority of countries no independent regulator exists
 - Examples for lack of information:
 - 9.1 % share of Lufthansa in FRAPORT
 - Regulated asset base and rate of return not published for ADP
- How low or high powered are the regulatory systems?

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Type of Regulation at European airports

★ Type of price cap
 ☆ Charges set by airport
 ★ Cost plus regulation
 ★ No regulation

Single or dual till system

● Single till
 ● Dual till
 ● No till system

* Malta International Airport has a price cap and a dual till system in place.

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Airport Regulation

- How high- or low- powered are the regulatory systems?
 - Scope: Too narrow and too wide
 - In some countries regulation of charges does not include central infrastructure fees for ground handling
 - Single till still dominates though slowly changing towards a dual till system
 - Incentives: More in the direction of inefficiency than efficiency
 - Cost based regulation in majority of countries
 - Slow move to hybrid price caps
 - Sliding scale at HAM, VIE, FRA, DUS

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Airport Regulation

2. How have incentives changed and what are the effects on cost and allocative efficiency?

- Access problems for new ground handlers hinders liberalization
- Restrained incentives to develop non aviation
- Gold plating dominates cost cutting
- No strong incentives for peak and congestion pricing
- Airport expansion becomes a political question

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Challenges

- Green Paper on Fair and Efficient Pricing (1995)
 - Airports are part of a multimodal transport infrastructure and should be priced according to social marginal costs.
- Will the goal of fair and efficient pricing be achieved given the current liberalization, privatization and competition trends?
- What are the policy options regarding slot allocation as well as the economic regulation of charges?

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Challenges

	Cost efficiency	Efficient rationing	Optimal investment	Internalization externalities
Competition in aviation market	Increases pressure on airports especially small regional airports	Creates more excess demand at hubs and higher utilization at regional airports	Pressure to increase capacity	Increases externalities partly offset by higher load factors and improved technology
Commercialization of public airports	Some incentives to reduce X-inefficiency	Some efforts for efficient pricing, but also for use market power	Over-investment	No incentives for cost efficient instruments
Partial Privatization	Mild cost cutting	Mild efforts for efficient pricing but also for use of market power	Tendency to over invest	Mild incentives for cost efficient instruments
Full privatization	Tendency to cut costs	Use of market power limited by non aviation complementarity	Sweetening of assets, careful investments	Mild incentives for cost efficient instruments
Regional airport competition	Mild cost cutting	Mild tendency not to use market power	Careful investments?	No effect

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Challenges

	Cost efficiency	Efficient rationing	Optimal investment	Internalize externalities
No slot reform	No incentives. High switching costs. Slot rent captured by incumbent	Inefficient and low utilization of capacity.	Price does not signal investment.	Negative. Wrong traffic mix, too low load factors
Slot reform	Increases airport competition	Efficient rationing of existing capacities	Price does signal investment.	Positive. Improved traffic mix, higher loads
Dependent regulator with cost based regulation	Gold plating and high transaction costs	No peak pricing, inefficient price structure	Over-investment	No efforts to internalize externalities
Independent regulator with incentive regulation for monopolistic bottleneck (dual till)	Incentive to reduce X-inefficiency and to develop non aviation	Incentives for price differentiation and peak pricing	Less over-investment if regulator is committed	Incentives for cost efficient instruments

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- ### Discussion
- Will airport privatisation continue in the current regulatory framework? Will this enhance economic welfare?
 - Does privatisation need regulation and if so what kind? How should regulation be reformed?
 - Do you think that European countries should adopt an independent regulator? Does Europe need a regulator on a EU wide level?
 - What is the appropriate scope and method of airport regulation?
 - What can we learn from other public utilities?
 - Reform of slot allocation and reform of regulation are at best slowly moving. Why is that? Can a positive theory of economic regulation of airports explain the blockades and if so what could we learn from it?
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