

# The Political Economy of European Airport Reform

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## Issues

**In many ways, the European airport system is not delivering**  
**Reforms have been identified, but are slow in coming- why?**  
**Seek to explain in terms of interests of different groups in reform**

## Outline

- **Airport problem areas and assessment of performance**
- **What interests do groups have, and what institutions do they work with?**
- **Explaining reform (or the lack of it) in terms of who gains and loses**
- **Conclusions**

## Airports in Europe

- **Some very large airports in excess demand**
- **Booming LCC using regional airports**
- **Environmental constraints on expansion, operation**
- **Some airports are being expanded even though lacking demand**
- **Ownership of airports is changing- governments are slowly privatising their airports and, usually regulating them**

## Efficiency, Distribution and Performance

- **Efficiency- make changes when total gains are greater than total losses**
- **Efficiency takes into account environmental costs, including noise and gas emissions**
- **Distribution- about who gets what?**
- **Distribution influences decisions and reforms**
- **Performance- how well do airports perform in terms of these aspects?**

## Aspects of performance 1

- **Utilisation- airports not over or under used?**
- **Allocation of scarce capacity- does it go to those who can use it most effectively?**
- **Price levels- excessively low or high?**
- **Investment in capacity:**
  - **excessive investment?**
  - **underinvestment in capacity?**

## Aspects of Performance 2

- **Productive efficiency- are costs being kept to a minimum?**
- **Revenue Development- are options for developing revenues from non aeronautical services being effectively used?**
- **Location- are airport investments being made in the right place (reflecting environmental and other costs)?**

## European Airport Performance

- **Utilisation- Good.**
  - Slots used to limit delays at busy airports
- **Allocation of capacity- not very good.**
  - Slots "grandfathered", and hoarded or not used very effectively
- **Investment- poor.**
  - Several problems of excess investment, of inadequate investment, or subsidy competition between regional airports
- **Productive efficiency- poor.**
  - EU airports less efficient than those in other regions, high costs
- **Revenue development- quite good now**
  - Innovative in non aviation, but large differences
- **Location- Fair.**
  - Some cases of expansion in the wrong place

## Groups and their Interests

- **Passengers- weak**
- **Airlines and their work forces- strong**
- **Airports- moderately strong, becoming more articulate**
- **Local communities around airports- can be strong**
- **Regional governments- moderately strong**
- **Top level governments (national, EU)- potentially very strong**

## Institutions

- **Ownership**
  - Private: seeks high profits, low costs but high prices
  - Government: less profit focussed, but pays less attention to costs
- **Regulation**
  - cost based: old type, leads to high costs
  - incentive: promotes efficiency, but difficult to implement
- **Competition- fairly weak between airports, but competition between regional airports can be effective**
- **Planning environment – for major investments**
- **Slot system- to use a busy airport, must obtain a slot**

## Institutional Reforms- Privatisation

- **Privatisation of airports- extensive in UK, but slow on the Continent**
- **Objectives- more efficient airports? Cash for the government?**
- **Private airports will put up their prices- hence users demand price regulation**
- **Government sees airports as "strategic".**
- **Results typically in ineffectively regulated partial privatised airports with multiple objectives**

## Institutional Reforms-Regulation

- **Users want effective regulation; airports want less demanding regulation**
- **Airports with ample capacity- airlines can pass higher airport charges on to passengers**
- **Busy slot coordinated airports- airlines cannot pass on higher charges to passengers. Strong interest in low charges and opposing peak pricing**
- **Governments hesitate to depoliticise air transport**

## Institutional Reforms-Regulation

- **Problem- how to frame regulation?**
- **Improved user consultation, but lack of independent regulator. High transaction costs**
- **Single till still dominates though slowly changing towards a dual till system**
- **Cost based regulation- incentives for gold plating and excessive investments. Typical form in Continental Europe**
- **Incentive regulation- stronger incentives for cost reduction and price differentiation. Slow progress.**

## Specific Reforms 1

- **Utilisation- in interest of airlines to secure efficient utilisation. It happens**
- **Allocation of scarce capacity- a problem:**
  - Airlines oppose slot auctions- (they don't happen)
  - Slot trading – airlines mixed (slow to develop)
  - Airlines oppose reform of price structures (it doesn't happen)
  - Airlines oppose peak pricing (it doesn't happen)
- **Price levels- airlines seek low prices, airports seek higher prices and gold plate**
- **Prices usually kept fairly close to relative high costs**

## Specific Reforms 2

- **Investments in capacity- a problem**
  - Airports with ample capacity, airlines do not face most of the cost of any excessive investment- excessive investments do get made
  - Airports with scarce capacity- airlines do not want more capacity as it would reduce their slot profits. Difficult to get strong support for much needed investments
  - Easier to get investments at airports where they are not needed than where they are needed
  - Regional airports- subsidies lead to too much investment and capacity- regions compete to take business away from one another (zero sum game?)

## Specific Reforms 3

- **Productive efficiency**
  - incentives only modest as incentive regulation not widespread
- **Developing revenues**
  - privatisation and cost based regulation with single till
- **Location- complex**
  - Diverse interests

## Reforms in Perspective

- **Relatively little progress in a number of aspects of poorer performance**
- **Airlines tend to have the strongest say, other than governments, but have not succeeded in regulatory reform**
- **Where airlines are opposed, most reforms have not taken place**
- **Airports are becoming stronger through privatisation.**
- **Slot system is effective in controlling utilisation, but it does set up interests in opposing reform**

## Conclusions

- **Performance of airports in SAUDER can be improved in several ways**
- **Some progress on reform, but it has been too slow**
- **Consistent with the view that airlines form the strongest non government interest, and that reforms which are against the interests of airlines are a long time in coming**
- **Some of these are important aspects, including better allocation of scarce capacity, and investment in capacity constrained airports**
- **Some reforms inherently difficult to design- incentive regulation to promote productive efficiency**
- **Airports may emerge as a stronger interest. If combined with well designed incentive regulation, they may press for reforms which have been left untouched**

Thank You

