



## Why Airport Benchmarking?- A Public Policy Perspective

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## Key Issues

- Are German airports good or poor performers?
- Who wants to benchmark airports and why?
- How can we use benchmarking to improve the institutional environment and performance?

## Outline

- Are German airports relatively poor performers?
- Getting Benchmarking right-comparing like with like
- Productivity, profitability and prices- the links
- Owners, users, governments and regulators-how do they use benchmarking?
- Achieving airport efficiency

## German Airport Performance

- Doesn't look good
- Are looks deceptive?
- Productivity benchmarking studies- well behind rest of Europe, North America
- Prices- High relative to rest of Europe, North America
- How do policy makers react? Will benchmarking studies be used against the airports?

## ATRS Productivity Study

Airport	FRA	MUC	CPH	YVR
Labour Prod	2.3	5.7	13.6	49.6
Variable Unit Cost/ Pax	\$23	\$17	\$7	\$4

## Explaining the Differences

- Labour contracting out
- Additional labour intensive services (ground handling at FRA)
- Infrastructure services provided (people movers)
- After allowing for these, not as stark a comparison as it seems
- Lesson: in benchmarking, need to get the detail right
- Cannot rely just on published summaries

## Comparing Like with Like

- Airports differ considerably in:
- Inputs and input prices
- Outputs and services provided
- Reliance on non aeronautical revenue
- Quality of services
- Capacity utilisation and building for the future
- Environmental constraints

## Inputs

- Land area and cost of land
- Construction costs- high in constrained sites
- Direct and indirect labour (contracting out)
- Cost of capital and financing arrangements

## Outputs

- Different types of passengers (O-D, transit)
- Different types of movement (intercontinental, regional)
- Retail and terminal services
- Parking and land transport arrangements
- Services provided- how extensive (phone connections? Tours of the city?)

## Quality

- How much congestion? Runway, airside, terminal, access
- Comfort and convenience
- Innovative architecture and marble halls
- What quality level do users want to pay for?

## Capacity Utilisation

- Minimum scale- one runway for small airports
- Indivisibilities and providing capacity for the future
- Unanticipated demand shifts
- Peakiness of demand
- Environmental constraints on utilisation
- These all affect measured productivity

## Implications for Benchmarking

- Need to do more on characterising the airport production process
- Need to specify more detailed production/ cost functions
- Need more detailed information about how things are done at particular airports
- Published information (Reports, Web) not sufficient
- Need to gather details by surveys, questionnaires, interviews
- Much information is not confidential
- One of the ways the GARS study can add value to the existing studies

## Productivity, Profit and Prices - the Links

- All three are benchmarked (often separately)
- How are they linked?
- Output prices depend on:
  - 1 Input prices
  - 2 Productivity
  - 3 Profitability
- Levels and changes are linked in defined ways

## Exploring the Links

- Can decompose changes into components
- E.g. who has been getting the benefits of productivity increases? Workers? Owners (Profit)? Users?
- Who paid for the post 9/11 crisis? Workers? Owners? Users? Subsidies?
- Possible with consistent measures of inputs, outputs, input prices, output prices, quality

## Why Benchmark?

- Private owners - are we getting Max profit?
- Stock market
- Governments - is the airport efficient, and could the contribution to welfare be increased?
- Users - are we getting a good deal?
- Regulators - how can benchmarking results be used in setting prices etc?

## Governments and Communities

- Is airport system providing the maximum benefits possible?
- Are subsidies needed to keep prices down?
- Are airports facilitating business in the rest of the economy (reducing transactions costs)?
- Promoting economic activity in a region
- What is the scope to reduce costs, and promote the objectives above?

## Regulators

- Stated objectives include efficiency as a key one
- In practice more complex (regulatory capture, avoiding controversy etc)
- Need to solve the problem of how to set prices so as to create incentives for airport to pursue efficiency
- Regulators recognise the relevance of benchmarking, though they do not use it as much as possible
- Relevant for different regulatory regimes - incentive regulation, rate of return, monitoring

## Incentive Regulation

- E.g. price caps
- Set price path in advance for several years
- Do not set price according to airport's own costs
- What price path is feasible – consistent with profitability under efficient operation?

## Yardstick Competition

- Can use yardstick or benchmarks to gain information
- For price level- current productivity
- For price path- productivity growth and catch up
- Can involve risks- if airports are not as comparable as they seem-of setting too hard or easy targets
- How can a regulator seeking to promote efficiency act if it does not know how efficient the regulated airport is?

## Other Regulatory Systems

- Rate of return- are current costs too high?
- Where to set allowable prices?
- Monitoring- have airports been efficient in the past?
- Are high profits due to high efficiency or use of market power?

## Benchmarking in Regulation

- Not used nearly to full potential
- Do we know how well actual regulation is working (HAM, DUS, FRA)? Are regulated firms achieving efficiency?
- Which forms of regulation and ownership are working best?
- The demise of rate of return regulation is heavily due to benchmarking results

## Benchmarking- Specially Relevant for Airports?

- What drives airports to be efficient?
- Competition?- Not strong enough
- Private ownership? Do owners max profits always? And not use market power?
- What about slack private monopolies?
- Can governments assume that their own airports will produce efficiently?
- Will not for profit community airports seek to be efficient?
- Does regulation always work well?

## Institutional Environment

- Lesson is that, with airports, no institutional environment can be relied on to produce good results
- Unlike, say, airlines
- Hence we need to check, by doing benchmarking

## Choosing the Institutional Environment

- Governments have to choose the institutional environment within which airports operate
- To be settled in the longer term, when data come in
- Which ownership/ regulatory systems work best?
- existing systems be designed to work better?
- So far, choices have been made on theoretical expectations primarily
- Need benchmarking studies to see what works best

## Conclusions

- Not clear that German (or other ) airports are delivering to their potential
- Benchmarking for airports is more difficult than for other industries, hence we need more detailed data
- Governments set up ownership /regulatory environments to promote good performance
- Need benchmarking to determine how well airports are doing
- But none of these works especially well for airports
- Can then use this to evaluate and then improve the institutional environment
- Benchmarking more difficult for airports than other industries- but also more necessary

- Thank You