

Airport Governance in Europe - A Critical Assessment

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- The governance model of airports has changed substantially through privatisation and competition among airports.
- Most states relied on regulation. Price cap regulation was adopted, but very often in a very heavy handed way.
- Research focuses very much on UK and Australia
- This paper focuses on 12 European states, namely Austria, Belgium, Denmark, France, Germany, Hungary, Ireland, Italy, Netherlands, Spain, Switzerland and the UK
- Research question: How strong are incentives for efficiency?

Agenda

- I. Criteria for airport regulation**
- II. Government structure & Efficiency**
- III. Privatization of Airports**
- IV. Competition of Airports**
- V. Regulation of Airports**
- VI. Preliminary Assessment**
- VII. Conclusions**

I. Criteria

- **Airport should**
 - set prices at competitive levels
 - seek to minimize total costs
 - ration demand efficiently
 - invest an optimal amount
- **Regulatory process should be**
 - based on a legislative democratic mandate
 - fair, accessible and open
 - avoid high bureaucratic costs
 - applied only where necessary

II. Governance of Airports

- How has the governance structure changed the incentives changed for cost and allocative efficiency?
 - Effect of Privatization
 - Effects of Competition
 - Effects of Regulation
- First theoretical consideration

III. Ownership of Major Airports in Seven European Countries (I)

	Public	Privatization		
	Corporatized	Minority Private	Majority Private	Fully private
Austria	Linz, Graz...	Vienna (1992)		
Belgium			Brussels (2004)	
Denmark	Billund		Copenhagen (since 2000)	
France	Nice, Marseille	ADP (Orly, CDG)	Nantes, Lyon, Toulouse	
Germany	Munic, Stuttgart	Düsseld. (1997) Frankfurt (2001) Hamburg (2000) Hannover (1998)		
Ireland	Dublin			

	Public	Privatization		
	Corporatized	Minority Private	Majority Private	Fully private
Italy	Palermo Catania	Bologna (2015) Cagliari, Malpensa & Linate & Bergamo (2011)	Florence (2000) Naples (1997), Parma (2008) Pisa (2007) Rome (1997), Turin (2000), Venice (2005)	
Hungary				Budapest (2011)
Portugal				ANA Lisbon, Porto, Faro

	Public	Privatization		
	Corporatized	Minority Private	Majority Private	Fully private
Netherlands	Schiphol			
Spain		AENA with 49 airports		
Switzerland	Geneva		Zurich (2009)	
United Kingdom		Manchester (2013) Stansted (2013)	Birmingham (1997)	BAA (1987)

III. Airport Privatization

- Waves of privatisation linked with economic crises
- Privatisation with a minority share is the most problematic one as it leads to less incentives even compared to a corporatized airport.
 - Austria with Vienna, Germany with Düsseldorf, Frankfurt, Hamburg, Hannover, Italy with Bologna, Cagliari, Milan Malpensa & Linate, Spain with AENA.
- Full privatisation set stronger incentives compared to privatisation with minority share.
 - UK, Hungary with Budapest & Portugal with ANA.
- BUT also stronger incentives to use market power
- The monopoly of ADP, ANA and AENA has been strengthened by politics through joint privatisation

IV. Airport competition

	Airports	Market power Maertens (2012)	Assessment
Austria	Vienna	High (94/49)	
Belgium	Brussels	Medium (71/37)	Only local O&D traffic is captured
Denmark	Copenhagen	High (98/80)	
France	CDG	High (66/35)	Persistent market power through joint ownership
	Orly	Low (33/38)	
	Nice	High 92/94	
	Lyon	High (93/94)	
	Marseille	High (98/50)	

	Airports	Market power Maertens (2012)	Assessment
Germany	Berlin	Medium (69/52)	Persistent market power through joint ownership
	Düsseldorf	Medium (63/29)	
	Frankfurt	High (98/84)	
	Hamburg	High 93/55	
	Munic	High 98/64	
	Stuttgart	High (84/72)	
Hungary	Budapest	High (100/100)	Malev failed in 2012. LCCs took over. Still high market power
Ireland	Dublin	High (100/100)	Some countervailing power by Ryanair

	Airports	Market power Maertens (2012)	Assessment
Italy	Rome Fiumicino	High (90/ 100)	Persistent market power through joint ownership
	Ciampino	N/A	
	Milan Linate	Low (35/36)	Persistent market power through joint ownership
	Bergamo	Low (32/45)	
	Malpensa	High (58/59)	
	Venice	Medium (70/43)	
	Catania	High (97/100)	
	Nether-lands	Schiphol	High (93/46)
Portu-gal	Lisbon	High (100/100)	ANA Airport system with persistent market power

	Airports	Market power Maertens 2012	Assessment
Spain	Madrid	High 100/100	AENA : Airport system with persistent market power
	Barcelona	Medium (84/50)	
	Palma	High (100/100)	
	Malaga	High (100/100)	
	Alicante	High (85/50)	
Switzer-land	Geneva	High 95/93	
	Zurich	High (90/50)	
United Kingdom	Heathrow	Medium (58-40)	Separation of airports reduced market power
	Gatwick	Low (25-40)	
	Stansted	Low (29-58)	De-designated by CAA
	Manchester	Medium (65-37)	

IV. Airport competition

- While in the UK airport competition might work, in the other countries it does not. Airports have persistent market power – very often increased by common ownership.
- Has market power been assessed by policy in these countries?
- To our knowledge this has not been done!
- Only CAA UK, Irish CAAC and Dutch Competition Authority
- Airports have been regulated because of tradition and/ or because the EU directive has set an arbitrary threshold of 5 million passengers.

V. Airport regulation

V. I. Institution:

- EU Directive demanded independent supervisory authority, but left room for interpretation.
- “German definition”
- Two distinct concepts:
 - regulator is part of the government which has no share in the regulated airports
 - regulatory agency is independent from the government

V. II. Scope and Method of Regulation

- Dual versus Single Till
- Cost versus incentive/light handed regulation
- Quality
- Investment

V. I. Institutional Framework Airport Regulation				
	Airports	Regulator	Independent	Issues
Austria	Vienna	Federal Ministry Transport	Yes	
Belgium	Brussels	Federal Agency	No	Less than in the past
Denmark	Copenhagen	Danish Transport Authority	No	Not criticized by airlines
France	ADP & airports above 5 Mill pax.	From DOT to L'authorité de supervision indépendante	Yes, since 2016	Airlines won in Court
Germany	All major airports	Regional minister of Federal states	No	Criticized by monopoly commission
Hungary	Budapest	National Transport Authority	Yes,	Airlines doubt independency from Airport

	Airports	Regulator	Independent	Issues
Ireland	Dublin	Commission for Aviation Regulation	Yes	Minister has power to issue ‘general policy direction’
Italy	5 major airports	Regulated by ENAC	Yes, but infringement procedure	Airlines question independency of ENAC
	> 5 mill	Transport Regulation Authority (2014)	Yes	█
Netherlands	Schiphol	Netherlands Competition Authority	Yes	█
Portugal	ANA	Civil Aviation Authority (INAC)	No, concession agreement limits power	Airlines: Portugal violates Directive
Spain	AENA	Prior 2012 DGAC, 2013 Commission of Airport Economic Regulation, After 2013 National Commission of Markets & Competition	No, conflict between regulator & ownership. Government decides. DORA 2017-2021	“Airlines do not view the Spanish ISA as independent” STG (2017, E.502),
Switzerland	Zurich Geneva	Since 2012 Federal Office of Civil Aviation (FOCA),	No, toothless observing	Heavily criticized by airlines
United Kingdom	Heathrow Gatwick	CAA	No conflict with ownership	Regulation has been scaled back

V. Airport regulation

V. I. Institution:

- EU Directive has led to better institutions: France and Italy
- But regulatory capture in Germany, Spain, Portugal and Switzerland

V. II. Scope and Method of Regulation

- Dual versus Single Till
- Cost versus incentive/light handed regulation
- Quality
- Investment

V.II. Scope and Method of Airport Regulation					
	Airports	Till	Incentive	Quality	Investment
Austria	Vienna	Dual	Cap with traffic sharing mechanism	No	No
Belgium	Brussels	Mixed dual till	Cost based	?	No
Denmark	Copenhagen	Mixed dual till	Light handed Regulation	Voluntary penalties	No
France	CDG & Orly	Mixed dual till	Hybrid PC + traffic risk mechanism	Penalties	Yes
	Toulouse	Single	Hybrid PC + traffic risk mechanism	?	?
	Lyon	Single	Hybrid PC + traffic risk mechanism	?	?

	Airports	Till	Incentive	Quality	Investment
Germany	Major airports	Dual	Cost based	No	No
Hungary	Budapest	Dual	Hybrid Price Cap + traffic risk mechanism	Penalties	No
Ireland	Dublin	Single	Hybrid Price cap	Penalties < 2009	Yes
Italy	Major	Dual	Hybrid Price cap	Bonus malus	yes
	Catania, Bologna, Naples	Single	Hybrid Price cap	No	?

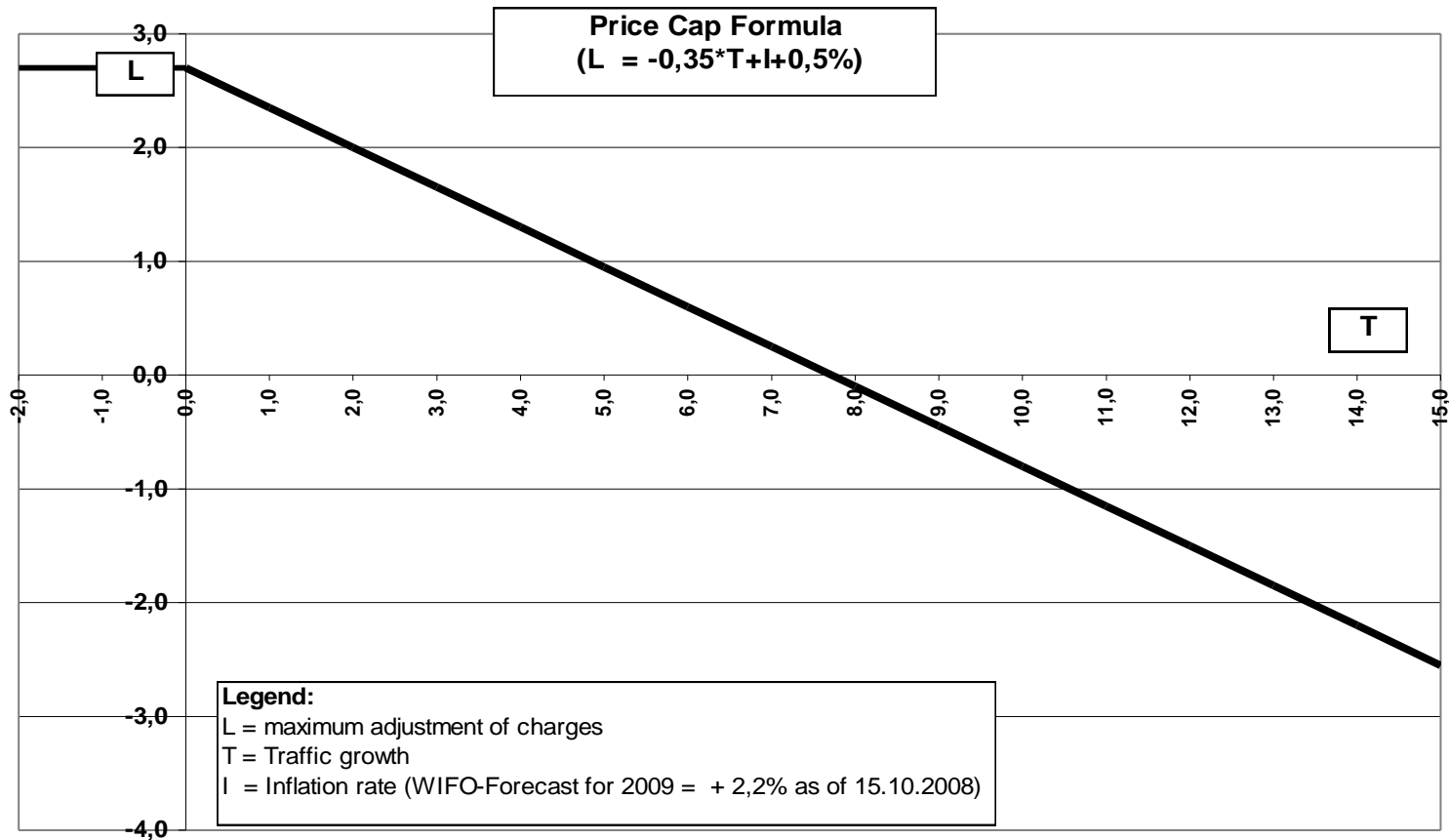
	Air-ports	Till	Incentive	Quality	Invest-ment
Portu-gal	ANA	Dual	Hybrid revenue Cap + traffic risk sharing mechanism	Penalties	No
Spain	AENA	Dual	Hybrid revenue cap	Incentives & penalties	Yes
Switzer-land	Zurich, Geneva	Mixed	Arbitration without teeth	No	No
United King-dom	Heath-row	Single	Hybrid price cap	penalties & bonuses	Yes
	Gat-wick		Light Handed Regulation		No

V. Assessment

- Trend towards dual till.
- No pure price caps & light handed regulation only at Gatwick & Copenhagen (not in Zürich)
- Tendency towards heavy handed forward looking cost based price caps. Little incentives!
- Austria (simple sliding scale), Portugal (benchmarking and caps over 10 years, but weak regulator) offer stronger incentives.
- Less focus on allocative efficiency & capacity management with exception of LHR, Gatwick and Rome (peak pricing)

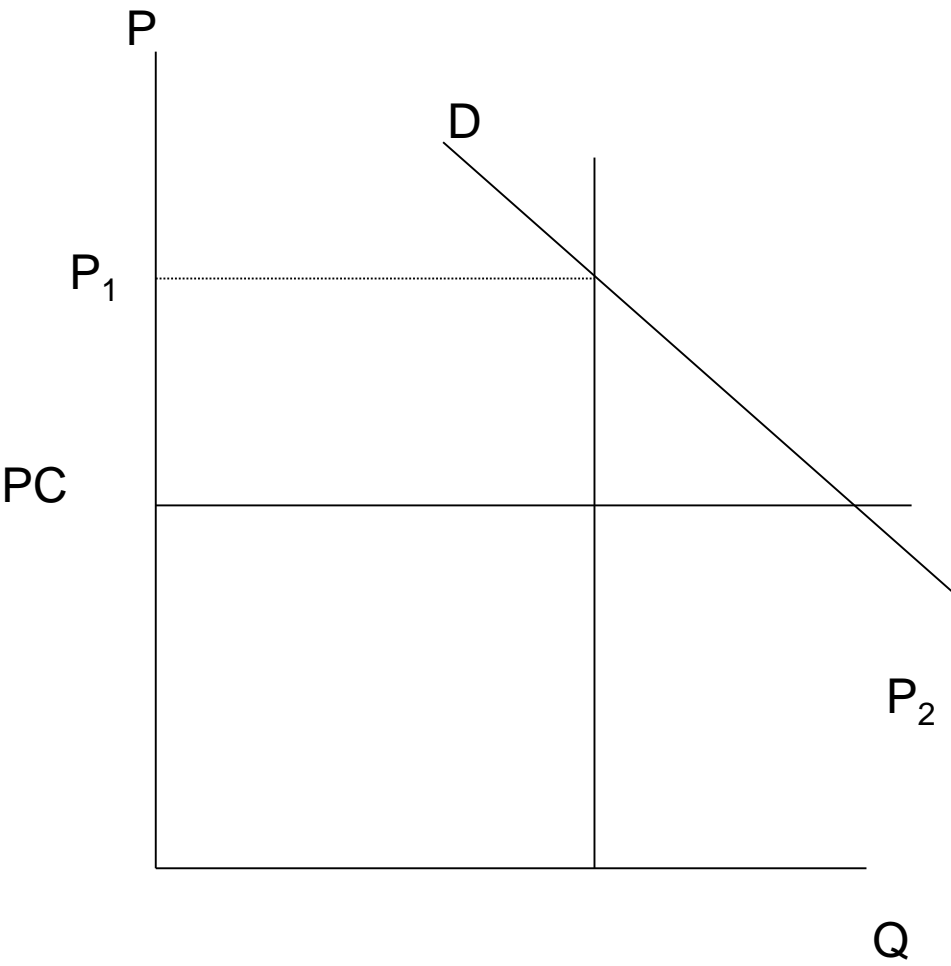
V. Assessment

Austria: Traffic Risk Sharing Mechanism

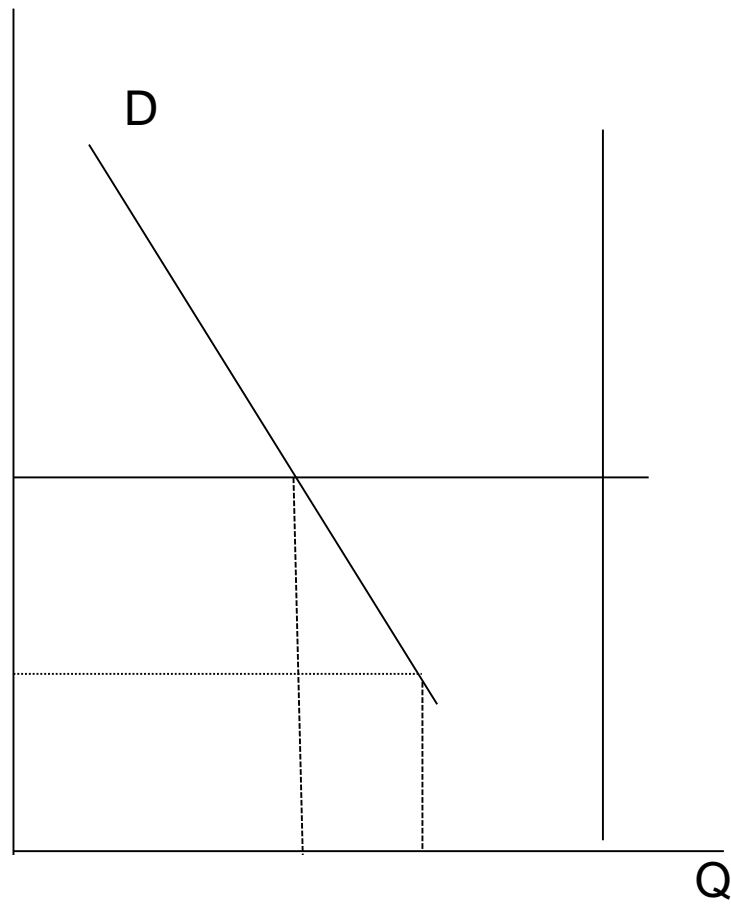


V. Regulation of ADP: Revenue cap with traffic risk mechanism

Orly



CDG



VI. Conclusions

Thank you very much!

- How well does regulation work in the 12 countries?
 - Regulatory capture/lack of independent regulator in Belgium, Germany, Spain, Switzerland & Portugal.
 - Incentive regulation towards cost efficiency, but these incentives depend behaviour of the partial privatised firm.
 - Traffic Risk Sharing Mechanisms are allocative inefficient.
- Also in 2018 the overall conclusion of 2006 holds:
 - Political failure to design a coherent system of privatization, regulation and competition