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TRANSPORT FOR A GLOBAL ECONOMY

*Challenges and Opportunities
in the Downturn*

MODAL WORKSHOP 1 CONCLUSIONS

Gateway Airport Investment and Development of Airline Services for a Global Economy

Tuesday 26th May 2009

Background:

The workshop examined the development of gateway infrastructure for aviation. It focused on financing airport infrastructure through airport charges in light of the competitive interaction between airports and airlines. Participants discussed the circumstances in which pricing and investment should be regulated and how this might be most successfully done.

The workshop brought together airlines, airports and regulators to explore ways to improve the functioning of the aviation industry to ensure adequate airport infrastructure. The exchange focussed on ensuring that in the future airport charges foster airport and airline development that best serves the interests of both air passengers and the wider community.

Conclusions:

Transport infrastructure is essential for economic growth. Adequate airport capacity, where it is needed most, is crucial to allowing the global economy to grow.

Present regulatory arrangements are not efficient because the airline and airport markets have changed enormously over recent years. There is scope to do much better.

The challenge is to create conditions for efficient infrastructure development in a sector where in some circumstances some airports have market power and might abuse this position.

Though market power may exist in some circumstances it is not inherent to any particular category of airport and probably not present in most airports.

Diagnosing where there is the potential for market power abuse requires an evidence-based, case by case examination of the scope of, and scope for, competition in the current circumstances, airport by airport.

It is important that regulatory intervention only occurs where it is actually needed as it is costly in terms of administrative effort and altering the market.

Aviation requires economic regulation and to be fully effective this requires a regulator that is independent and accountable, operating under a transparent set of rules and objectives. The regulator should have the flexibility to apply regulation where necessary, and only where necessary, reflecting variations in market power across markets and over time.

The purpose of economic regulation is to protect consumers from abuse of market power, where dominance cannot be dealt with through general competition law. This should be its only objective.

The number of airports that require regulation could be reduced by increasing competition through more open skies agreements and a gradual extension of the use of market based approaches to the allocation of landing rights.

Purely administrative allocation of slots carries the risk of creating disincentives for investment in airport capacity and robs the market of information on the value of capacity at busy airports where slots are scarce.

All regulatory controls on the pricing of aviation services carry the risk of getting investment incentives wrong. This is particularly true of cost plus regulation. Price caps have the advantage of leaving pricing structures to the airport but are less transparent. In either case regulation should be based on forward costs, not historical costs, in order to provide for incentives for investment. A number of regulators are beginning to experiment with this key reform.

It follows that prices for aviation services should be able to rise above current costs in periods of scarcity of capacity when capital needs to be raised for investment. They can also be expected to fall below costs when there is excess capacity, although for long term agreements with airlines average costs remain relevant.

Close cooperation between airlines and airports is essential to meeting demand and providing good quality services. Agreements between airlines and airports on pricing, investment and levels of service are frequently employed to manage business risks. Such agreements can carry risks of discrimination in the access to airport facilities given to other airlines, although instances of this are unusual. The agreements need to be transparent and subject to monitoring by regulators.

Alliances between airlines, with some of the members holding such agreements with airports, account for an increasing share of the world passenger market and merit increased monitoring by regulators. National competition authorities hold sufficient powers to address international alliances but regulators need to pay attention to the impact of alliances in international as well as national markets, on a case by case basis.

Liberalisation of aviation markets has contributed to accelerating globalisation. This combined with privatisation of most airlines and now many airports has changed aviation markets rapidly and profoundly. Regulatory models have tended to evolve more slowly and need reform if they are not to become a drag on global growth.

Much remains to be learned for improved regulation and there is much to be gained from exchanging experience between regulators, airports and airlines around the world.

The Panel:

These short conclusions were drafted by the Secretariat of the International Transport Forum in consultation with the Moderator and the Rapporteur. The Secretariat is very grateful for the rich input to the discussions from the panel of speakers listed below but takes full responsibility for the views expressed here.

Moderator *Jeff Shane*, Hogan and Hartson LLP, former Under Secretary for Policy, US DoT

Introduction *Hans-Martin Niemeier*, University of Applied Sciences, Bremen

Regulators *Hartmut Spickermann*, Federal Ministry of Transport, Germany

Nick Fincham, Civil Aviation Authority, United Kingdom

Catherine Lang, Federal Aviation Authority, USA

Ulrich Stockmann, MEP, Rapporteur on airport charges, Transport and Tourism Committee

Airports *Stefan Schulte*, Fraport AG

Normand Boivin, Aéroports de Montréal

Dominic Schuster, Sydney Airports Corporation Limited

Jos Nijhuis, Amsterdam Airport Schiphol

Airlines *Karl-Rudolf Rupprecht*, Deutsche Lufthansa AG

Candan Karlitekin, Turkish Airlines

Tim Clark, Emirates

David Hamm, Delta

Rapporteur *David Thompson*, Independent Expert