



## MODAL WORKSHOP 1 CONCLUSIONS

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

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# **GATEWAY AIRPORT INVESTMENT AND DEVELOPMENT OF AIRLINE SERVICES FOR A GLOBAL ECONOMY**

- **Aim: Ensuring development of adequate gateway infrastructure for aviation – crucial to the functioning of the global economy – whilst properly reflecting aviation’s environmental impacts**

# Airports' market power

- **In what circumstances does market power exist?**
- **And what are the economic costs?**
- **How can public policy reduce market power?**
- **How can public policy reduce the adverse consequences of residual market power?**

# Investment in Capacity

- **How much capacity is needed?**
- **And what are the economic benefits?**
- **Making the best use of capacity**
- **How do we get the right investment incentives?**
- **Taking account of aviation's environmental impacts**

# Circumstances for Mkt Power

- **demand – in particular, whether this is locationally specific or footloose**
- **supply – whether there is competing capacity and the nature of entry costs**
- **supply/demand balance – and how tight the fit is**
- **market organization – in particular, whether there are horizontal or vertical ties**
- **airlines market power – may foreclose competition or depress overall charges**

# What are the economic costs

- **cost efficiency**
- **allocation of scarce capacity, and**
- **investment in new capacity**

# **How can public policy reduce airports' market power?**

- **remove horizontal or vertical ties which reduce competition provide for access to slots**
- **consider the impact upon competition of other public policy interventions (eg surface access or designation)**
- **consider competition promoting policies (eg separate terminal ownership)**

# Regulating Mkt Power

- **seek to balance costs and benefits**
- **should build upon principles of good governance –independent accountable, and open and transparent**
- **should focus on the potential adverse consequences of market power,**
- **should reflect emerging evidence on effective regulatory instruments**

# How much capacity is needed?

- **congestion (present and prospective) is a key driver of the economic benefit of additional capacity, coupled with**
- **the economic costs of congestion, which will be shaped by the nature of the passengers and the cities served**
- **the costs of provision (both private and public)**

# **Economic benefits of additional capacity**

# **Making the best use of capacity**

- **rationing scarce capacity – where slot limits will often be more efficient than queuing**
- **allocating slots – where a market (primary or secondary) will often utilize capacity more effectively than an inflexible allocation**
- **congestion charging – which provides a direct signal of the value of scarce capacity**

# **Investment incentives**

- **aligning private and public interests, in particular through appropriate policies on environmental impacts**
- **effective sharing of the risks associated with stranded sunk assets; eg through long term contracts between (key) airlines and individual airports**

# Investment incentives

- **how to best structure price cap and quality controls so as to align commercial and social returns to investment**
- **how best to regulate congestion charges**
- **whether, and how, to incentivize investment which may have material economic benefit in the wider economy , beyond the aviation sector**

# **Environmental impacts**

- **to get the right environmental outcomes in aviation in an efficient way**
- **to avoid the risk that inappropriate environmental policies will unnecessarily constrain a successful and fully responsive aviation sector and damage its crucial contribution to the global economy**



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