MODAL WORKSHOP 1 CONCLUSIONS

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

David THOMPSON
Independent Expert
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