

Distortions to Airport Competition

Conference on Airport Competition

IEB-FEDEA

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Main sources of distortion in airport competition:

- Airport incentives
- Commercial incentives to airlines
- Government fees
- Land rents
- Property taxes

Investment criteria and financing

- All airports are operated under a single owner: AENA
- Prices are regulated and set according to different airport categories. Differences are too small, according to experts. Not necessarily related to costs.
- Cross-subsidies between airports
- Airport debt is taken by AENA
- 37 of 47 airports had operating losses in 2011 (total amount 485 millions of euros).
- For some airports deficit per passenger is well above 100€



Financial support to airlines

- A recent study by the CNC has estimated the financial support given to airlines from public authorities or other regional institutions.
- Different formulas for commercial cooperation are established between regional institutions and airlines with the objective to promote economic development.
- Most of the airports receiving support are loss making airports.
- Map shows airports with more than 1 million € per year



Concerns about financial aids to airports

- This is not a Spanish issue. EU: 60% of airports serve less than 1 million passenger. Vast majority of airports is subsidised. EC opened a process of public consultation to review the Aviation Guidelines. Need for a reform.
- Publicly financed airports might reduce the price for the airport services rendered to airlines. Airlines using the airport could benefit from an aid. Will often result in an inefficient distribution of traffic between airports.
- Subsidies can be justified when there are positive externalities from aviation activities. However, how are these externalities estimated?. Risk of overestimation.

Concerns about financial aids to airports

- Effectiveness of air routes to promote regional development. Do new routes generate new traffic or divert traffic from other airports or routes. Should benefits be evaluated on a regional basis?.
- Investment race between different regions to develop their regional airports. If a regional airport has financial difficulties the region claims further aid, using the argument that these regional airports are under-utilised and represent a necessary cost to local community.
- Airline industry operates with very tiny margins. Hence, even small subsidies affect competition and thus need to be handle with care.

Other potential distortions

- Intermodal competition: Investment in HST and pricing below costs.
- Access to airport infrastructures.
- Slot allocation