

REGULATION OF LARGE AIRPORTS: STATUS QUO AND OPTIONS FOR REFORM

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- BRIEF SUMMARY
- TWO MAIN COMMENTS

CURRENT EVALUATION ABOUT AIRPORTS PERFORMANCE

- POOR AIRPORT COST CONTROL
- INEFFICIENT WEIGHT PRICING REGIMES:
 - NO RELATED TO RUNWAY DAMAGING COSTS
 - IMPERFECT RAMSEY PRICING
- AT CAPACITY CONSTRAINED AIRPORTS AIRPORT CAPACITY IS RATIONED INEFFICIENTLY
- UNDER INVESTMENT IN AIRPORTS WITH EXCESS DEMAND AND OVER INVESTMENT IN AIRPORTS WITH EXCESS SUPPLY

IT LOOKS LIKE AIRPORTS CAN DO MUCH BETTER

PROBLEM WITH LARGE
AIRPORT COMPETITION

(NOT ALWAYS)



REGULATION:
- PRICE CAP
- COST-BASED RETURNS
- RENT SHARING
- OTHERS



LOW HUB COMPETITION
LOW COMPETITION WITH
SECONDARY AIRPORTS



PROBLEMS WITH
REGULATON

COMPETITION PROBLEMS

- LOW HUB COMPETITION

HIGH SWITCHING COSTS OF AIRLINES DUE TO SPECIALIZED INVESTMENT
AND NON TRADABLE SLOTS

- NO COMPETITION WITH SECONDARY AIRPORTS

TRAFFIC RIGHTS, AIRCRAFT TECHNOLOGY AND HUB CONGESTION
(EVERYTHING BUT TRAFFIC RIGHTS SEEM "SOLVABLE")

REGULATION PROBLEMS

- SCOPE OF REGULATION: TOO NARROW (NOT GROUND HANDLING) AND TOO LARGE (DISTORTIONS OF SINGLE TILL)
- COST- BASED REGULATION: NO INCENTIVES TO REDUCE COSTS
- REVENUE SHARING AGREEMENTS: DISTORTIONS BECAUSE PRICES MOVE INVERSELY WITH DEMAND

RECOMMENDATION OF THE PAPER: PRICE CAPS (HYBRID PRICE CAPS) PROVIDE INCENTIVE TO REDUCE COSTS

COMMENTS

1. PRICE CAPS HAVE PROBLEMS ON ITS OWN:

1.1. REDUCED INCENTIVES TO PROVIDE BETTER SERVICE QUALITY?

(RADIO FREQUENCY IDENTIFICATION TAGS TO TRACK BAGGAGE, DIRECT TRAIN/SHIP TRANSFER)

YES QUALITY CAN BE MONITORED BUT THERE WILL LIKELY BE UNKNOWN EX ANTE QUALITY DIMENSIONS THAT CAN BE IMPROVED

2.2 PROBLEMS WITH INCENTIVES FOR INVESTMENT (HOLD UP AND RISK OF APROPRIATION)

2.3 FACILITATE PRICE COORDINATION AND DETER COMPETITION AMONNG AIRPORTS

UNAVOIDABLE TRADE-OFF BETWEEN COST-BASED REGULATION AND PRICE CAPS

PROBLEM WITH LARGE
AIRPORT COMPETITION

(NOT ALWAYS)



REGULATION:

- PRICE CAP
- COST-BASED RATE OF RETURNS
- REVENUE SHARING
- MONITORING

WHY NOT MORE STRESS ON CHANGES IN REGULATION
THAT COULD TARGET THE PROBLEMS WITH
COMPETITION?

COMMENTS

- LOW HUB COMPETITION

HIGH SWITCHING COSTS OF AIRLINES DUE TO SPECIALIZED INVESTMENT AND NON TRADABLE SLOTS

WHY NOT DISCUSS ALTERNATIVES THAT COULD MAKE EASIER TRADING SLOTS?

- NO COMPETITION WITH SECONDARY AIRPORTS

TRAFFIC RIGHTS, AIRCRAFT TECHNOLOGY AND HUB CONGESTION

WHY NOT IMPROVING REGULATION OF AIRPORT TRAFFIC RIGHTS?, THE REST SEEM SOLVABLE "ENDOGENOUSLY"

- THE MAIN CONCERN MIGHT BE NATURAL MONOPOLY POSITION OF SOME AIRPORTS BUT THERE MIGHT BE SOME ALLEVIATING EFFECTS:

- 1) COMMERCIAL REVENUES

- 2) TERMINAL COMPETITION?

- 3) COUNTERVEILING BARGAINING POWER OF AIRLINES