

Old versus young Littlechild – Arbitration versus Price cap.

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Issues

- **Are commercial negotiations with independent arbitrator superior to price caps for airports?**
- **Yes, this could be the case at least for uncongested airports, BUT**
 - **Try out**
 - **Test, that is assess efficiency**
 - **Results will probably depend on utilisation for airport and governance structure, namely ownership, competition between airports and airlines and slot system**

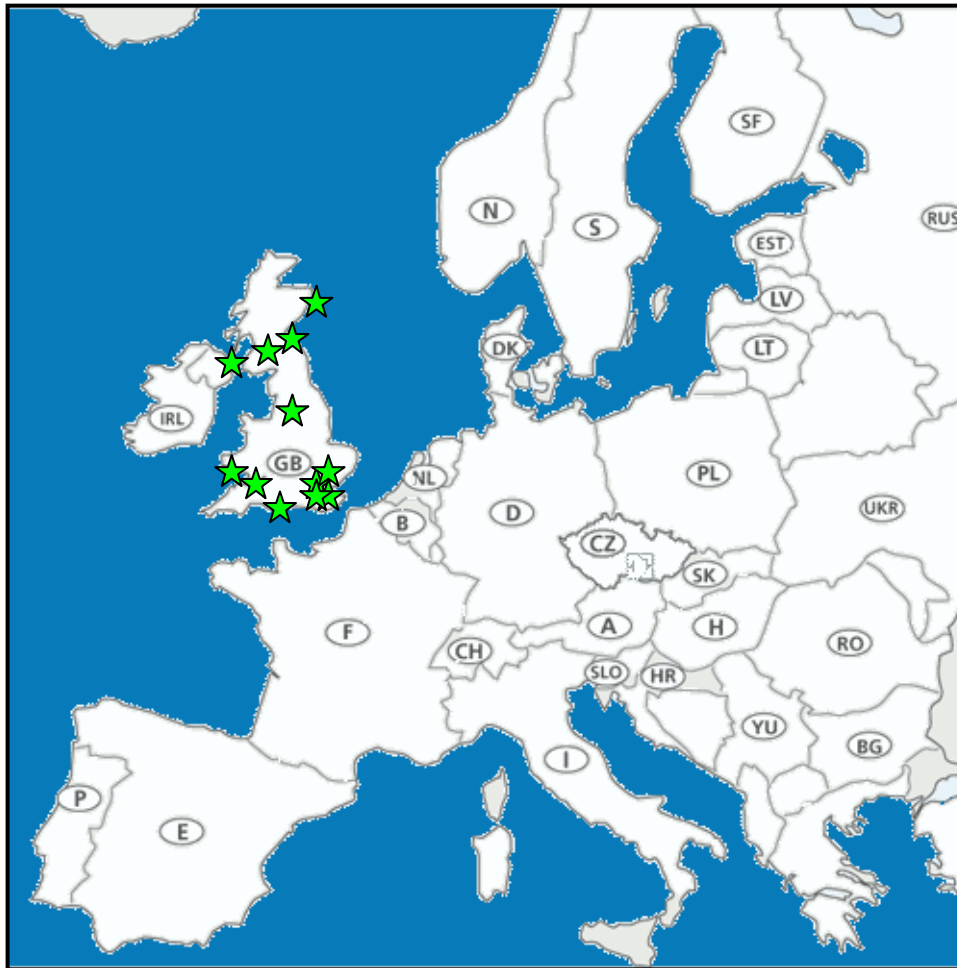
Agenda

- I. Add-ons to German and EU airport regulation**
- II. How have EU airports performed?**
- III. A different view on UK price caps**
- IV. Recommendations for German and EU regulators**
- V. Role of Benchmarking**
- VI. Conclusions**

I. Add-Ons

- Gomez-Ibanez (2003, p.3): *“The expensive, durable and immobile investments help make all parties – the company, its customers, and the government – vulnerable to opportunism and desirous of stability and commitment”*.
- Discretionary regulation to prevent economic and political opportunism

Fully privatized Airports in Europe

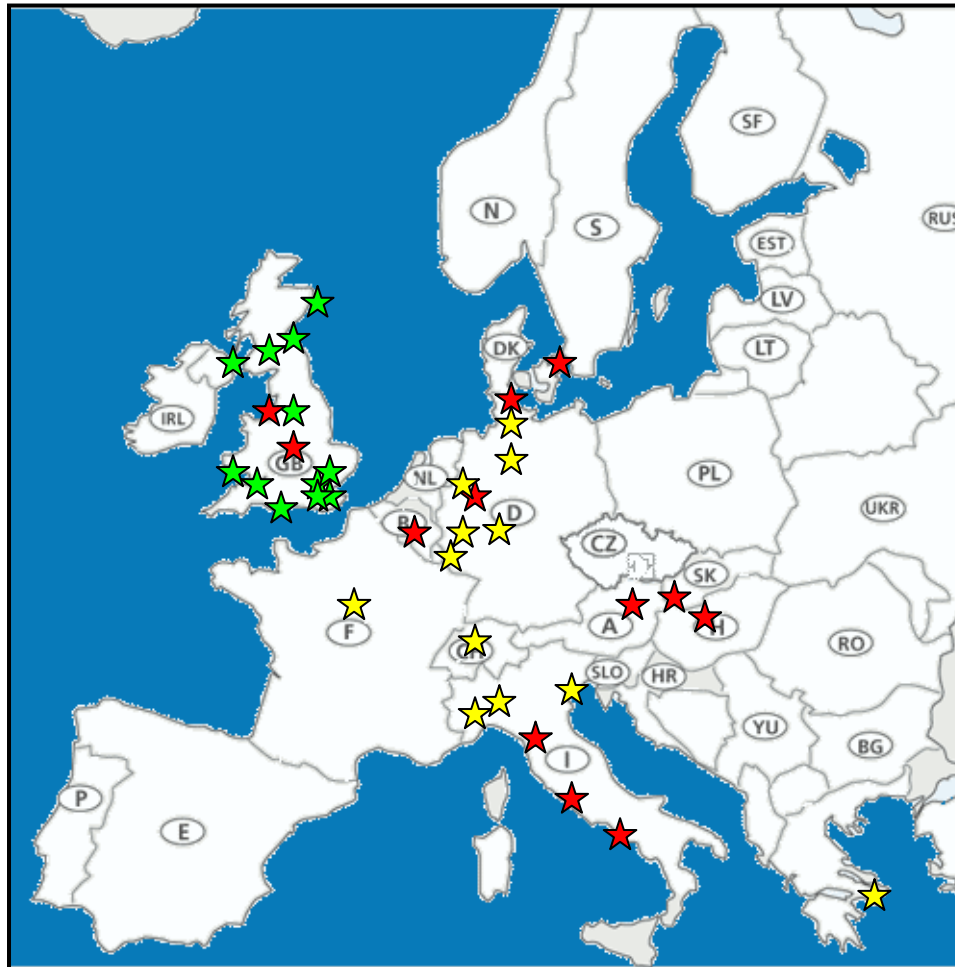


★ Fully privatized airports

OECD & ITF,
Leipzig, 26 May 2009

Source: Gillen & Niemeier, 2006

Fully and partially privatized Airports in Europe



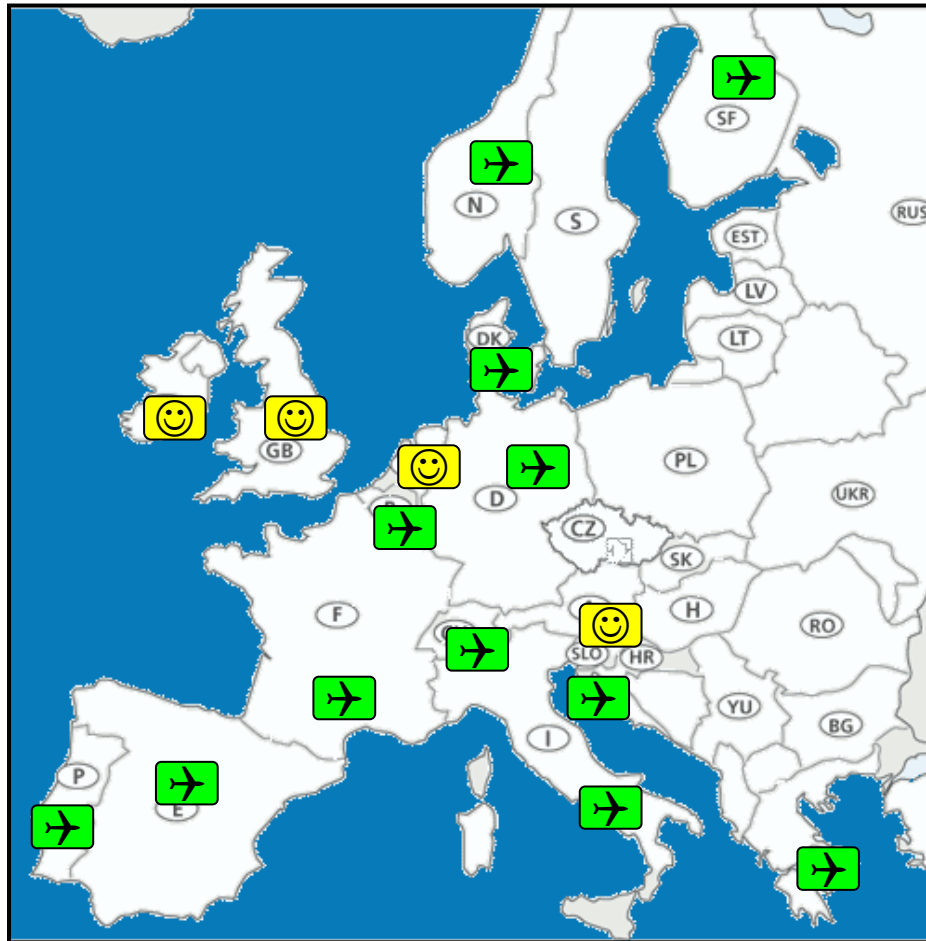
- ★ Fully privatized airports
- ★ Partially privatized airports with a majority share
- ★ Partially privatized airports with a minority share

•Malta International Airport has been partially privatized as well (Minority share privatization)

OECD & ITF,
Leipzig, 26 May 2009

Source: Gillen & Niemeier, 2006

Regulation of European Airports



😊 Independent regulator (all with user consultation)

✈️ User consultation without independent regulator

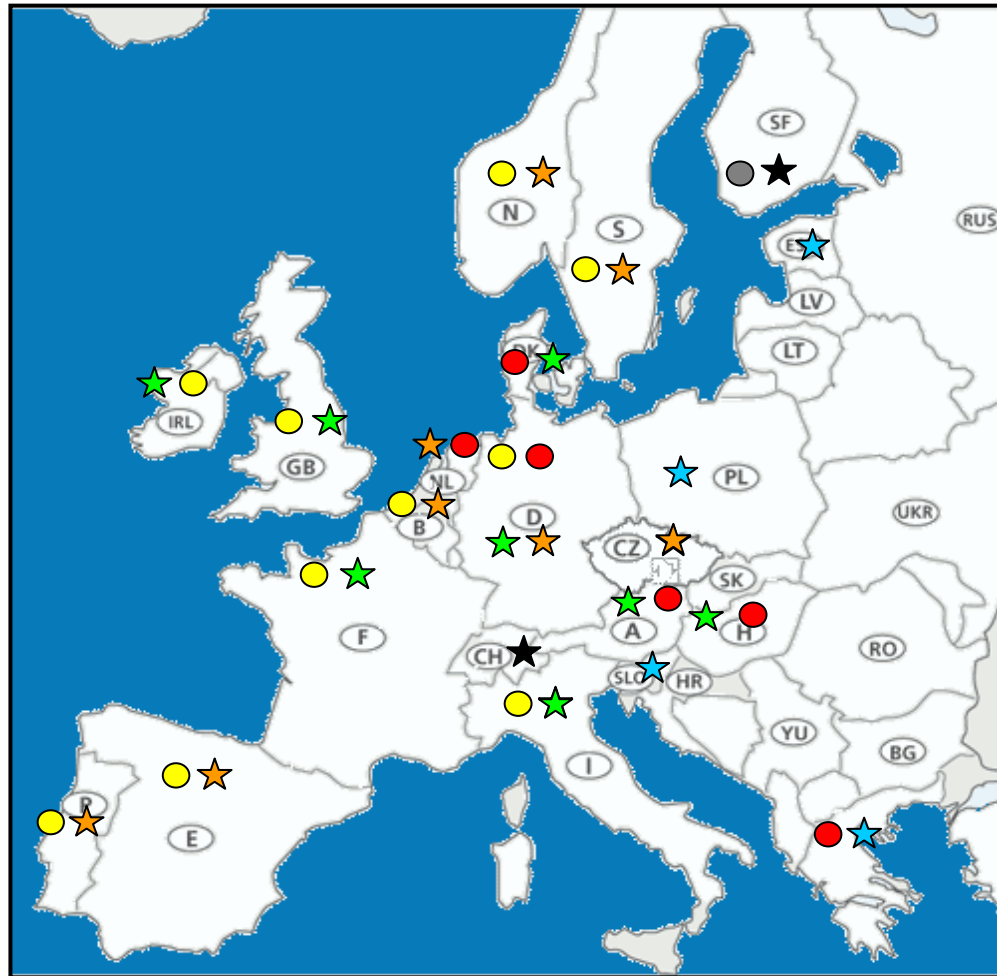
- Improved consultation
- **Lack of independent regulator**
- **Regulatory capture**

* User consultation at Malta International Airport

OECD & ITF,
Leipzig, 26 May 2009

Source: Gillen & Niemeier, 2006

Type of Regulation at European Airports



- ★ Type of price cap
- ★ Charges set by airport
- ★ Cost plus regulation
- ★ No regulation

Single or dual till system

- Single till
- Dual till
- No till system

* Malta International Airport has a price cap and a dual till system in place.

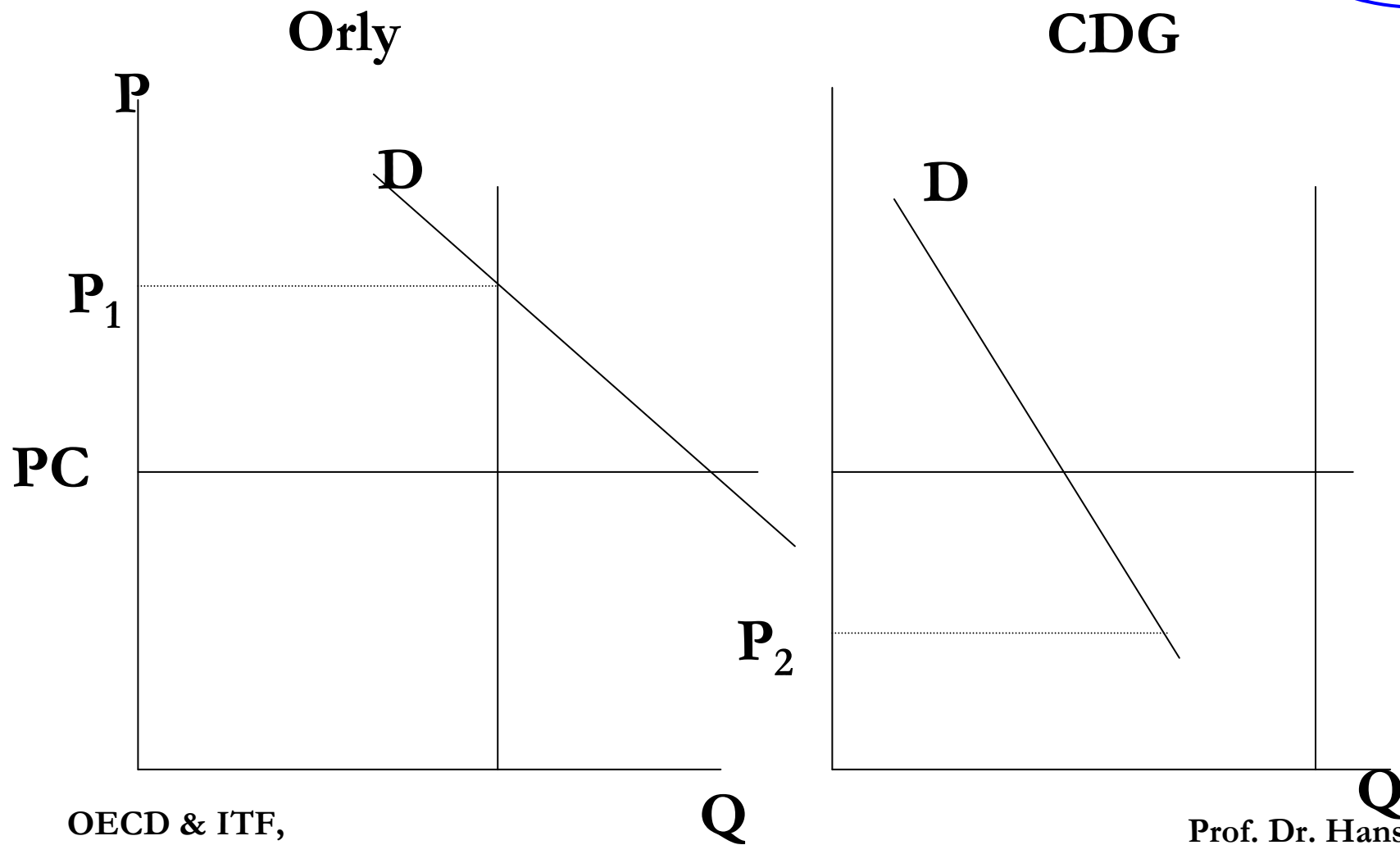
I Airport regulation

- **Dependent regulation with:**
 - **Cost based regulation in majority of countries**
 - **Slow move to hybrid price caps with some revenue sharing agreements**
- **Regulation does not provide stability and commitment for full privatization**
- **Airport regulation hinders airport competition**

II. Airport performance in EU

- **Poor cost control particularly at partially privatised airports and vertically integrated airports**
- **Allocative efficiency: misdirected pricing!**
 - **Ample capacity: weight based charges do not reflect damaging costs and are imperfect Ramsey type prices**
 - **Capacity constrained airports**
 - **32 bn € welfare loss for European Airports in 2025 (Mott Mac Donald, 2006)**
 - **No market based slot allocation**
 - **Arbitrary slot limit**
 - **Weight based charges discriminate**
- **Over investment in areas with lack of demand and underinvestment at regions with excess demand**

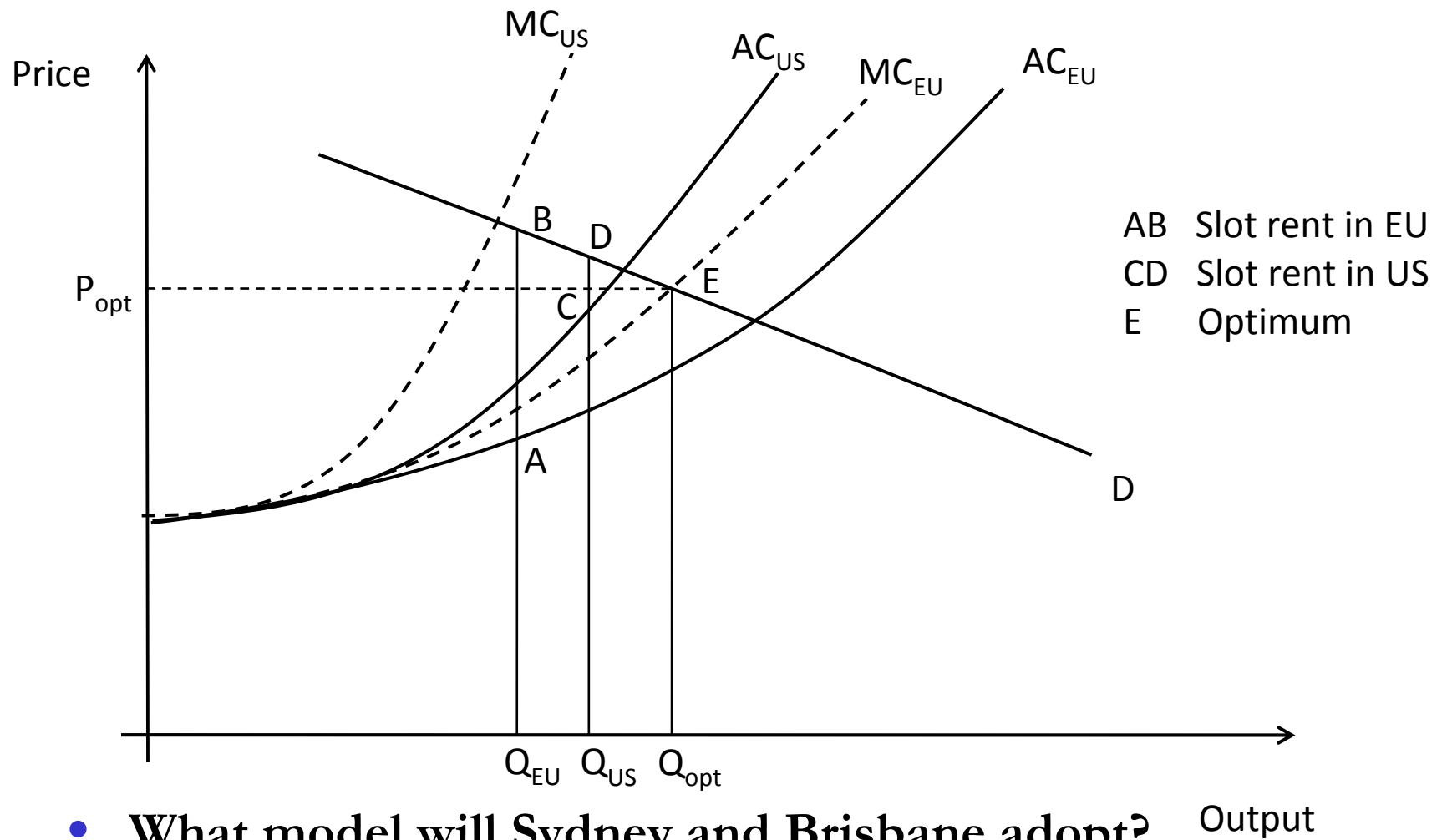
II. Performance of ADP



II. Airport Performance

- **Allocative Inefficiency of ADP caused by**
 - Price cap ?
 - Sliding scale ?
 - Government ownership ?
 - AF/KLM and ADP/Schiphol Alliance?
- **Tasks of Regulation in Europe:**
 - More than reducing the level of prices, because this will increase excess demand at busy airports.
 - Additional problem of rationing demand efficiently and setting incentives for investment. Hence
 - structure of charges
 - allocation mechanism and
 - incentives for investment

Model of EU and US Slot Constrained Airport



• What model will Sydney and Brisbane adopt?
 OECD & IIF,
 Leipzig, 26 May 2009
 • What are the strategies of airlines and airports?

III. UK Airport regulation

- **UK airport regulation is easy to criticize, BUT**
 - Investment regulation is complex
 - Competing regulators with opposing views on single versus dual till and de-designation of Stansted
 - Changing political decision on capacity expansion
 - Neglected benefit: PC created clear rules for full privatisation and fostered competition between airports
- **Why not reform price cap?**
- More incentives
- Less bureaucratic
- Australian PC worked well: See Productivity Commission 2002

IV. Reform of EU regulation

- **Independent Authority should select method. My recommendation:**
- **Simple price caps with threat of regulation**
 - Regulate only a few airports
 - Hybrid caps could be improved by benchmarking
 - Set incentives to balance price structure in the direction of efficiently rationing peak and excess demand
 - Provide discretionary power and stability for privatisation and competition
- **Monitoring with/without Arbitration. Currently not a good option for EU**
 - Not assessed in terms of efficiency
 - Not tested with excess demand and major investments
 - Can not (yet !) provide clear defined rules and commitment for further privatisation

V. Role of Benchmarking

- **Benchmarking faces resistance, but has been increasingly used to regulate airports and assess airport policy.**
- **Airports are heterogenous, but have also much in common**
- **Methods have become more sophisticated to deal with data problems**
- **Avoid simple partial measurers and simple total methods**
- **Performance analysis with good data could assess different regulatory policies like light handed versus price cap regulation**
- **Performance analysis could guide policy to deal with airports rationally and avoid political opportunism**

VI. Conclusions

- **EU: Regulate less, but more effectively with fair and democratic processes and institutions. Implement simple price cap with strong incentives for efficiency and increase competitive forces. Create stability and commitment.**
- **Australia: Assess light handed monitoring and develop it further by arbitration and benchmarking. How does light handed regulation cope with excess demand?**
- **Experiment and test with performance analysis different regulatory policies.**