

For this column ARC invites guest writers to discuss and debate current and burning airport-related matters.

## Should competition drive the allocation of additional airport capacity?

Air Transport Industry in the EU is going through some tough times. The traffic figures that are being published show nearly all negative growth. This crisis hits airports, and airlines as well as air navigation service providers are suffering and taking measures to survive the hard times.

**S**toring aircrafts – and thus taking a lot of seats out of the market –, closing routes that are either not viable or not vital to the (hub) network, decreasing frequencies are some of the measures taken. And in this way, the crisis means for passengers - and a lot of regions – less connectivity with the rest of the country, Europe and the world.

Still, major capacity enhancement programs are starting up. Next Gen in the US and Single European Sky and its research component SESAR are major challenges for the Air Transport Industry. In a recent study, Eurocontrol forecasted a doubling of air transport by 2030. Not a single industry stakeholder doubts that this will be the case. The major threat to the ambitious seamless air transport system, apart of the financing issue, is the ability to align capacity on the ground with the additional capacity that is being created in the air. It is a vital element for the success of the 30 billion € program of SESAR and the wider project of Single European Sky.

### New runways

So in the next years we will need to build new runways, new terminals and, in some cases, even whole new airports. The approach from the industry and the European Commission to align ground capacity with air capacity is inspired by efficiency. This approach also takes into account the environmental constraints. In certain cases this can mean that additional capacity cannot be created. It is an approach where offer and demand are conciliated. It is in fact the result of a democratic process where governments – local and central – decide what the appropriated capacity is and under what environmental conditions this capacity can be operated.

But in the United Kingdom we see another approach. This approach is new and is introduced by the Competition Commission, the economic regulator.

### Lack of capacity

In the "BAA AIRPORTS MARKET INVESTIGATION - Provisional findings report" the CC concludes that the lack of capacity, particularly runway capacity, at the south-east UK airports, not only has an effect on the

scope for potential competition between any separately owned airports, but is also a main reason for the current poor standards of service at the airports and lack of resilience at times of disruption. This is a very severe conclusion towards BAA. The CC has considered the extent to which that slow development of capacity can be attributed to restrictions under the planning system, Government policy and/or the common ownership of the airports.

Here the conclusions are very interesting. The CC findings are that costs associated to the planning system, the time taken and uncertainty of outcome inevitably affect airport competition, in particular by acting as a barrier to entry of new airports and expansion by existing airports. These aspects of planning restrictions are therefore, in the view of the CC, features which restrict competition between airports by contributing to the current capacity constraints.

Moreover, the CC concludes that the decision of the government to allocate additional capacity at a specific location and in some cases for a specific timing of investment may have the – unintended - consequence of features which restrict or distort competition between airports.

### Sufficiently competitive

The alternative for this planning system where capacity is allocated is, for the CC, a market structure that is sufficiently competitive so as to incentivize airport capacity and to expand capacity to facilitate competition with one another, increasing competition in the longer term. The CC doesn't say it explicitly, but they plead for a following role of the planning system. The market should determine where additional capacity should be allocated and the planning system should address the mitigation of negative effects.



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This is an important new development and it is very important for regions. Not only seems the democratic process being challenged for competition reasons, which is a very important element for regions, we also need to notice that due to the directive on airport charges, in all 27 EU member states, the EU requires the member state to set up such an economic regulator.

### **Independent authority**

Each Member State shall nominate or establish an independent authority as their national independent supervisory authority in order to ensure the correct application of the measures taken to comply with the Directive and to assume, at least, the tasks assigned under Article 6. There are some examples in Europe of national supervisory authorities that got extensive powers by their government and they use those powers to an extent that overshoots the economic regulation. The reasoning of the Competition Commission in the case of the London Airport System can be seen as an example of this.

Regions have a very important interest in close cooperation with the national authorities to define the appropriate scope of power of the national supervisory authority. Regions should take care that the carefully built up process of balancing economic expansion and environmental challenges is not disturbed by excessive powers given to an economic regulator. If the scope is not defined adequately then the economic regulator could – by a strict competition approach only - overtake the role of national and regional governments in the planning of airport capacity.