Reforming air transport infrastructure: UK experience

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Civil aviation policy

- Government sets policy
- DfT principal adviser/implementer
- CAA expert neutral adviser
- Defence interests in airspace, ATC
- Considerable consultation

UK policy on regulation

- Statutory
- Split between DfT and CAA
- DfT: security, environmental
- CAA statutory corporation

=> safety

=> economic

=> consumer protection functions

=> airspace

UK policy on airlines

- Airline market liberalised 1980s
- BA sold 1983
- Liberalised EU market (including “cabotage”)
- Competition law regulates
- Some special consumer protection
- Some outstanding international issues
- e.g. airline ownership, cabotage
- Substantial economic benefits

Air transport infrastructure

- Airport market de-regulated 1986
- Airports decide on entry, prices, investment
- Government airports sold as BAA, 1987
- Included main London and Scottish airports
- Pure privatisation, 100%
- No license, concession, lease
- Airports Act set regulatory regime

=> CAA economic regulator

Other airports

- Originally, mainly local government owned
- Strong fiscal pressure to divest

=> PSP increasingly introduced

- Partial: Birmingham
- Concession: Luton
- Full: Liverpool
- Manchester still 100% local government owned
- NB: legacy of WW2 aerodromes

Economic regulation

= entry and price control

Airports with turnover > £1m p.a. need CAA "permission"

Modest information disclosure and accounting requirements

All subject to competition law and CAA complaints procedures

Act allows price control to be imposed and removed by government

Price control

- Heathrow, Gatwick, Stansted controlled
- Manchester recently decontrolled (22m pax)
- Law: CAA sets five year price caps
- CAA can not intervene within period
- CAA must set cap that will best deliver the objectives given by law

CAA price control objectives

- Further interest of users
- Ensure efficient and profitable airports
- Timely investment, desired by users
- Minimum restrictions
- Comment: consistent with economic efficiency

Outcomes

- Considerable inter-airport competition

e.g. Liverpool-Manchester

- Considerable private investment

e.g. £4.3b Heathrow Terminal 5

Outputs up, driven by liberalised airline market and commercial airports s.t. competition

NB: UK a small country

Issues

- Excess dominance of BAA

$\Rightarrow$ divestment required

$\Rightarrow$ Gatwick being sold

- Problems with price control given objectives

e.g. cost-plus bias

e.g. poor incentives for best investment

- But PSP works

Regulatory costs

- CAA £2m p.a.
- Industry? £5m p.a.
- Almost entirely due to price control
- Concession management more costly?
- Indian experience

Air traffic control

- In CAA until 2001
- ATC separate business, NATS
- 46% of NATS sold 2001 => PPP
- Airlines/BAA have strategic control
- CAA sets maximum charges
- ATC can be run as a cost-recovering business
- Statutory monopoly
- PSP?

Insights?

- Clear policy and regulation consistent with PSP
- Efficient firms expect to get a “return of” and “return on” their investment
- Adequate focus on safety regulation
- ATI commercially run with competition being maximised
- Competition law adequate? Price control?

⇒ PSP possible but optional

⇒ Range of PSP options available

⇒ Degree of PSP a choice e.g. India 75%

Evaluate against just selling airports (UK, NZ)

Price control?

- To protect investors?
- To appease airlines?
- Regulators like controls
- Versus its costs
- Fails national cost-benefit test?
- Concessions more complex
- Always think about incentives of PSP
- Seek to align with government objectives

Good luck!

Abbreviations

DfT	Department for Transport
CAA	Civil Aviation Authority
ATC	Air traffic control
EU	European Union
PSP	Private sector participation
PPP	Public private partnership
ATI	Air transport infrastructure