Airport Charges Q&A

A debate is currently underway in Europe about the extent to which airports should have their charges regulated. That is, the fees they charge airlines to operate at the airport. These charges take an increasing percentage of the price passengers pay for their air tickets. Airlines often find they have no say in this charge and have no option but to use certain airports if they wish to have access to the largest population centers. Many airports have a virtual monopoly and should therefore have their charges regulated. Below are five questions that are often asked about this issue.

1. **Isn't this just an argument about whether airlines or airports get to keep the money passengers spend?**

   Not at all. It's about ensuring the best deal for passengers. Lower airport charges are more likely to enable airlines to reduce ticket prices. Good for passengers, and good for the competitiveness of the European economy. It is also creating an incentive for efficiency. As virtual monopolies, airports have little incentive to cut their costs. Effective regulation would encourage airports to be more efficient, raise service levels and drive connectivity – again, for the ultimate benefit of passengers.

2. **Why shouldn't airports be allowed to set their own charges and let the market decide whether airlines should use them or go somewhere else?**

   Markets are the most efficient way of deciding prices when there is strong competition and consumer choice for the goods or services being sold. Unfortunately the market for airport services is unbalanced: many airports have a virtual monopoly of passengers and airlines. This is because passengers have a strong preference for their local airport and it's too costly for airlines to switch away from an airport they have invested in serving. Large airports often have the strongest monopoly-like powers. In this scenario, it is usual for the business with that monopoly (also known as 'market power') to have its prices and service levels regulated. This is what happens in the telecoms and energy markets. Airports are no different.

3. **Surely it is right that airlines should pay for their own infrastructure? Why should they be subsidized by airports?**

   Airlines would be happy to pay for all the infrastructure at the airport if they were allowed to take all the revenue generated in return. However, airports are trying to argue that airlines should pay for the infrastructure, but that they (airports) should keep the profits from the retail and other non-aeronautical revenue that is generated by the passengers the airlines fly in. That does not seem fair.

   Rather than this 'dual till' approach, airlines think that a 'single till' is simpler. This puts all the aeronautical and non-aeronautical revenue and costs in a single pot. Properly regulated, this would not only cover the cost of the infrastructure but would also allow airports to make a reasonable return.

4. If you make airports cut their charges, won't this prevent investment in better facilities?

Appropriate investment plans should be agreed between the airlines and the airport through constructive consultation. They would then be covered under the agreed airport charging scheme. Regulating airport charges does not mean that investment is stopped – just that it is incentivized to be as efficient and fit-for-purpose as possible. The Heathrow consultative process was a good example of this cooperative approach, allowing for investment at the airport, and a return for the airport operator.

5. Aren't many airports loss-making? Isn't it better they increase charges to be viable businesses?

93% of loss making airports have less than 1 million passengers per year. It is questionable that these airports are viable independent businesses. In any case, airports of this size are unlikely to have market power and would need to keep their charges competitive to capture business. The real issue is the much larger airports with many millions of passengers who are operating inefficiently or making profits far in excess of what is reasonable for a low-risk infrastructure business. This money would be better passed down to passengers through the highly competitive airline market.