



# IATA ECONOMICS BRIEFING

## ECONOMIC BENEFITS FROM EFFECTIVE REGULATION OF EUROPEAN AIRPORTS

### KEY POINTS

- Airport passenger charges paid on the average air fare to fly from Europe's airports more than doubled between 2006 and 2016, from €16 to €33. In contrast, airline revenue per passenger declined by more than €21. Higher airport costs feed through to air fares damaging Europe's air connectivity and economic competitiveness;
- Strengthened economic regulation of airports that creates strong incentives for airports to improve cost efficiency and deliver lower airport charges could generate significant benefits for consumers and the European economy.
- If airport passenger charges had remained at their 2006 levels instead of increasing, this would have delivered significant benefits, including:
  - Savings for European passengers of EUR 11 billion allowing an additional 50 million passengers in the EU to take to the skies
  - An additional €50 billion in EU economic activity and the creation of 238,000 new European jobs

### Why is more effective regulation of European airports needed?

Airport regulation in Europe has not responded adequately to the changing landscape in the airport sector. The share of fully privately owned airports in Europe increased from 9% to 16% between 2010 and 2016 while the share of mixed ownership models increased from 13% to 25% over the same period. Where publicly-owned airports may be considered as benign monopolists, often pursuing economic and social goals to support their local region, this is not the case with privately-owned airports who are driven by investor returns. Increasing private ownership of airports in Europe has not been combined with appropriate regulatory oversight that drives airports to increase cost efficiency and ensure that airports are responsive to consumer demands.

### Consumer benefits of more effective airport regulation

Between 2006 and 2016 the average all-in cost of an air ticket bought to fly from an EU28 airport remained broadly flat, increasing by just 2% in nominal terms from €216 in 2006 to €220 in 2016<sup>1</sup>. However, the distribution of revenues between airlines, airports and governments changed significantly.

Average airline revenue per passenger<sup>2</sup> fell from €194 in 2006 to €173 in 2016 and shrank from representing 90% to less than 80% of the all-in ticket price.

At the same time, both airport passenger charges and taxes have more than doubled, with average charges increasing from €16 to €33 and average taxes from €6 to €14.

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<sup>1</sup> Adjusting for inflation, average fares have fallen by 8% in real terms over this period.

<sup>2</sup> Airline revenue per passenger is made up of base fares plus revenue from ancillary services, carrier fees and surcharges

If, instead of more than doubling, airport passenger charges had remained constant at €16 per passenger, the cost of an average one-way ticket in 2016 would have been €203 instead of €220, equivalent to almost 10% of the cost of travel (and potentially more for the shortest routes and cheapest fares).

Lower fares would, other things being equal, have stimulated additional demand, particularly within Europe, supporting additional connectivity and facilitating increased economic activity, productivity and competitiveness.

IATA's modelling suggests that overall passenger demand would have increased by an additional 50 million passengers, of which almost all would have been comprised of intra-European demand.

**Table 1: Foregone passenger demand**

Continent	Additional passengers
Europe	49,485,022
North America	420,967
Latin America & Caribbean	178,622
Asia-Pacific	302,933
Africa & Middle-East	528,583
<b>Total</b>	<b>50,916,127</b>

Source: IATA Economics

### Macro-economic benefits of lower passenger charges

The increased demand for air travel would have provided a significant boost to the European economy. Lower airport charges would have benefited European businesses through lower travel costs and increased competitiveness, stimulating additional tourism and lastly encouraging the continued development of the European aviation sector.

Economic modelling carried out by IATA suggests that the economic boost from cheaper air travel could have unlocked an additional EUR50 billion in Gross Value Added (GVA) and supported the creation of an additional 238,000 jobs across the EU28.

**Table 2: Foregone macro-economic benefits**

	GDP (EUR m)	Jobs
Aviation sector - Direct contribution	14,863	61,500
Wider economy (incl. tourism)	35,305	176,300
<b>Total</b>	<b>50,168</b>	<b>237,800</b>

Source: IATA Economics, using an input-output model developed by Oxford Economics