

# The Economic Regulation of Airports

Recent developments in Australasia, North America and Europe

Edited by Peter Forsyth et al.

**Deregulation of aviation markets cannot be complete when airport charges do not reflect the true costs. A common argument is that airport privatisation will solve this problem. In some countries, (some) airports are indeed private enterprises. As soon as an airport is privatised (or privatisation is announced), there is an automatic call for regulation. An airport is, after all, a monopoly, and given the economic and environmental impacts, the government simply needs to intervene. It sometimes seems that each regulator aims to reinvent the wheel.**

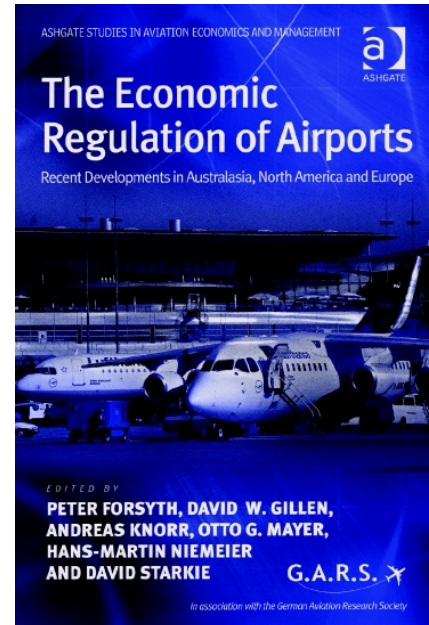
By Eric Pels

Unfortunately, life is not as simple as it seems. Airports may not be natural monopolies, and regulation may do more harm than good. This book brings together a number of papers of recognised experts in the field. The book describes recent developments in airport regulation in various countries. It is interesting to see how experiences differ: one author (Peter Forsyth) describes how price-cap regulation was introduced and rapidly abolished in Australia, while Hans-Martin Niemeier argues that price-cap regulation is preferable for Hamburg Airport. In the chapter by de Wit it seems that the Dutch regulator has taken yet another approach, and after reading the chapter one wonders whether the Dutch wheel will turn out to be a square.

One can argue that the different findings and recommendations are due to the different structures and nationalities of the airports; each airport structure or political system may require its own regulatory scheme. It therefore seems that this book clearly points out the difficulties that regulators face; what seems the logical solution on one continent, is not advisable on another continent. One can also say that the authors simply do not agree on the preferred type of regulation. Maybe it is possible to say that there is an optimal type of regulation for an airport. Unfortunately, we do not agree on what this optimal regulatory scheme

looks like. This again shows how difficult airport regulation is. This book therefore provides a useful "summary" of current developments, pointing out the successes and mistakes in Australia, New Zealand, the U.K., the U.S., Austria and the Netherlands from which we can learn. But some elements are also missing.

Particularly, this book would benefit from some theoretical background. Cathal Guiomard writes a particularly useful chapter on "Optimal Economic Regulation". It contains a discussion on marginal cost pricing and the necessity to regulate, as well as an explanation of price-cap regulation. It is also the first chapter that provides a definition of a natural monopoly; although this term is frequently used throughout the book, only in Chapter 14 (out of 15) there is a definition which may be useful for non-economists with an interest in this book. Some authors already mention the fact that airports may, or may not be natural monopolies. Usually, economies of scale are used as a measure to determine whether or not an airport (a company) is a natural monopoly, although technically speaking there are more requirements. I would have used this chapter as an introductory chapter, together with a chapter explaining the various forms of regulation discussed in the book. Various authors describe how price-cap regulation works (there is a lot of duplication



in this). But these discussions never reach the level of detail required for the reader that is unfamiliar with this field. David Gillen and William Morrison provide the most detailed discussion. When it comes to the question of under and/or over-investment as a result of regulation, the argument is clear for economists, but one quickly goes back to Peter Forsyth's chapter to see what was written in that chapter. A short theoretical chapter could have introduced some basic ideas and economic mechanisms. This would have increased the "readability" of the book, and would have prevented a lot of duplication. The same story holds true for the discussion of the single vs. dual till debate, and, as indicated above, the source of airport market-power and the need to regulate.

Despite its shortcomings, this book contains a wealth of information on the practice of airport regulation, and therefore is required reading for any academic or practitioner involved with airport privatisation and regulation.

## About the reviewer

Eric Pels is a postgraduate researcher at the Free University, department of Spatial Economics. He finished his Ph.D. ("Airport economics and policy: efficiency, competition, and interaction with airlines") in 2000, and continues to work on aviation economics.

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