

# How European thinking on Airport Price Control Regulation is impacting on Asia

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## What we will cover today

- Recent airport price control regulation developments in Asia
- Identify the potential drivers for further movement
- Review the key elements of airport price regulation
- Constructive airport-airline engagement

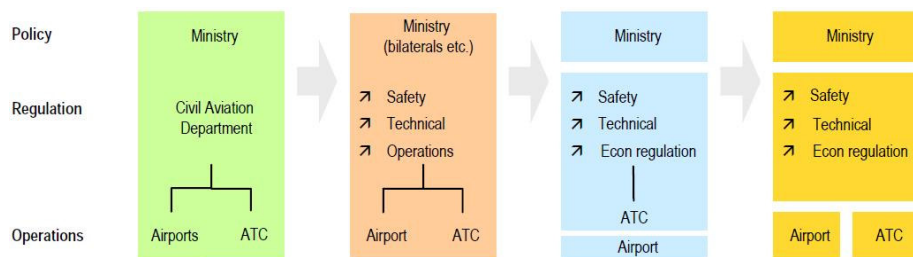
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## What can be observed in Asia Pacific?

<b>India</b>	Price regulation of 12 key private <u>and</u> public airports
<b>Singapore</b>	Corporatisation of Changi, price regulation by CAAS
<b>Key features</b>	<p>Independent regulator, greater transparency of airport business practices and pricing mechanism</p> <p>Incentive-based (CPI-X)- airports retain out-performance profits for a given regulatory period</p> <p>Forward looking, 5 year cycles (Changi initial short period)</p> <p>Operational separation of operator, regulator &amp; policymaker</p> <p>Building blocks</p>

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## Transition from traditional to new models



Source: Eliot Lees, *Liberalization in Global Airport Development* (October 2008).

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*“The Authority considers that even government owned/managed airports ..... could potentially strive to take advantage of commercial opportunities. International experience also indicates that incentive regulation can be applied to publicly owned enterprises. In such cases incentive regulation could also make performance issues more transparent, encouraging management to improve performance”*

Airports Economic Regulatory Authority of India

February 2010

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## Potential drivers for continued trend in Asia

Governments	Depoliticize airport decision making process, allow for potential privatisation, monetize public asset
Airlines	Competition, focus on value chain, long-term investment in an airport limiting airline choice
Airports	Finance infrastructure improvements, unlock commercial revenue potential c.f. cost-recovery
Potential investors	Early regulatory certainty/stability for new investment,private sector not just limited to equity
<u>Plus tensions from:</u>	LCC commercial agreements
	Commercial monopoly

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## Key issues for new airport Price Cap Regulation

Cost of capital	Market risk for airport assets, appropriate debt
Single or dual till	Cross-subsidies + distorted price signals v's interdependencies + distorted incentives
Asset valuation	Initial valuation (IHC, ODV, opportunity, replacement cost, specialised v's non-specialised)
Statutory independence	Regulator with clear objectives, due process with resources & operational independence to deliver
Incentive based	Price cap as compared with rate of return regulation and revenue cap
Cost efficiency targets	Compare with cost-plus

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## European Directive on Airport Charges

**New directive, must be implemented by all EU Member states by March 2011, for airports handling over 5 million passengers + Independent Regulator**

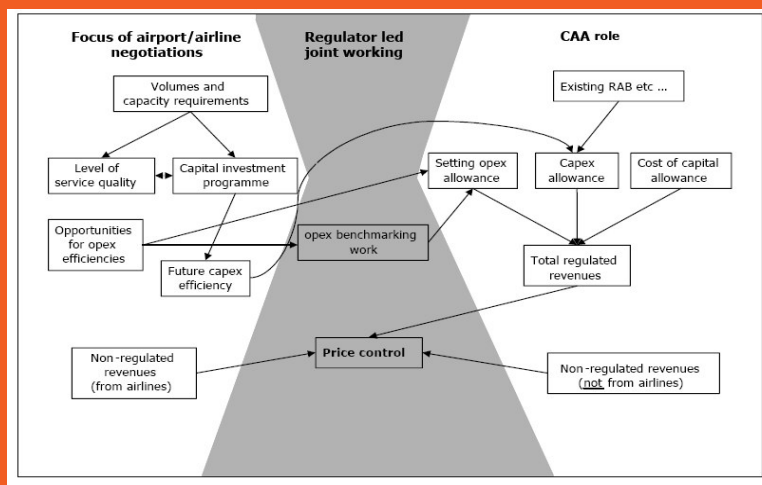
Non-discrimination	Between carriers and between passengers
Consultation	Annual consultation on pricing & charging system, agreement where possible, 4 months, 2 month notice
Transparency	Directive establishes information to be provided including method of calculation, cost structure etc.
Quality standards	SLA negotiations on service quality, recourse to regulatory intervention where no agreement
Differentiation of charges	Differentiated outputs terminals etc.

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## UK CAA Constructive Engagement Initiative

- UK CAA initiative, deepening user consultation with the aim of agreement, full & timely consultation within the context of airport price control regime
- Scope to reach mutually acceptable agreements, ideally direct contractual agreements that share risk, particularly around new investment
- Unlike most monopolies, you have 2 sophisticated players able to negotiate
- Two-way sharing of detailed information
- Need for an umpire where disputes arise, regulatory regime plays an important backstop (negotiate/arbitrate)

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## Why Constructive Engagement?

- More to be gained commercially from airports persuading the regulator rather than satisfying airline customers
- Concerning – dysfunctional - maximise areas of dispute with a key supplier
- Potential for regulator to get in the way, particularly when users have a range of needs in terms of price and quality
- Prior minimal direct role for airlines to influence investment nature/timing

### Whereas airlines are:

- Deeply imbedded commercially & operationally in the airport
- Can, with airports, recognise opportunities to mesh airport and airline operations to generate efficiencies
- Best placed to reveal the investment programme that generates the most net value for users
- Informed corporate users, aggregate demand

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## Key Messages

- Observe recent Asia airport economic regulation movements
- Because of early EU airport privatisations, we look to Europe for experience, debate etc. in airport price regulation
- Increasing pressure away from simple airport cost-recovery to incentive based price regulation
- Needn't be linked only to privately owned airports – Governments may see advantages in making performance issues at publicly owned airports more transparent
- Greater focus on harnessing constructive airport-airline engagement

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