

Air transport is a vital part of the Lisbon Agenda, providing the catalyst for Europe's future economic growth. Airlines directly contribute \$45bn to Europe's GDP, resulting in over \$270bn in economic activity. That represents 2 per cent of the total European GDP.

As well as generating revenue, air transport is vital in connecting European business to global markets. It is the backbone of tourism, it links markets and makes just-in-time manufacturing a reality.

Since 2001, Europe's airlines have totally reformed themselves. The industry has faced threats such as SARS, international terrorism and war. Economic downturns and rising oil prices have also hit airlines hard. During the same period, low-cost carriers have proved to be serious competition, undercutting prices and winning market share. Over \$43bn in airline losses globally is an enormous incentive for change.

To survive, the airlines have had to improve their efficiency. Globally, labour productivity has increased by 34 per cent in four years. At the same time, aircraft operating costs have been cut by 9 per cent, even with record oil prices. Distribution and back-office costs have been reduced by 24 per cent, and pilots are working 14 per cent more hours.

This has benefited consumers, with a 30 per cent drop in real term prices for air travel in the last decade. Air passengers have now come to expect cheaper flight prices.

Fly in the ointment

Although airlines have cut their operating costs on a major scale, they have no control over infrastructure. Airlines in a competitive environment have delivered on the Lisbon Agenda while monopoly infrastructure providers have not (see Figures 1 and 2).

For example, between 2001 and 2005, Air France-KLM's non-fuel operating costs per passenger dropped 7.3 per cent, but infrastructure costs per passenger increased by 10.7 per cent. BA gained 9.9 per cent on efficiency while infrastructure costs rose by 0.9 per cent.

Some air navigation service providers have delivered results; the weighted average unit rates for Eurocontrol member states fell by 12.5 per cent between 2003 and 2006. Transparency and effective benchmarking played a significant role in this.

The problem is that too many of Europe's airports are not taking this seriously; 15 of the 25 most expensive airports in the world are in Europe. Airlines and their customers pay \$14.5bn to European airports and the cost per passenger rose 13 per cent between 2001 and 2004.

KEY FACTS

- Facing rising costs and heightened competition, Europe's airlines have had to streamline operations and maximise efficiency to survive.
- Airlines and their customers pay \$14.5bn to European airports and the cost per passenger rose 13 per cent between 2001 and 2004.
- A European Commission directive on airport charges and effective national regulation will help Europe to become more competitive.



AUTHOR

- Giovanni Bisignani has served as director general and CEO of IATA since June 2002.
- His airline experience includes five years as CEO and managing director of Alitalia, during which time he also served on the IATA Executive Committee and was chairman of the Association of European Airlines.
- Prior to joining IATA, he launched and directed Opodo, the first online travel agency owned by a European airline.

Clipped wings

➤ WHILE AIRLINES HAVE MADE HUGE SACRIFICES TO IMPROVE EFFICIENCY, AIRPORTS HAVE TAKEN ADVANTAGE OF THEIR MONOPOLIES TO INCREASE CHARGES. **GIOVANNI BISIGNANI**, DIRECTOR GENERAL OF IATA, CALLS ON THE EUROPEAN COMMISSION TO REGULATE EUROPE'S AIRPORTS.



Figure 1. Between 2001 and 2004, the price per passenger increased at most European airports

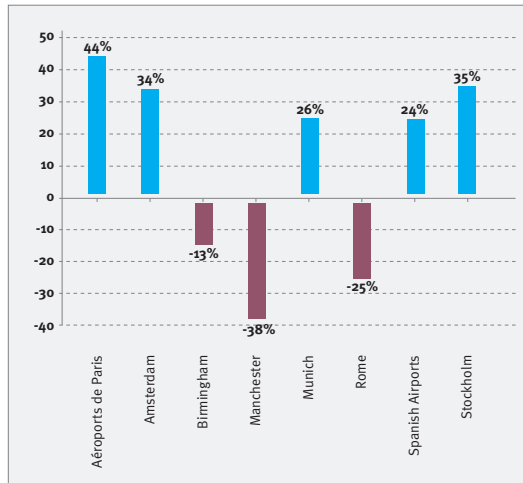
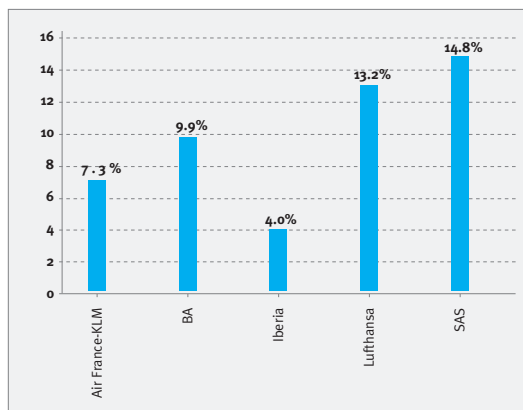


Figure 2. Airlines have managed to cut their costs per passenger (2001-05)



The airlines feel that while they have made sacrifices to cut costs, the airports are using the airlines to finance their inefficiency.

Some airports are moving in the right direction, with double-digit decreases between 2001 and 2004. Top of the list was Manchester, which managed to reduce costs by 38 per cent. Unfortunately, many more airports are moving in the wrong direction, with double-digit increases between 2001 and 2005. Five European airports increased costs by more than 26 per cent, with the worst offender, Aéroports de Paris, raising costs by a massive 44 per cent.

Grounding the monopolies

The airlines have had to become more efficient because they operate in a liberalised, open market with aggressive competition. The airports, on the other hand, are monopolies, and only a regulatory body can compel them to become more efficient.

Professor David Begg, director of the Centre for Transport Policy at Robert Gordon University, says: 'We cannot guarantee that private management will be efficient unless it is subject to effective competition and challenge, either from other competitors in the marketplace or from a tough and watchful regulatory body.'

The airlines feel that while they have made sacrifices to cut costs, the airports are raising prices and using the airlines to finance their inefficiency. The International Air Transport Association (IATA) has therefore asked the European Commission to put together a directive on airport charges. IATA believes that by making this initial step, the Commission will acknowledge that there is a problem and that it has a role in fixing it.

IATA is asking the Commission to ensure robust, independent national regulation of airport monopolies handling over five million passengers – Europe's top 50. It wants the ineffective national regulators to be replaced or radically reformed and their replacements to achieve four objectives.

- Take politics out of airport management
- Comply with ICAO principles, including non-discrimination
- Ensure stakeholder engagement. If airlines are footing the bill, they want a say in what is being bought at what price and how it is financed
- Substitute competition, ensuring continuous improvement on cost efficiency. They must prevent increases above inflation and challenge airports to do better by reducing charges (a CPI minus x formula comes to mind)

The airline industry believes that monopoly suppliers cannot sit outside the realities of the industry. Regulation must bring transparency to productivity, cost-effectiveness and service levels. This will produce results, as the example of Manchester Airport shows. The UK regulator operates in a similar manner to the objectives outlined above. The UK model is not the only option, but it is a useful example of regulation with teeth. Clearly it is more effective than the phantom regulation processes in France, Germany and the Netherlands, which have allowed massive cost increases.

IATA also believes that regulation does not have to mean massive bureaucracy; the Commission's approach with gas and electricity would be a good model. It is also wary of Europe-wide regulation, which would need to be supported by national regulators to ensure speed.

The industry is appealing for rapid adoption and implementation of regulation as airport privatisation plans are encouraging airports to increase costs to airlines to push up their share price. The high charges at ADP are an example of this. Another concern is the move towards consolidation of airport ownership. Privatisation and cross-border investments could change today's monopolies into mega-monopolies, and airlines fear that they will be stuck with the bill.

IATA believes that a European Commission directive on airport charges and effective national regulation will deliver impressive results, helping Europe to become more competitive. ○