

Global Infrastructure Investor Association
40 Gracechurch Street
London
EC3V 0BT

24 May 2019

Dear Sir/Madam,

Subject: Consultation of Stakeholders in relation with an Impact Assessment on a possible review of Directive 2009/12/EC on airport charges

We welcome the opportunity to respond to this consultation in relation to a possible review of Directive 2009/12/EC on airport charges.

GIIA represents 53 global infrastructure investors (with total combined assets under management of approximately \$660 billion across six continents). GIIA Members own stakes in 54 airports globally, across 13 countries which serve 585m passengers.

We confirm that nothing in this response is confidential. We also confirm that we would be happy to be contacted by the Commission in relation to our response.

Our response addresses the themes of the consultation rather than any specific questions in the consultation. At a high level we do not believe a review of the directive is necessary as the market is working well for passengers. Additionally, the existing rules governing consultations with airlines about airport charges already give a strong voice to airlines. Furthermore, fundamental changes to the directive may negatively impact future airport capacity expansion to the detriment of passengers in terms of choice and air fares. We expand on these points in the paragraphs below:

The current approach to airport charging in the EU has worked well for passengers. The number of air passengers in the EU reached a record level in 2017 and continues to grow, this follows years of continuous air passenger growth. This growth over several years is indicative of a robust and healthy market, underpinned by competitive pressure on both airports and airlines. In order to facilitate this growth in passenger numbers, airports have made major long term investments in new capacity.

The sustainable growth of airports is well aligned with the wider policy goals of the European Commission around Economic Growth. In addition to economic growth one of the benefits of increased airport capacity will be improved European connectivity both across members states and with the rest of the world. To create the infrastructure for this connectivity airports need to be properly funded.

The European Commission has identified lack of airport capacity as one of the top challenges in European aviation. In order for investors to finance new long term infrastructure such as Airports they

require policy clarity. The combination of the review of the airport charges directive followed by the prospect of developing and approving detailed changes creates significant uncertainty for investors and has the potential to have a chilling effect on future airport capacity investment as demonstrated by the announcement of Vienna Airport on this topic in January 2019.

Part of the rise in passenger numbers can be attributed to the efforts of both airlines and airports to attract passengers. However, airlines are not always in favour of increasing airport capacity at the airports where they have a dominant position or where their business model benefits from constraining capacity. As passenger numbers increase airlines can benefit from capacity limits at airports that restrict competition and enable airlines to use dynamic pricing to increase air fares, to the detriment of consumers. Airports cannot benefit from dynamic pricing, they set their passenger charge once based on costs, for a time period that is at a minimum one year long and up to 5 years, and therefore only benefit by maximizing passenger volume through the airport.

Current airport slot allocation regulatory regimes provide grandfather rights to airlines without references to the efficiency of the airlines using those slots, these rights restrict the entry of new competition. In those circumstances incumbent Airlines are able to extract economic scarcity rents at the expense of consumers. The ability for airlines to do this is restricted if capacity is expanded, suggesting some airlines may have an incentive to oppose airport capacity increases. Whilst Airlines argue for lower Airport Charges on the premise this would benefit consumers there is evidence to suggest that lower airport charges do not translate into lower air fares for consumers and that airlines instead receive the benefit of reduced Airport charges. The main driver of air fares remains airline competition on any given route. Greater airline competition would be enabled through airports expanding capacity. In certain circumstances, Airlines have an interest in ensuring that airport capacity is restricted to provide them greater scope for fare maximisation.

Full-cost pricing within Airport Charges which enables the cost of airport expansion investment to be properly funded is in the long term interest of passengers who will ultimately benefit from the competition this will help to facilitate between airlines. From the perspective of allocative efficiency, full cost pricing is necessary to send signals to users and managers about efficient long term capacity levels.

The consultation appears to imply that airports require further regulation and need to consult more widely with stakeholders. Airports are already required to consult widely with stakeholders on investment in accordance with the Airport Charges Directive and relevant national laws. Increasing consultation burdens will increase the cost of investment in airport capacity and will reduce overall consumer welfare. Airports themselves are best placed to consider the interests of a wide range of competing stakeholders, not just the needs of airlines. These stakeholder needs will differ from airport to airport depending on each business model and the historic status of the airport.

Given the high degree of competition between airports, and substantial buyer power held by airlines the focus of European regulation should be on avoiding unnecessary regulation of airports which do not have market power. Member states should be able to organize their own approach to Airport regulation within a broad framework. The use of economic regulation at airports that do not have

market power or are unable to use market power is unnecessary and introduces costs to society. The European Commission has rightly stated that where there is effective competition, there is no need for regulation.

In summary we believe a review of the Airport Charges Directive is unnecessary, may disrupt additional capacity investment in a currently well functioning market, enable airlines to increase fares and consequently be detrimental to passengers.

Please feel free to contact me if you have any questions about this submission.

Your faithfully,

Jon Phillips

Corporate Affairs Director