

Preface

Little more than 25 years ago, the global aviation industry was dominated by national and local governments and, that part of it that was not public sector controlled and operated, was highly regulated. In less than a generation this situation has changed radically. The industry, in large measure, is now placed within the market economy: ownership of large parts has passed into private hands, competitive forces determine or at least influence outcomes in many sectors and regions and, in turn, enterprise has flourished with the development of new business models and the introduction to the market of many new product lines. This, as studies have shown, has been of enormous benefit to the consumer and the global economy in general.

Within this broad canvas of change, two notable developments in public policy have acted as catalysts. First, the decision made in the late 1970s to liberalise the US domestic airline industry, then in private hands but highly regulated. The consequences of this public policy initiative were such that aviation policy in Europe and Australasia soon followed the US example. The second policy development of note was the decision in the mid-1980s to privatise the state-owned British Airports Authority which at the time controlled around three-quarters of the UK airport industry (measured by output). This privatisation was one of a series of similar sales of state-owned public utilities launched by the government of Margaret Thatcher. The vehicle used for selling these industries, including the British Airports Authority, was a public flotation with the result that the world had its first publicly quoted airport company and one with a substantial market capitalisation.

But if, as a result of these and related developments, world aviation has become more commercially oriented and enterprising in the last 25 years, large parts of it still remain subject to only limited, if not negligible, competition. Too often the instinct of the politician and administrator is to intervene, to try to manage, sometimes shackle, the market and to generally distrust its workings. A current example of this is to be seen in the proposal by the European Commission for regulating airport charges. This proposal, backed by airline trade associations, will if implemented have the effect of imposing unjustified economic regulation on many airports; in the UK, for example, a score of airports operating in a competitive environment will fall unnecessarily into its net. The alternative approach for moderating prices, by breaking up ownership groupings, encouraging entry and generally seeking to increase competition, largely is ignored.

Critical analysis of such policy initiatives is a feature of this book. It is based around a collection of my papers and other writings spanning the last 25 years. Subjects addressed include: the potency of potential competition; whether the experience with bi-laterals for intra-EU aviation prior to reform was likely to introduce more competition into thin markets after reform; the design of light-

handed strategies for dealing with predation; whether some airports are natural monopolies and, if so, whether they will abuse their market power; whether economic regulation can replicate the outcome of competitive markets; whether incentive regulation typically applied to the utility industries, including some airports, leads to under or over-investment in infrastructure; whether high fixed costs force financial losses for small airports that justify public subsidy; and whether there should be *per se* rules governing airside access to airports.

Previously published material has been extensively edited and adapted and combined with new material published here for the first time. The book is divided into five sections, each featuring an original overview chapter, to better establish the background and also explain the chapters' wider significance including, wherever appropriate, their relevance to current policy issues. The papers have been selected to illustrate a general theme: the role of the market and its interplay with the development of economic policy in the context of a dynamic industry. The result, I believe, illustrates how market mechanisms, and particularly competition, can operate to successfully resolve policy issues.

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