
Economic regulation of air navigation service providers

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Introduction

- Core business of air navigation providers is to **control air space and aerodrome** (at airports)
- Primary aim is to ensure **safety** in air traffic (independent from economic regulation)
- Other aims are efficiency of **cost**, **allocation** (level of charges) and **delays** (targets of economic regulation)
- The Ministry for Transport and Housing plans to sell 74.9% of its share on DFS in 2006
- It also plans to orientate regulation on the system applied to the UK counterpart NATS (fee-cap regulation)
- This presentation aims to show that
 1. current NATS regulation has serious shortcomings
 2. (fortunately) it can be improved by „slight“ modifications

Crux of NATS Regulation

- Price-Cap regulation controls revenues: it adjusts the average price in order to
 1. enforce (cost) efficiency gains,
 2. maintain cost coverage, and
 3. provide incentives for improved delay performance (Service Quality Term)
- Note, cost efficiency, allocation, and delays are regulated by only one (multifunctional) tool: the price-cap!
- Results:
 1. Charges are above marginal cost to cover fixed costs \Rightarrow not good news for allocation
 2. Trade-off between allocation and delay performance: better delay performance deteriorates allocation et vice versa.
- This shows: we are far away from a first best allocation!

Conclusions

To be completed!