

Charging for landing

Jo Stocks thinks the Competition Commission should tell BAA how to land its planes

The UK Office of Fair Trading has referred BAA to the Competition Commission for investigation. BAA styles itself “the world’s leading airport company”.

OFT’s concerns centre on possible monopolies on the supply of airport services. BAA owns the London hubs of Heathrow, Gatwick and Stansted, and three of Scotland’s four main airports. Questions are being asked about passenger consumer choice and airline competitiveness. BAA provides the marketplace for the exchange of an annual 144 million passengers and 620,000 airline flights.

On the passenger side, BAA is one of the largest commercial landlords in the UK, owning a £1.4 billion portfolio of airport properties. Over 900 organisations trade from its premises. This area of its business is little different from other commercial landlord operations - although the monopoly issue might loom larger than usual.

On the airline side, BAA’s role is much more particular. The company manages, and profits from its role as gatekeeper to, the runways. BAA’s present-day revenue from this side of its business is unknown, but likely to be in the region of £1b a year. This aspect of BAA’s activity will be a different matter for the Competition Commission to grapple with. The Commission’s success will come down to whether it is seriously capable – as the Enterprise Act requires of it - of “making and implementing decisions on appropriate remedies” on questions of competition and monopoly.

BAA says Heathrow, Gatwick and Stansted are operating at or near capacity. OFT concurs, and believes “capacity constraints are a feature of the market that restricts, prevents or distorts competition”.

Operational capacity is determined firstly by the dimensional constraints of space and time. Public opinion acting through the planning system, and initiatives like this summer’s Camp for Climate Action, set the effective limits on these. But also critical to capacity is the operating system in place which manages the

effectively-finite resource of runway space.

Access to their passengers is granted to the airlines via a system of landing and take-off ‘slots’. Allocation of those slots is made by Airport Coordination Limited – in effect a cartel of the major airlines. So access to the assets which arguably are the airline’s most precious resource is directed by the airlines themselves. ACL seems magnanimously comfortable with the existing arrangements.

Allocating the slots

No member airline receives direct benefit, in terms of preferential treatment in slot allocation decisions made by ACL. All airlines are treated the same, in accordance with UK and European Slot Regulations which ensure that decisions made by ACL are made in a ‘neutral, transparent and non-discriminatory’ way. Members believe that it is reasonable for them to contribute to the cost of slot allocation in the UK, since the cost of the coordination task in other countries is borne by their Governments or national carriers. Contributing to the cost of ACL avoids the need for Government intervention of [*sic*] control of slot allocation and ensures that all the airlines receive a high quality coordination service. Any airline may apply to join ACL, and the Company is pro-active in seeking to expand its membership base.

Airport Coordination Limited

Under the regulation of the Civil Aviation Authority, BAA has the exclusive right to fix prices and charge airlines for landing and takeoff within the slots at its airports. CAA caps prices, and according to OFT “the fact that Heathrow and Gatwick price up to their price caps suggests that price controls hold prices lower than would otherwise be the case.”

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THE FUTURE - the Competition Commission should consider

- reallocating BAA’s asset rights rather than breaking up its property portfolio
- abandoning the anti-competitive privilege of ‘grandfather rights’
- establishing an annual public auction system of tradable slot permits - a free market pricing mechanism - promoting competition and eliminating monopoly within the air travel industry
- renewable slot permits to apply to the use for a certain duration of a particular runway at a particular time of the week and in a particular season
- establishing an arms-length public ‘air traffic charging authority’ with the task of regulating the initial allocation, pricing and trading of landing and take-off slots
- permit-holders to pay annually to the Treasury the value of the slots they hold, boosting public revenues and paying for administrative costs
- airlines relieved of the burden of operating Airport Coordination Limited, which should be disbanded
- and, consequently, bringing about enhanced democratic decision-making in the future development or delimiting of air travel - enlightened by public concern for the consequent impact on the public finances of increasing or decreasing revenues from the use of a scarce public resource (and, also, balanced by carbon trading which should be extended to air travel).

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suggests what otherwise might have been, if the fiscal regime had not been, as he characterises it, ‘the Mad Hatter’s Tea Party of taxes’.

The book is based on a careful analysis of data and builds up a picture of the economy in classical terms, of earned (labour and capital) and unearned (land) incomes. At this point I would have liked more information on how this had been done: it is interesting to note the increase in privatised rent (from 8% of resources in 1911 to 27% by 2005). However, the detailed analysis of the real estate market helps to fill in the picture. So whilst I would have liked to explore further the methods used in determining classical components of Gross Domestic Product, the omission does not detract from the overall message.

In a counterfactual, Kavanagh estimates what income might have been, in terms of GDP, had the tax regime been organised in such a way that it prevented these real estate bubbles; that is to say, if a proportion of the rental value of land were captured for public revenue.

I’m not a great fan of counterfactuals. They tend to have so many unknowns. Nevertheless even the conservative estimates the author presents are staggering. If the property bubbles that occurred between 1972 and 2006 were to have been eliminated, it is estimated that Australian GDP would have been AUS\$700 billion greater than currently it is (ie 75% higher). This amounts to AUS\$35,000 per year per person.

All in all this short book sets out an interesting analysis. It demonstrates why we should be concerned that sufficient attention is paid to the issue of land values. In conclusion I should like to note that such analyses as this could be much more readily facilitated if there existed clear and detailed information on land values.

www.earthsharing.org.au/unlock

Duncan Elliott

Charging for landing

(continued from the back cover)

However, crudely, the charging formula is actually based on passenger numbers. Long established major airlines with grandfather rights – if you had them last year, you get them this year – are able to monopolise valuable runway space with small aircraft, and pay only low charges for doing so.

The system causes unnecessary inefficiency and congestion. It also fails to collect the fullest revenue for the use of a scarce resource. However an examination of the present system also reveals a more fundamental question which goes to the bottom of our public finances.

BAA is a child of the Thatcher privatisation years. In 1986 the original British Airports Authority, a public body, was dissolved and all its property, rights and liabilities were passed to the new company, which was floated on the Stock Market the following year. The company has since been delisted and is owned by a consortium led by Grupo Ferrovial, the Spanish construction giant.

Perhaps the terms of the 1986 privatisation should be revisited: perhaps certain assets held by the British Airports Authority properly should have been retained in public possession. Because that underlying question is – why is BAA, a private company, permitted to charge and collect landing fees in the first place? Charges for runway slots are charges for the use of a resource whose scarcity and value is created by the democratic will of society when it limits the development and use of airports. Air traffic landing slots are a public resource. On point of principle, as well as for the sake of industry competitiveness, their value should be collected and returned to the public purse. In taking on the case of BAA the Competition Commission will have to move into a new area of thinking. **L&L**

Ian Ramsay: the view from the right



I routinely stand out as the most rabid, market worshipping right-winger in any crowd – except when I’m around my rabid, market worshipping right-wing friends who think I’d be alright if it wasn’t for my leftie views on land.

I expect Fred Foldvary maybe shares that feeling from time to time. Foldvary teaches Austrian economics (that is, in the tradition of Friedrich von Hayek and Ludwig von Mises) at Santa Clara University in California – as does, incidentally, David D Friedman who is the son of Nobel Prize winner Milton Friedman. Son David has taken his father’s libertarian economics to their logical apex and proclaims himself an anarcho-capitalist. Foldvary, too, is a no-holds barred libertarian. He is a fan of privately owned local communities and a regular speaker at conferences of groups like the International Society for Individual Liberty and the UK based Libertarian Alliance. He is also a former Congressional candidate of the California branch of the Libertarian Party and a contributor to online journals with names like *Anti-State.com* if the above wasn’t enough to rattle you.

Of course Foldvary is not just your average libertarian academic boffin. His particular brand is the fusion of Austrian economics with a fundamental tax reform based on resource rents – taxes on land, natural resources and pollution (rather than legislation) – which he calls geo-anarchism or geo-libertarianism. Foldvary’s latest publication, a small pamphlet called *The Depression of 2008*, was published this summer. In it he examines the business cycle of the property market. Foldvary’s conclusion is the same as the cover story in this issue of **L&L**: it’s all going down in a cloud of dust. So, the conclusion of Foldvary’s analysis does not differ fundamentally from that of other economic researchers like Fred Harrison. His route, however, does.

The concept of money is central to Austrian economists – and not just because they all want more. ‘Austrians’ ardently favour a totally privatised and non-regulated monetary system issuing gold-backed, non-inflationary money. Consequently, Austrians do not treat all capital goods as one variable – like most economic analysts – but treat money and financial capital separately from other capital items like cars, houses and typewriters. This is all very theoretical stuff but important because under a free banking regime, changes in the interest rate would not cause problems since it would move naturally. Whereas with a government central bank, adjustments to the interest rate are artificial and distort the economy.

So a key aspect, in Foldvary’s view, of countering the harmful boom/bust effects of the property business cycle is the introduction of a free banking policy. Since the market would prevent inflation this move would, by itself, dampen (though not prevent) the real estate cycle. Equally important, says Foldvary, is the introduction of a radical tax reform that replaces taxes on income, goods and sales and profits, with a levy on the value of land. The real killer, though, is the two initiatives working in tandem. One without the other won’t make the cut; even with an artificially lowered interest rate, government controlled money will continue to work against the true free market.

And this is where Foldvary’s take on economics truly shines. Focussing too narrowly on one aspect of the solution – whether it is a tax shift or free banking – only gets us half the way. We’d be better off, sure, but not nearly there.