Competition Between Private Commercial Airports Could Reduce Passenger Delays, Brookings' Winston Argues

U.S. Incurs Costs from Lagging Behind Other Countries in Airport Privatization

With no public policies on the table to reduce air travel delays as travel continues to increase, the U.S. could create competition between airports as a possible solution that would have measurable positive impacts for the flying public as well as the airlines, according to a new paper published in the *Journal of Public Economics* by Brookings Senior Fellow Clifford Winston and Washington State University economist Jia Yan.

Many Americans are unaware that airports are largely responsible for the vast majority of their non-weather related air travel delays due to their economic model -- not premised on catering to travelers' preferences -- which is why the authors explore the idea of injecting competition among them. In "Can private airport competition improve runway pricing?" Yan and Winston use a model to investigate how creating competition, using the three main airports in the San Francisco Bay Area (SFO, Oakland and San Jose) as an example, would impact the traveling public in terms of delays and airfares. Research thus far has been inconclusive as to whether runway charges at airports outside of the United States are higher under private airport ownership. The authors find that private airport competition could result in a win-win-win: it could reduce delays for passengers, increase airline profits and enable the airports themselves to be profitable without the use of taxpayer dollars.

The U.S. has lagged behind the rest of the world in privatizing its airports, with Spain being the latest country to privatize, following airports in South Korea, Germany, Russia, France, the UK and Australia. Even airports in China have attracted private investors. Thanks to burdensome FAA and environmental regulations and a lack of economic incentive, U.S. airports have been slow to build new runways, often taking decades, which is one of the key reasons for increasing travel delays. In addition, because of the way public airports, following Federal Aviation Administration guidelines, charge airlines for runway landings (take offs are not charged) based on aircraft weight instead of varying with the volume of traffic throughout the day, air travel has become increasingly inefficient and congested, leading to increased delays for passengers.

Winston and Yan argue that if the Bay Area airports were sold to different owners, it could then result in an improved competitive environment where:

- Airports compete for operations by setting aircraft charges that reduce delays;
- Commercial carriers organize as a bargaining unit and negotiate with each airport to determine charges;
- And different classifications of users, commercial airlines and general aviation, face different charges and commercial air operations could offer different price-service combinations by using different types of airports

Looking at the Bay Area example, Yan and Winston find that having the 3 airports compete with each other would generate at least $1.3 billion in annual gains, with the majority of those gains going to the airlines and airports. National gains would also be in the tens of billions if the Bay Area experience were replicated in other large metropolitan areas, such as Washington, DC, New York, Los Angeles, San Francisco, Chicago, and Boston, where competition among private airports is feasible. Although fares themselves might rise for passengers because of the increase in runway charges (which currently do not account for an aircraft's contribution to delays), they would save time due to reduced delays and thus faster air travel, with the total value of the delay savings in the billions of dollars.

In addition, the authors indicate several ways in the long run that private airport competition would provide airports with incentives to generate improvements in their operations that would also benefit passengers. They include: overcoming regulatory hurdles to and to expedite construction of additional runways to expand capacity and reduce delays; facilitating entry by allowing any carrier to provide service that was willing to pay the cost of terminal facilities; working with airlines to improve the efficiency of taxi and runway operations; improving operations to reduce costs; implementing advances in technology that could improve security and aircraft operations; and being more responsive to passengers by introducing new services such as short-stay hotels and relaxation areas.

The authors conclude that "Although an analysis that incorporates those factors awaits further research, the findings that we have obtained for pricing behavior suggest by themselves that the benefits from private airport competition may be quite large if the policy is implemented properly."

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