



Economic regulation Airports

Some observations & lessons

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Context

The following slides are a select part of the presentation delivered at the ACI Economics conference in Singapore in March 2013.

This document should be seen in the context of the verbal comments and explanations made during the above presentation

This document will be most meaningful, therefore, to those who attended the meetings.

Three key messages

The challenges for economic regulation are immense & considerations are often common

- However the emphasis of key consideration and starting point are different

There is no universal "best" model for regulation

- There are however "good" and "bad" practices and lessons to be learnt
- There are best practice processes of how to approach regulation: engagement, development and refinement
- Innovation is possible

Key is to create a regime that enhances alignment of interest (*not increases tension*) and is adaptive: flexible & self correcting (*but without creating significant uncertainty*)

- Economic regulation does not have to be a zero sum game
- A thoughtful design and true implementation can be a game changer

Airport regulators face several challenges

Ensure adequate capacity

Encourage financing of investments

Incentivize efficiency & innovation

Safety

Ensure viability of operators

Influence stakeholder behaviors: e.g. protect the environmental, avoid congestion

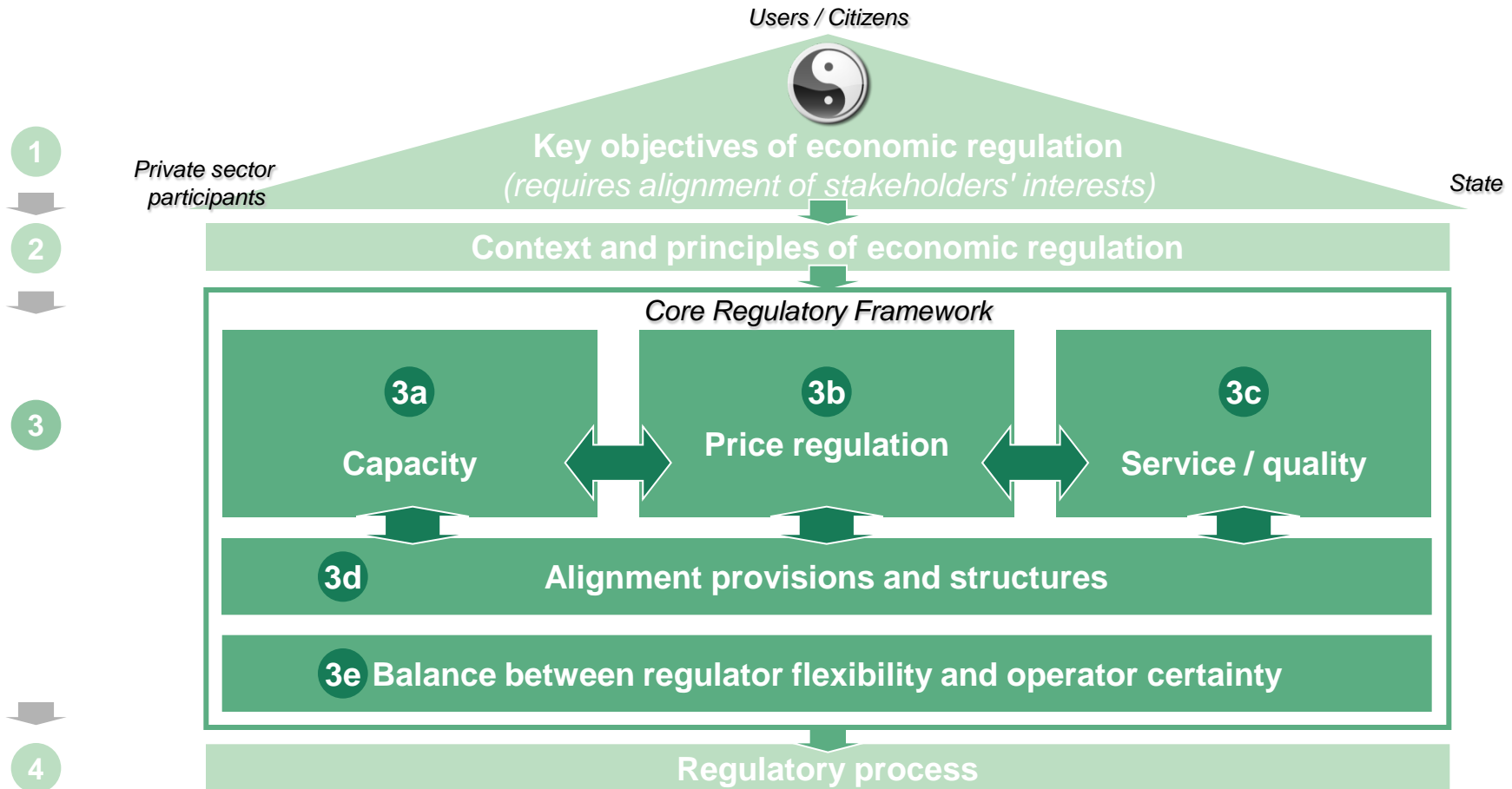
**Protect user interest:
Affordable charges and (high) service standards**



Lessons from past economic regulation experience

- 1** Important to strike a balance between regulatory powers and operators freedom
- 2** Introducing competition for competitions sake can be counterproductive
- 3** Revenue innovation can reduce state's burden
- 4** Pricing can be used to incentivize desired behaviors and create alignment
- 5** Stakeholders inclusiveness is important but should not lead to implementation paralysis
- 6** Important to be flexible enough to evolve over time, while ensuring sufficient certainty

BCG has a holistic framework to think about (economic) regulation



End Note: A regulatory system that creates alignment, trust and does not foster tension can be a *Game Changer*

Recognize that there will be asymmetry of information and treat it with perspective and balance

- For regulator → the solution is not micro managing, or forensic investigation
- For operator → The solution is not in outfoxing the regulator
- The focus should be on rewarding both with common outcomes & goals

Need for regulatory system + Implementation (structure, process & people) that balances the benefit of regulation with the cost of regulation

- Review process are not too frequent and onerous but has requisite stick
- Minimize / eliminate discretionary judgments
- Make it inclusive : involve all relevant stakeholders
- Implementation: Make the hard trade offs upfront but then respect them: don't change the rules of the game

Economic regulation does not have to be a zero sum game