

# IATA ECONOMICS BRIEFING

7<sup>th</sup> March 2005

## THE COST OF EU REGULATION

- This note provides initial quantification of the financial burden of regulation, broadly defined. This includes specific legislation, the lack of government support in the face of post-911 insurance and security costs, the cost of congestion at European airports and in European airspace, and poor economic regulation of monopoly suppliers. The size of this burden is substantial given the context of European airlines (AEA data) having lost €6.4 billion in the five years to 2003, and only just returned to an estimated €900 million profit in 2004. **The annual cost of this regulatory burden to EU airlines is estimated to be at least €5.9 billion (€10 billion using the earlier estimate of delay costs). Since 2001 this burden has risen by more than €2.5 billion.**

	€million
<b>Denied boarding compensation (incremental cost)</b>	
- AEA airlines only*	350 pa
- EU airlines*	560 pa
<b>Access for passengers with reduced mobility (incr. cost)</b>	
- EU airlines*	53 pa
<b>Insurance coverage (incremental cost, war and terrorism)</b>	
- AEA airlines only**	350 pa
- EU airlines*	574 pa
<b>Security (incremental cost, 2001 and 2002)</b>	
- AEA airlines only**	1600
- EU airlines*	2624
<b>Delays in Europe due to congested airports and airspace</b>	
- EU airlines (2004 study)***	990 pa
- EU airlines (2000 study)***	5100 pa
<b>Inadequate economic regulation of monopoly suppliers</b>	
- EU airlines****	1300 pa
<b>Inefficient provision of ANSP services***</b>	
- Airlines using EU airspace	1100 pa

\* IATA estimate. \*\* AEA estimate. \*\*\* Eurocontrol estimate. \*\*\*\* McKinsey & Co estimate.

## DENIED BOARDING COMPENSATION

Regulation 261 both doubles minimum levels of passenger compensation for denied boarding due to overbooking, and extends its coverage to include flight cancellations and long delays.

We estimate the annual cost to airlines over and above existing compensation will total €350 million for AEA and €560 million for all EU airlines:

- Compensation for overbooking affects around 250,000 passengers (0.1% of total). Higher compensation rates will add €96 million to airline costs;
- Compensation for long delays and cancellation threaten to add most additional costs to European airlines at €283 million and €176 million respectively.

The cost to a medium-sized European airline has been estimated at €40 million a year. That represents around 20% of 2004 operating profits. The AEA members as a group lost €6.4 billion in the five years to 2003, and last year only just returned to profit at an estimated €0.9 billion. For the European industry this regulation alone could absorb almost 40% of 2004 earnings.

## ACCESS FOR PASSENGERS WITH REDUCED MOBILITY

The proposed regulation regarding access for passengers with reduced mobility (0.37% of total passengers) takes control of providing these services at the airport away from airlines.

There are a number of costs that this will impose on European airlines:

- Airline investment of over €3 million in staff training and capital equipment such as wheelchairs will have to be scrapped;
- Airports will charge airlines over €53 million a year for providing this service. However, this cost is based on the service previously supplied by competitive airlines (€24-30 per passenger). The concern is that a monopoly provider will deliver a more expensive and poor quality service;

## INSURANCE COVERAGE – WAR AND TERRORISM

- Estimates from AEA airlines show that additional insurance premium, to cover the post-911 risk of war and terrorism costs an additional €350 million a year. Upgrading this to the remaining 40% of EU airlines implies a cost of €574 million.

## INCREMENTAL SECURITY COSTS (2001 AND 2002)

- Estimates from AEA airlines show that additional security costs, following 911, totaled €1600 million in 2001 and 2002. Upgrading this estimate to the remaining 40% of EU airlines implies a cost of €2624 million over two years.

## DELAYS IN EUROPE DUE TO CONGESTED AIRPORTS AND AIRSPACE

- A study produced for the Eurocontrol Performance Review Commission in 2004 estimated that airbourne or ground delays in European airspace in 2002 alone cost airlines €990 million. This study follows earlier research on behalf of Eurocontrol which estimated costs to airlines to be considerably higher at up to €5100 million.

## INADEQUATE ECONOMIC REGULATION OF MONOPOLY SUPPLIERS

- McKinsey & Co (May 2004) estimate that excess returns to poorly regulated monopoly suppliers (airports, ANSPs, GDS etc) cost European airlines \$1.7 billion or €1.3 billion a year.

## INEFFICIENT PROVISION OF ANSP SERVICES

- Eurocontrol's Performance Review Commission identified that if all EU state's ANSPs were matching the most efficient ANSP, given their circumstances there could be a 20% reduction in annual costs of €5.6 billion. This would reduce costs to airlines by €1.1 billion a year.

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