

BEFORE THE
FEDERAL AVIATION ADMINISTRATION
WASHINGTON, D.C.

1279652
COMMISSION
APPROVED

Charges for Use of Metropolitan
Washington Airports

Docket No. 25204

Comments of the Bureau of Economics, Competition, and Consumer
Protection of the Federal Trade Commission¹

Introduction

The Federal Aviation Administration (FAA) proposes to adjust some of its landing fees and other charges for the use of Washington National Airport (National) and Washington Dulles International Airport (Dulles).² The FAA's goal appears to be the recovery of the historical costs associated with the airfields. In these comments we suggest that air travelers could be better served if the FAA set charges consistent with the goal of economically efficient pricing of airport services.³ Efficient prices would, in general, better guide carriers' use of airport facilities and would, in particular, encourage carriers to shift flights out of congested peak periods. Consumers would benefit from the resulting reduction in delays. In the

¹These comments represent the views of the Federal Trade Commission staff, and do not necessarily represent the views of the Commission itself or of any individual Commissioner. The Commission has, however, voted to authorize the Bureau to submit these comments.

² 52 Fed. Reg. 7446.

³Economically efficient charges would be equal to the added costs that the provision of services imposes on society.

longer run, consumers and taxpayers would benefit because efficient pricing would reduce pressures for costly expansion of airport capacity.⁴

The Federal Trade Commission (FTC or Commission) is an independent regulatory commission, created in 1914 by the Federal Trade Commission Act, and empowered to prevent unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce. Government policies that impose unnecessary costs on consumers are of particular concern to the Commission.

The Commission's Bureaus of Economics, Competition, and Consumer Protection have a specific interest in issues involving airport access, including the allocation of takeoff and landing rights (or "slots") to airlines at restricted airports. FTC staff research has led to the publication of a report on slot allocation,⁵ and the FTC staff has participated in earlier administrative proceedings involving airport access.⁶ We suggest that the current proceedings offer an opportunity to price airport access more efficiently, thereby replacing price structures that result in costly delays to air travelers during peak periods and that provide incorrect price signals to carriers regarding airport use.⁷

⁴ In these brief comments we will not attempt to provide detailed specifications for efficient prices of airport services. Instead we will present some general principles to which such prices should adhere.

⁵ See D. Koran and J.D. Ogur, Airport Access Problems: Lessons Learned from Slot Regulation by the FAA, Bureau of Economics Staff Report to the Federal Trade Commission, May 1983.

⁶ Most recently, FTC staff filed comments in the Department of Transportation (DOT) proceeding on Discussion Authority for Agreement to Shift Schedules, Docket No. 44634.

⁷ In our comments before DOT in Docket No. 44634, the FTC staff proposed that, if delays exceed an efficient level, DOT impose additional
(footnote continued)

The Proposal

The FAA proposal would modify existing landing fees at National and Dulles so that general aviation and air carriers that have not formally contracted for airport use (non-signatory carriers) would pay for landings on the same basis and at the same rate.⁸ Under the proposal the FAA would charge these aircraft operators a new uniform rate per thousand pounds of aircraft weight. General aviation would also be subject to a uniform minimum fee at both airports.⁹

The air carriers that do contract for airport use (the signatory carriers) could ultimately be affected by the FAA proposal as well. The Metropolitan Washington Airports Act of 1986, which authorizes the transfer of National and Dulles to the Metropolitan Washington Airports Authority, requires that all air carriers and general aviation be charged on the same basis, with the exception of the minimum landing fee.¹⁰ Hence the proposed pricing basis, subject to later modification by the Airports Authority, could

(footnote continued)

limits on slots as needed, and make those slots marketable by cash sale. We noted that an alternative solution to excessive delays would be to impose an added charge on aircraft operations during congested peak periods. Although DOT's Final Order rejected our approach in favor of carrier meetings to shift flights out of congested periods, DOT observed that our approach could have merit if excessive delays were expected to be permanent at an airport.

⁸ General aviation consists of private and corporate aircraft.

⁹The current general aviation landing fees were set in 1968 and have not been changed since then. The fees are based on aircraft weight, and are differentiated by engine type. A minimum fee is charged all aircraft except certain aircraft under 3,500 pounds, which pay nothing to land at Dulles.

¹⁰ P.L. 99-591, S. 6005(c)(10).

become the uniform standard applicable to the signatory carriers when their contracts expire in December 1989.

Analysis

Economic theory suggests that efficient prices should reflect the marginal costs that the provision of services imposes on society. When an aircraft lands, its use of airport services imposes several costs on society. Some of these costs are imposed directly on the airport (such as the costs of providing physical facilities), while other costs may be imposed on passengers on other flights (congestion costs), and still other costs may be imposed on residents living near the airport (noise costs).¹¹ These costs identify the different factors on which efficient charges would depend. These factors are not limited to aircraft weight.

To begin with, the airport incurs costs to provide runways and other necessary landing facilities. Although some costs of providing these facilities may vary with aircraft weight, another portion does not. A landing by one aircraft, regardless of its weight, precludes the use of a runway for the length of time required to complete the landing. Hence, a portion of the cost of providing the runway for the landing is independent of aircraft weight.

¹¹ See S.F. Borins, "Pricing and Investment in a Transportation Network: the Case of Toronto Airport," Canadian Journal of Economics XI, no. 4, November 1978, 680-700.

The airport also incurs costs to provide terminal services. These costs vary with the number of passengers on an aircraft. Hence, an efficient charge for terminal services would vary with the number of passengers.¹²

Costs also vary by time of day. During a congested peak period, additional landings would increase the delay costs incurred by passengers on other flights. By contrast, during an uncongested off-peak period, the airport can provide additional landings without delaying other passengers. Hence, efficient landing fees should be higher during peak periods than during off-peak periods.¹³

Finally, aircraft noise can impose costs, which may be reflected in reductions in the value of property located near airports. Efficient landing fees should vary with the burden imposed on nearby residents by the noise generated by aircraft, and hence noise fees would vary with the amount of noise and perhaps the time of day.

The foregoing analysis suggests that the changes proposed by the FAA are an inadequate move toward more efficient pricing for the services of

¹² It is possible that the number of passengers is closely correlated with aircraft weight. If so, weight could provide a reasonable approximation of the number of passengers, for the purpose of setting terminal charges.

¹³ Estimates of optimal landing fees are presented in S.A. Morrison, "Estimation of Long-Run Prices and Investment Levels for Airport Runways," in T.E. Keeler, ed. Research in Transportation Economics, v. 1, 1983, 103-130. Assuming the current capacity at National, the estimated optimal 1976 peak-period fee is \$283, and the estimated optimal off-peak fee is \$137. By comparison, actual landing fees in 1978 were \$35 for a DC9-30, and \$49 for a B727-200. The estimates for less congested airports suggest that optimal fees at Dulles could be lower than existing fees for some aircraft types.

National and Dulles.¹⁴ Perhaps the most serious omission from the proposal is the absence of peak/off-peak price differentials.¹⁵

One important benefit of peak/off-peak price differentials would be reduced delays during peak periods. Higher prices during peak periods would provide an incentive to shift some aircraft landings to off-peak periods.¹⁶ If delays are greater at National than at Dulles, peak/off-peak price differentials would also provide an incentive to shift some aircraft landings

¹⁴ An additional inefficiency could be imposed by The Metropolitan Washington Airports Act of 1986, which specifies that "...the Airports Authority may require a minimum landing fee not in excess of the minimum landing fee for aircraft weighing 12,500 pounds." P.L. 99-591, S. 6005(c)(10). This requirement could make it difficult or impossible to set efficient landing fees for small aircraft.

¹⁵ Under Section 6009(a)(1) of the Metropolitan Washington Airports Act of 1986, National and Dulles, after transfer to the Airports Authority, will fall under the fee-setting requirements of the Airport and Airway Improvement Act of 1982. Although these requirements are not currently applicable to National and Dulles, the FAA may nevertheless consider them in this proceeding in anticipation of the future transfer to the Airports Authority. In particular, the requirements include a prohibition on discriminatory fees (49 U.S.C. 2210(a)(1)), a limitation on the use of revenues--with certain exceptions--to covering capital and operating costs directly related to the transportation of passengers or property (49 U.S.C. 2210(a)(12)), and a requirement that Federal funds be excluded from the rate base for establishing fees (49 U.S.C. 2210(a)(9)). While we do not claim expertise in the area of FAA statutory authorities, it is not apparent to us that any of these requirements would prohibit the establishment of peak/off-peak differentials for landing fees. In addition, we note that economically non-discriminatory fees are those based on the added costs of providing service; fees that are unrelated to the added cost of providing service are discriminatory in economic terms.

¹⁶The experience of the three major airports in the New York area with peak-period surcharges provides evidence on the responsiveness of general aviation to peak/off-peak price differentials. In 1968, the Port Authority of New York and New Jersey raised the peak-period landing fee for aircraft with fewer than 25 seats to \$25, while keeping the off-peak fee at \$5. As a result, general aviation activity decreased by 19 percent overall, and by 30 percent during peak hours. (U.S. Congress, Office of Technology Assessment, Airport System Development, August 1984, pp. 118 and 131-132). This experience also clearly demonstrates that peak/off-peak pricing differentials are administratively feasible.

from National to Dulles. In the longer run, peak/off-peak pricing would reduce pressures for expansion of airport capacity used only in peak periods. If the value of aircraft landings is high enough to justify payment of peak-period landing fees, revenues could be provided to cover the costs of financing delay-reducing additions to airport capacity.

Conclusion

Efficient airport pricing would permit a more complete realization of the potential benefits of airline deregulation. Although deregulation's benefits thus far have been substantial, they are still limited because airlines are not guided by efficient prices in their choice of airports to serve and times of the day to provide that service. Efficient airport pricing would give carriers the economically correct price signals, and this improvement in efficiency would ultimately redound to the benefit of the traveling public.