

The economics and regulation of on-board carriage of European airport retail sales

A policy research study for the European Travel Retail Confederation

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Introduction

Commissioned by the European Travel Retail Confederation (ETRC), "*The economics and regulation of on-board carriage of European airport retail sales*" study presents a policy focused report, which offers a comprehensive pan-European study on airline hand luggage policy and airport revenue.

This independent study, by **Dr Harry Bush** former Director of the UK Civil Aviation Authority, and now Director of London-based Highpoint Economics, and Mr Daniel Storey, considers the impact that restrictions imposed by some airlines on passengers carrying airport shopping on-board are having on passengers' experience at airports

Report Findings – In brief

The strict implementation of a 'one bag rule' by certain carriers effectively **prevents passengers from taking retail on board unless it can be stored within their one piece of hand baggage**.

- Strict enforcement of the 'one bag rule' by particular airlines risks a market outcome which **leads to higher costs and less connectivity for passengers**.
- Treating the 'one bag rule' as simply an issue to be settled between individual airport and airline businesses risks giving insufficient weight to these systemic impacts, including the presence of airline buyer power, and the potential for passenger confusion where there are differing approaches by airline and airports.
- Regulating **simply to improve transparency for the passenger addresses only one of the issues**.

Recommendations

The **most effective solution is to incorporate a passenger right** to carriage of airport shopping in addition to their hand baggage which would credibly deal with **restoring passenger choice and certainty regarding airport retail** to that in place before the introduction of strictly enforced 'one bag rules'.

- Airports – in particular those smaller regional airports facing large airlines with buyer power - would not have a legitimate area of commercial activity circumscribed.
- By preventing any one airline from gaining commercial advantage through a practice which undercuts the benefit created for all airlines and passengers, it would help the air travel sector as a whole coordinate around an equilibrium which creates higher value added in the sector.

A partnership approach would better safeguard the connectivity of Europe's regions at a time when this is more than ever necessary to stimulate and spread growth and prosperity

For passengers, the opportunity to shop at the airport has become an integral part of the travel experience - 47% of passengers list shopping as one of their favourite airport activities and 60% of European passengers regularly make purchases at airports, a significantly higher figure than in the US for example.



These discretionary purchases have made an increasingly valuable contribution to financing airport investment and thus supporting better airports, a greater choice of routes and more connectivity for passengers.

- Airlines have also benefitted from much lower airport charges and better facilities as a result of passenger retail purchases.
- The uncertainty created by strict implementation of the 'one bag rule' by some carriers has affected the tendency to shop of passengers even on other airlines where there has been no change which has result has been a marked reduction in retail activity and revenues at affected airports, including from passenger perspective.

While this reduction in retail revenues first affects retailers and airports, there are wider, longer term implications for passengers.

The report considers the issues that arise for European policymakers and suggests that two main detriments are likely to arise from the current implementation of the 'one bag rule'.

The strict implementation of the 'one bag rule' both arises from and is likely to give rise to problems in the operation of the market, including:

- Information gap for consumers between purchase of flight and experience of airport retail.
- Buyer power exercised by powerful airlines: can extract value from weaker airport suppliers, hindering investment over time and threatening financial viability.
- The potential for individual actions to undermine the common good: if more airlines adopt a 'one bag rule' then pursuit of their individual commercial interests could work against the overall airline and passenger interest in a vibrant airport sector by undermining airport retail.

Regulation can potentially play a part in improving outcomes for consumers. The costs and benefits of two different regulatory options proposed, respectively, by the European Commission and European Parliament are therefore considered:

- *Transparency to passengers of on-board baggage allowance:* this would focus on only one of the market issues identified – the information gap for passengers. It would not deal with longer term issues of financing the aviation system and would still leave passenger retail choice much reduced.
- *Passenger rights:* this would support passengers' customary ability to use airport retail by protecting rights to take shopping on-board, in addition to hand baggage. Such regulation would restore confidence in airport retail across the EU, allowing passengers to continue to contribute voluntarily to airport infrastructure costs.

Regulation could create a level playing field for airports and airlines to develop productive partnerships to work together to grow retail activity at the airport, thereby reducing airline costs, increasing airport financial sustainability, and enhancing the passenger experience.

“The economics and regulation of on-board carriage of European airport retail sales”
by Mr Harry Bush, study is available to view online at www.etr.org.

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