

Ex post assessment of the impact of state aid on competition: A discussion

Regional aid to the Newquay airport, UK

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Few General Considerations on the Study

- A very interesting study
 - ▶ One of the very few studies on ex-post evaluation of state aid control decisions
 - ★ It sets the mark
 - ▶ Clear and balanced discussion of key issues
 - ★ Definition of the aid and its objectives
 - ★ Potential distortion of competition – definition of competition (static vs. dynamic effects)
 - ★ Assessment of the aid effects on competition – definition of counterfactuals
 - ★ Consistency with the assessment of other tools (merger control, antitrust)
 - ▶ Some good examples
- Main open issues (some shared with the entire literature)
 - ▶ Some conceptual problems are unresolved
 - ★ Definition of the counterfactual & related methodology
 - ★ Effects on competition vs. effects on consumers
 - ★ How to assess "distributional" effects
 - ▶ Econometric assessments still limited
 - ★ Difficulties & lack of precision to measure the (true) counterfactual
 - ★ Data limitation
 - ▶ Results of econometric analyses are not as transparent as one wishes
 - ★ Example: Dynamic Panel Model in Ch. 3
 - ★ Why a dynamic model?
 - ★ Specification tests are not discussed at all

Regional aid to the Newquay (NQY) airport

- Aid essentially allowed the opening of a new commercial airport NQY
 - ▶ Product market: short-haul point-to-point traffic. Mainly low-cost carriers
 - ▶ Geographic market: South West England: Exeter (EXT), Plymouth (PLH)
- Aid affected competition
 - ▶ Significant decline in passenger traffic at PLH and EXT
 - ▶ Especially at EXT (ca. 9% of passenger traffic per route)
 - ▶ Aid might have contributed to closure of PLY
 - ▶ Airlines did not switch across airports (but Ryanair started operating at NQY)
 - ▶ No evidence that aid affected airport charges (limited data)



Source: Oxera, based on a d-maps.com.



Competitive effects vs. Consumer Welfare

- Opening of a more efficient airport increased competition: it exerted new constraints on competitors
 - ▶ Short run: it attracted demand away from competitors
 - ▶ Long run: it contributed to the closure of PLH (short runway as primary constraint)
- What does this imply for consumers?
 - ▶ Short or long run?
 - ▶ If the equilibrium market structure is two airports, which constellation is better?



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Competitive effects vs. Consumer Welfare

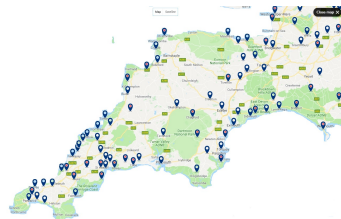
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- What does this imply for consumers?
 - ▶ Short or long run?
 - ▶ If the equilibrium market structure is two airports, which constellation is better?
 - ▶ Some costumers win some loose: in-bound and out-bound passengers



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- Costs of the aid: £47m
 - ▶ Was it worth? *How much* did consumers benefit?

The counterfactual

- Control group: other airports in the **wider region** not affected by the aid
 - ▶ 94 routes from Bournemouth Airport (BOH) and Southampton Airport (SOU)
 - ★ Why only these airports? Why not outside the wider region?
 - ★ Quite un-transparent on the exact definition of the counterfactual: route by route?
 - ★ Need to test common trends at the route level
 - ▶ Estimation is done at the route level: great source of variation
 - ★ Hundred of routes in the UK to pick from: Why not using a synthetic control method?
- "Right" counterfactual: NQY would have closed without the aid, but would PLY have closed?



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- ▶ Impossible to use reduced-form methods to assess this counterfactual
 - ★ Structural methods would allow it
 - ★ Too demanding? Data unavailable?

Lessons for future studies

- ① Retrospectives on state aid control cases are still rare
 - ▶ Heterogenous aid measures \Rightarrow even larger need for new studies than in merger control
- ② Remaining conceptual issues
 - ▶ Ex-post assessment should entail two components
 - ★ Effectiveness of the aid to solve the market failures
 - ★ Effect of the aid on competition / consumers
 - ▶ Important to think about the final effect on consumers
 - ★ Competitors might be hurt, but aid still can be good for consumers
 - ★ Various consumers can be affected differently (distributive effects)
 - ▶ Important to attempt a cost-benefit analysis
- ③ Remaining methodological issues
 - ▶ The definition of the counterfactual is (as always) key
 - ★ Need to be crystal clear and have high standards
 - ▶ Perhaps even more important to explore different (structural?) methods to better assess benefits