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## **Abstract**

Recent changes in airport activities introduced by the EU, such as the partial deregulation and competition between major European hubs, have led to the redefinition of how airport activities in France are regulated. The previous French model of state-ownership and state regulation of airport activities was out of synch with the "market frame of reference" which now structures European airport activities and regulation. This new sectoral frame of reference was translated into a public policy in France in 2005 along with the political decision to partially privatize Aéroports de Paris, suggesting a shift in the cognitive representation of the nature of airports.

Benchmarking is at the heart of this process. Regional airport operators have formulated a new representation of the "Airport Company" rather than airports as public enterprises. Through the study of their European competitors (especially Germany, Italy and UK), they called for a change in airport status to allow private markets to finance their activities and development. The director of Aéroports de Paris has constructed a forum, a "space of mediation" in which the goals, the mechanisms and the meaning of airport economic regulation have been redefined. This process was modelled on the British experience with airport regulation.

This process, through the benchmark of foreign model of economic regulation, has led to the production of a new airport-sectoral frame of reference of economic regulation. It is based on the price-cap model and the equation "ratemaking = financing". However, significant differences with British airport economic regulation remain, suggesting that a domestic adaptation of the benchmark results has taken place.

Through a cognitive analysis of public policy, I identify the key actors responsible for this shift, which resulted in the implementation of a new frame of reference of airport public policy and price-cap regulation for Aéroports de Paris, and explore the nature of the changes made to adapt the process to the French model.

*This analysis is based on a qualitative research (26 interviews) achieved in June 2009.*

Key words: Aéroports de Paris, Cognitive analysis of Public Policies, economic regulation

## **INTRODUCTION**

Aéroports de Paris (ADP) is a significant player in the European airport industry. The public corporation was created in 1945 and has built, owned, managed and developed airport infrastructures around Paris: Roissy-Charles de Gaulle (61 millions of passengers in 2008), Orly (26 millions) and le Bourget (business aviation) (UAF and Aéroport, 2009, p. 14). In the past 50 years, Aéroports de Paris has gradually incorporated the “commercialization” of airport activities through concepts of quality of service, business plans and customer service, without the need to refer to any laws or regulations. However, in 2005 the French State implemented a new policy direction, with the transformation of Aéroports de Paris into a limited company partially privatised, along with a new price-cap regulation.

Some scholars have studied Aéroports de Paris with a sociological perspective (De Montricher, 1993, 2004) or a legal one (Chapier-Granier, 2006 ; Auby and Lombard, 2007), but there is a gap in the literature regarding the study of ADP through a “policy science” perspective. That is why this paper aims to analyze the relationship between ideas and power within Aéroports de Paris’ system of action using a cognitive analysis of public policies. The concept of frame of reference (which is build by actors and exerts an influence on them) will structure the demonstration: a frame of reference is both a cognitive process which limits the complexity of the reality, and a normative process which permits to act on this reality. We assume that there is a global frame of reference which constitutes a general representation of a society or an activity (in this case a European airport frame of reference) shaping different competing sectoral representations (e.g. the French airport sectoral frame of reference within the European one). A sectoral frame of reference must change when a disarticulation with the global frame of reference

occurs, that is to say when there is cognitive dissonance between the two, or in other words when the sectoral frame of reference is out of synch with the global frame of reference. A new public policy is the means to manage intersectoral antagonisms and act on them (Faure, Pollet and Warin, 1995 ; Muller, 2000, 2007).

The thesis defended in this paper is that Aéroports de Paris' economic regulation and legal status became out of synch with a European airport frame of reference, and that this situation led to the redefinition of a French airport frame of reference through a mediation process supported by the benchmark of other European airports' regulation system. Through interviews with 26 airports, airlines, top civil servants and Minister's staff, as well as a literature analysis of the evolution of legal frameworks and economic structures, I demonstrate that the European airport frame of reference has changed since the end of the 1980s to become market-oriented, and I illustrate how the French airport sectoral frame of reference has become out of synch with the European one. A mediation process, supported by the benchmarking of foreign models of economic regulation, has led to the production of a new French airport-sectoral frame of reference of economic regulation, based on the price-cap model and the equation "ratemaking = financing", with a clear and strong influence from the British experience.

## **EMERGENCE OF A NEW EUROPEAN FRAME OF REFERENCE**

### *The Regulatory State and Enterprises in Monopoly*

Scholars have identified a shift in public action since the 1970s, with the emergence of a "regulatory state" focused on market-failures corrections through expertise and economic

regulation (Majone, 1997). The divestiture and the creation of competition between many European public enterprises since the 1980s illustrates the emergence and the strengthening of a regulatory state centred on an external market-control function for enterprises experiencing a monopoly situation (Eberlein, 1999, p. 209). However, this shift has not meant a retreat but rather a redefinition and a reformulation of the role of the state, which formalizes its relationships with regulated enterprises with a contractualization of goals and objectives they must reach (Lodge, 2008, p. 282-283). It seems important to note that this shift toward a regulatory state cannot be reverse: the creation of economic regulation criteria and mechanisms for enterprises in natural monopoly does not aim to expose them to competition, a situation that would make the criteria and regulations eventually useless. This absence of competition implies that economic regulation for natural monopoly is definitive (Frison-Roche, 2004, p. 56).

### *Liberalisation and Regulation of Network Industries in Europe*

We can define network industries as those industries in which a fixed infrastructure is needed to deliver the goods or services to end users, for example telephone or electricity cables and wires, railtrack, and airport runways (OCDE, 2000, p. 187). Initially conceived as natural monopolies owned and managed by the state in order to limit their market power, network industries have been more and more seen as the locus of economic intermediation; a tool to allocate scarce resources, and thus able to function like any other enterprises (Curien, 1993, p. 13-14). With the divestiture of BAA (British Airport Authority), major theoretical and empirical progress has been made in order to promote a “market-functioning” of network industries with the concept of price-cap

regulation. According to a RPI-X formula, a price-cap regulation aims to “encompass a pricing structure that is subject to specified maximum fare increases, expressed in terms of percentages that cannot exceed the difference between the Retail Price Index and a given factor X” (Betancor and Rendeiro, 1999, p. 29). The factor X is a productivity factor, which integrates the goals of both productivity and investments of the regulated enterprises with the minimization of costs leading to higher profits. This mechanism experimented with BAA in the European airport sector allowing a retreat of the state from direct involvement in airport management and ownership while keeping the responsibility to determine the value of the factor X (devolved to an independent regulator in the British case).

#### *European Airports and the Market: A Progressive Integration*

Since 1987 and the divestiture of BAA, there has been a double-movement of integration of European airports into the market. The first movement has accompanied the liberalization of air transport by European institutions. The liberalization of air transport has led major airlines in Europe to establish on a specific airport which becomes their hub. Instead of a point-to-point transit model, a hub is an airport that becomes the centre of a wheel where traffic moves along the spokes (Varlet, 1997, p. 208-210), creating a certain competition between airports on the issue of connecting passengers. In addition to this phenomenon, the European Commission has liberalized some aspects of airport activities in the 1990s, such as slots attribution and ground handling (Chapier-Granier, 2006). The second movement is the spread of airport partial divestiture in Europe. After the full-divestiture of BAA, along with the implementation of a price-cap regulation

based on a 5-year regulation period in 1987, many European states implemented new divestiture policies for their airports. This approach has been legitimised as Heathrow remains the first European airport, but so far no country has followed the British path of a full divestiture. For example, the first wave of privatization concerned Vienna (with a share of 27%) in 1992, Copenhagen (25%) in 1994, Athens (45%) in 1996, Dusseldorf (50%), Rome (45.5%) and Naples (65%) in 1997, Skavsta Stockholm (90 %), Florence (39%), Turin (41 %), Hamburg (36%) and Zurich (50%) in 2000 and finally Frankfurt (29%) in 2001. The process then started again after the 09-11 crises, with partial privatisation of Brussels, Budapest, and Bratislava airports in 2006 (Gillen and Niemeier, 2006).

### Conclusion

The 1990s and the 2000s have seen the emergence and the strengthening of a new frame of reference in European airport activity. The integration of certain areas of airport activities in the market, the partial divestiture of most main European airports, the implementation of price-cap economic regulation and the new hub system suggest that there is a global market-oriented frame of reference in the European airport industry.

## **A COGNITIVE DISSONANCE WITH THE FRENCH AIRPORT-SECTORAL FRAME OF REFERENCE**

### An Exhausted Model

At the end of the 1990s, Aéroports de Paris faced strong objective constraints that threatened its development. As a state-owned company, ADP was limited by a “speciality principle” which asserted that ADP missions were to build, manage and develop airport infrastructure located near Paris. However, ADP had launched, through member companies, international activities (such as building, developing and/or managing airports abroad) and had diversified its activities in the telecom sector, becoming a major competitor in these markets (e.g. against BAA, Fraport or Macquarie). Quasi illegal, these interventions were condemned by the *Cour des Comptes* in 2002. The second characteristic of state-owned companies regards the financing through both the state’s budget and capital equity and debt. At the turn of the 2000s, these tools had become more and more difficult to use: the state seemed less and less willing (or able?) to finance ADP development, while the financial situation of ADP did not permit it to further expand its debt (Auby and Lombard, 2007, p. 11).

### *Organizational and Institutional Problems*

Aéroports de Paris has a long and fascinating history. With the creation of ADP as a state-owned company in 1945, it was “given” to a powerful civil servant corporation: the corporation of *Ponts et Chaussées*. This corporation would dominate both the management and the strategic orientations of the public enterprise with a strong and predominant emphasis on a “builder” vocation (De Montricher, 1993, p. 27). Engineers at the head of the hierarchy had not considered the quality of service as an important and strategic element, and did not see the importance of developing commercial activities. The domination of prestigious technical corporation had strongly restrained the

development of extra-aeronautic activities (Cour des Comptes, 2002, p. 407), and thus the profits of the company.

In addition, the legal status of Aéroports de Paris had weakened its autonomy. State-owned company in France used to be seen as a macroeconomic tool, with the interference of the state in recruitments during high unemployment periods, the drain of some of their revenues, and the exertion of pressures on their tariffs during inflation periods, despite a cost-based regulation (Bauby, 1998, p. 26 ; Dumez and Jeunemaître, 2004, p. 2).

### *Cognitive Dissonance and Implementation of Spaces of Mediation*

In 1996, Air France decided to create a hub at Roissy-Charles de Gaulle airport. This led to a need for massive investments in order to adapt and improve existing infrastructure as well as building new infrastructures. Aéroports de Paris has become more and more constrained by new these markets logics, but the sectoral framework of a state-owned company has not accompanied this trend. At the turn of the 2000s, ADP needed huge investments but was unable to find any meanwhile and key actors within ADP and within the state were unable to conceive of new schemes for financing within the existing system. The French sectoral-airport frame of reference was completely out of synch with the context in which airports were integrated. There was a cognitive dissonance - a disarticulation between the French frame of reference and the global, market oriented European airport frame of reference. The cognitive and normative matrix that had made sense of the French airport policies no longer accounted for the role of actors within the sector. The sectoral frame of reference became “false”, in the sense that it no longer

permitted the actors to understand the reality and act on it anymore (Muller, 2000, p. 196).

Two kinds of space of mediation were thus implemented through the instigation of mediators. Mediators are actors that have “the power and the intellectual resources allowing them to do this work of articulation between the ‘sectoral’ and the ‘global’ level and, therefore, to elaborate the definition of the [sectoral frame of reference]” (Nahrath, 1999, p. 45). They attempt to establish hegemonic leadership with the sectors while managing “the ideological operation of ‘decoding’, interpreting and reformulating a socioeconomic reality into a policy program in accordance with the project [of the global activity]” (Nahrath, 1999, p. 45). Surprisingly, the first mediation space was created by major regional airports’ operators, while the second was implemented by the top-management of ADP.

## **BENCHMARKING AT THE HEART OF THE REFORMULATION OF THE FRENCH FRAME OF REFERENCE**

### *French Regional Airports and the “Airport Company”*

Even if ADP is the most important actor in the French airport industry, it seems essential to focus on other players: regional airports. For more than 70 years the local Chambers of Commerce have been the concessionaries of regional airports such as Nice, Lyon, Marseille or Toulouse (UCCEGA, 2002, p. 11). The operators of these airports were the first to formalize the impact of a new European airport frame of reference. As early as

1999, they created a *Comité d'action pour la mise en place des sociétés aéroportuaires* (Action Committee for the implementation of airport companies). A year later, the European Commission published an interpretative communication criticizing the concessionary regime of French regional airports, and public reports suggested the devolution of regional airports to the regional level. At the same time, the *Comité d'action* wrote a *White Book* published in 2002. Through a systematic benchmarking of the situation of regional airports in Germany, in the United Kingdom and in Italy, it proposed a European path by which airports in France would finance themselves through a flexible ratemaking, while the French State, which should have assumed this responsibility, was labelled inefficient. The *White Book* argued that the “competitors” of French regional airports in the EU had seen their status and economic regulation “modernized” (UCCEGA, 2002, p. 31). The main proposition of the *White Book* was the creation of “airport limited companies” without any concessionary regime, able to implement an auto-financing of investments through ratemaking and tariffs as well as through equity markets. This was justified by the necessary modernization of French airport policies, and above all by the benchmarking of other European regional airports. This demonstrates that there has been a real cognitive process of reformulation of the French airport-sector frame of reference, with a diagnostic of failures and policy prescriptions to adjust the French sector to what I call the European airport frame of reference.

*Aéroports de Paris: The New Equation “Ratemaking = Financing”*

In 2001, a new General Manager was appointed as the head of ADP. Less than 6 months after his appointment, he asked for a report regarding ADP economic regulation, in order to make it more efficient by reviewing foreign experiences. This reflection was carried out by Hubert du Mesnil, the new General Manager of ADP, a career road sector manager, Claude Martinand head of the Commission in charge of the report and CEO of *Réseaux Ferrés de France* (French Rail Network), and with the support of Laurent Glazy, number 3 in the ADP hierarchy and newly recruited from the Finance Ministry. It is very significant to notice that this newly created “space of mediation” was not carried out by airport-sector actors, but rather by a new wave of actors with sufficient distance from the sector to objectify the ADP situation. The trio created a new link between airport economic regulation and the broader field of infrastructure regulation. The British model of airport regulation was closely studied by the Committee, key members of BAA and of its regulator were auditioned, and the report, published in 2002, recommended the implementation of a price-cap regulation, with the double-objective to adapt ADP to the global evolution of airport regulation and to adjust the ratemaking and the tariffs of ADP to its financing needs (Martinand, 2002).

In other words, the space of mediation reformulated the economic regulation of Aéroports de Paris through the benchmarking of foreign regulatory frameworks, and especially through the study of the British model of economic regulation. It proposed a shift toward a price-cap regulation and the implementation of an equation: “ratemaking = financing”. We can divide the reformulation and the emergence of the new French airport-sectoral frame of reference into 4 analytical levels (Muller, 2007, p. 61-64):

1. Values: the most general and fundamental aspect of the frame of reference, defining what is desirable or not for a society or a sector, they define what is both 'possible' and 'thinkable' in the context of public actions. In this case study, values are the necessity to secure the financing of ADP.
2. Norms: principles of action that are compatible with the dominant values in the frame of reference. In this case study, norms are the fact that users have to finance infrastructures.
3. Algorithms: determination of the causal relations considered as inducing the problem as well as to an explicit description of the actions and measures that should be undertaken in order to intervene on the problem as it is perceived and defined. In this case study, the algorithms are the assertion "there is no financing problems, but only ratemakings, tariffs problems" or the equation "ratemaking = investments"
4. Images: sort of short cut, simplified/concentrated representations of the situation, the problem or the target group of the policy: "Images constitute a socially powerful instrument for the diffusion of meanings and ideas as well as of values, norms and even algorithms" (Nahrath, 1999, p. 44). In this case study, the most powerful image is Heathrow airport, with the image of a leader and dynamic airport which has the capacities to invest for its development.

Each of these analytical levels is coherent with the European market-oriented airport frame of reference, and addresses the fact that the previous French airport-sector frame of reference was out of synch with the European one. They translate a new conception of airports as the target of public policies and make an appeal for a public action to adapt the

sector to the features of the new sectoral frame of reference. However, the benchmark of different European regulatory framework cannot be summarized into a ‘copy-paste’ of the British experience. The British price-cap regulation aims indeed to promote the economic efficiency of BAA, while the French price-cap regulation aims first and above all to provide ADP the means to finance its investments, and thus constitute a real industrial policy.

### **THE TRANSLATION OF THE NEW FRAME OF REFERENCE**

Since the turn of the 21st century, two spaces of mediation have been independently implemented in order to address the disparity between the French airport-sector frame of reference and the global European market-oriented frame of reference for airport policies. This paper illustrates that the reformulation of sector features were led by the industry itself along with new actors in the airport scene. A window for the translation of the new frame of reference into public policies was opened in 2002 with political change and the appointment of Jean-Pierre Raffarin as the new Prime Minister. He both decided to partially privatize transport infrastructures and to launch a new wave of devolution toward the regions. Accordingly, most local airports were transferred to local collectivity, whereas Aéroports de Paris was transformed into a partially privatized limited company. Along with this reform, the law mandated the implementation of a price-cap regulation for ADP. However, this section was fully ignored by the Parliament during debates regarding ADP. This law was carried by Pierre Graff, the Minister of Transport, Chief of Staff, former General Director of the Civil Aviation Department, and future CEO of Aéroports de Paris. Because of his former position, he was perfectly aware of the results

of the mediation process. This case study shows, however, the complexity of the mediation process: regarding the French airport-sector, there was a double-mediation process, a global one carried by the Chambers of Commerce and a specific one carried by the duo Du Mesnil-Martinand, translated by an actor at the heart of the French airport sector without any debates. For most actors of the French airport industry, the reform was passed because it was simply perceived to be “ineluctable”, whereas the discrete role of Pierre Graff as a “mediator” between the space of mediation and the locus of political power was not perceived. This reveals that once a new sectoral frame of reference has emerged, it becomes in actuality both a cognitive and a normative matrix that remains unquestioned until it adjusts to the global frame of reference.

## **CONCLUSION**

To conclude, the frame of reference is not a copy-paste of the British model of economic regulation. Significant differences with this model remain, such as the absence of an independent regulatory agency in the French model, or the fact that the state remains the main stakeholder of ADP. The main difference regards the objective of the economic regulation: for ADP, it is first and above all a question of investments, while it is first a question of economic efficiency in the British case. These demonstrate that a domestic adaptation of the European market-oriented airport frame of reference has taken place in France.

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