A Transaction Cost Analysis of Scheduled international Air Transport of Passengers

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Chapter VI - Summary and conclusions

6.1 - Introduction

This thesis has investigated two alternative structures for the governance of air transport. It has analysed the exchange between states of air transport rights, i.e. the rights to cross the airspace of another state and to access that state's air transport market. These rights form the bulk of the property rights to airspace. The model used to analyse this transaction has been derived from existing transaction cost theories, which aim to find the optimal combinations of transactions and governance structures. The analysis has examined governance structures from the traditional point of view of transaction cost efficiency, which looks at transaction costs incurred during the transaction process. The analysis has also explicitly addressed the effectiveness of governance structures, recognising that a governance structure may in fact not enable transacting parties to attain their objectives.

The focus has been on the Netherlands, as a Member State of the European Community, and on the scheduled transport of passengers. The analysis has answered the following key questions:

1. Which of the Bilateral and Community structures is more effective,
2. Which of the two structures is more efficient in terms of transaction costs, and
3. Given the present characteristics of the Community structure, what suggestions can be made to improve the structure?

So far, the first two of these questions have been addressed using a model developed in Chapter II. This model focuses on the characteristics of the transaction and the transacting parties and on the relationships between the states and the state and air transport industry to see which of the Bilateral and Community structures contains features and mechanisms that enhance goal attainment and transaction cost savings. The two governance structures have been described (Chapters III and IV) and analysed (Chapter V) in terms of the effectiveness and transaction cost efficiency criteria. The present chapter will summarise the conclusions drawn from the analysis and will make some recommendations for the improvement of the Community structure from the perspective of the Netherlands. Some recommendations may also be relevant outside the Dutch context. Sections 6.2 and 6.3, respectively, recapitulate the main aspects of the model and the main findings. Section 6.4 contains suggestions on how to improve the Community structure and Section 6.5 makes some final remarks.

First, a comment is made on the learning by doing approach, which was adopted in order to amend the traditional structure governing exchanges of air transport rights and to develop the Community structure. Chapter II explained that the creation or modification of a governance structure and the transfer of a transaction to a new structure invariably generate transaction...
costs. Even though these costs have been left out of the analysis, their level influences the speed of change and the benefits that flow from the new structure. The costs of adaptation can be reduced or even minimised when the general economic and social environment is conducive to investment, innovation and structural adaptation (OECD, 1997: 14). The internal market programme described in Chapter IV created such an environment. There are different ways to effect an amendment. In creating the Community structure, states chose a learning by doing approach and gradually abolished existing Bilaterals between them (Button et al., 1998: 74-75). This method generally leads to lower uncertainty than a sudden one-off change. One reason is that there is often a programme describing the process of change and a time path, which reduces the complexity of the transaction and any uncertainty about the nature and timing of proposals. In contrast, a 'Big Bang approach', offers the advantage that parties only need to adjust to the new position once. Also, first-mover advantages which some airlines might enjoy in a phased change are removed. The disadvantages stem mainly from the possibility that the new institutional framework may be flawed and consequently cause serious damage to the development of the sector. It also imposes heavy burdens on those in the sector who for a variety of reasons (e.g. relating to the existing institutional framework) start from a more disadvantaged position than others. In some cases, a gradual change is therefore preferable. The phasing in of measures allows parties to plan their strategies. Phasing in can also be developed in such a way as to address fears on the part of states or carriers arising from different initial market positions. Predetermined gradualism, however, has the disadvantage that it may not keep pace with market developments. It may also provide time for entrenched interests to develop strategies to protect their positions in the new institutional environment. An important variation of the gradual approach is phased institutional change with no clearly pre-defined sequence of change, i.e. the learning by doing method.

The SEA incorporated a process and time path and also laid down explicit goals. The gradualism of the learning by doing approach was not predetermined, however, because each phase was designed on the basis of experience acquired in previous phases. To be sure, a learning by doing method entails more negotiations, and thus generates higher ex ante transaction costs. Renegotiations also open up the possibility of opportunistic behaviour. In the case of the Community, a cautious stance on the part of the Member States, such as the protection of their flag carriers, has made it difficult to save costs through a restructuring of the industry. A study by the European Commission on the outcome to date has shown that the industry has yet to take full advantage of the new opportunities (Commission, 1996). Nevertheless, gradualism and a simple abolition of existing Bilaterals have limited the transaction costs associated with the move to the new system1.

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1 Note, however, that the Member States chose a cautious strategy for political rather than efficiency reasons. Supra, p. 94.
6.2 - Summary of the model

This thesis has developed a model to analyse governance structures in terms of their effectiveness and transaction cost efficiency. Effectiveness has been defined as the ability of a governance structure to attain the objectives of the transacting parties. Transaction cost efficiency, on the other hand, has been defined in terms of the minimisation of the productive resources needed to effect the transaction in question. The two criteria are not unrelated. It may be that a structure can only be made more effective by incurring transaction costs. As an example, the industry might not observe environmental regulations unless the state engages in some monitoring. The model has been applied to a particular transaction in air transport, namely the exchange between states of air transport rights. The rights exchanged are the rights to cross foreign airspace, the right to transport people to and from a foreign territory and the right to capture the resulting benefits.

The model has been used to evaluate a governance structure known as the 'State'. An essential property of the State is that the state (as an actor) holds the property rights to air transport rights. The state's possession of these rights constitutes the main reason behind the state's participation in the exchange. The state's permission is needed before a foreign aircraft may use its airspace and it gives that permission through exchange with other states.

The state as an economic decision-maker differs from other decision-makers in some crucial ways: it imposes universal membership, it can claim sovereignty, it has the power of coercion and it is a social welfare maximiser. These properties make the State a governance structure that differs substantially from the governance structures usually studied in the literature on transaction costs. Two further properties make it difficult to measure the effectiveness of the State. One property is that state-provided services are not well-defined. Secondly, as modelled in this thesis, the state's objective of maximising social welfare is an aggregate of the goals it pursues in the various sectors of the economy. Each of these sectoral goals is, in turn, an aggregate of various subgoals. Some subgoals may be attainable only at the expense of others. A measure of the effectiveness of the State then requires some difficult trade-offs.

With respect to air transport, the Dutch state pursues a goal referred to as 'the selective network goal'. The goal is an aggregation of psychological, financial, social and political goals. The Dutch government has translated these further into specific requirements that must be included in interstate relations and that must be met by airlines and airports. Because states hold the property rights to airspace, the Dutch state's ability to realise the selectivity goal depends crucially on its relations with those states. The state does not execute the transaction itself but leaves this task to the industry (in the Community structure more than in the Bilateral structure). The state-industry relationships can therefore be regarded as agency relationships.
with the state as the principal and the industry as its agents. The problems usually associated with agency, such as moral hazard and adverse selection, are a real risk in air transport because the industry pursues the objective of continuity rather than the objective of a selective network. Although there is overlap in that the industry depends on public support, there is considerable conflict between the two objectives.

The effectiveness of the State has been addressed indirectly in terms of the existence of mechanisms that motivate foreign states and the industry to pursue the goals of and meet the requirements imposed by a given state. The transaction cost efficiency of the State has been evaluated in terms of those dimensions of the exchange that have implications for the transaction costs generated by the exchange.

Two variants of the State have been studied, namely the Bilateral and Community structures. They have been analysed in terms of their distinguishing features, the nature of the transaction process and the parties involved in the exchange. In the Bilateral structure, state ownership of the property rights to airspace, the equality among states and relational contracting play an important role, whereas the Community structure is characterised by a delegation of property rights, a proportional rather than equal allocation of power, and a high degree of formality.

6.3 - Summary of findings
The analysis shows mixed results on the effectiveness of the two structures: Bilateralism outperforms the Community in some respects and the Community performs better in other respects. Chapter V showed that the Community enhances the harmonisation of state interests but does not harmonise them completely. A Member State’s greater knowledge about other Member States is outweighed by the loss of control over the transaction process. The Bilateral structure outperforms the Community in one important area, namely the ability to discriminate between transaction partners. This feature enables the state to create a selective transport network and pursue the main social goal of environmental protection. On the other hand, the Dutch state’s ability to attain its financial goal is limited by the Bilateral reciprocity requirement and the Dutch lack of economic and political power, which restrict its ability to select and discriminate. Liberalisation as pursued through the Community structure means an absence of the reciprocity requirement, which facilitates progress towards the financial goal. The Bilateral structure also falls short of the Community’s performance in the area of good interstate relations but performs better in terms of the psychological goal of prestige. A choice in favour of one structure depends on the weights assigned to each of the selectivity subgoals. From the perspective of transaction cost efficiency, the outcome is again mixed: the interstate relationship generates lower transaction costs in the Community, but the state-industry relationship performs better in the Bilateral structure.
The assignment of property rights plays a crucial role in the distribution of transaction costs within a given structure. The party that holds the property rights is confronted with high levels of uncertainty and is likely to behave opportunistically, generating high transaction costs in these problem areas. In the Bilateral structure the state has control over the property rights so that the claim on productive resources tends to be relatively high in the interstate relationship. In the Community structure, on the other hand, the state has more or less delegated the property rights to the industry and the state-industry relationship shows a relatively high claim on productive resources. State sovereignty makes it difficult to adjust interstate relations, closing one avenue to a reduction in transaction costs. The power of coercion, however, enables the state to exert influence on the behaviour of the industry. The Community structure may therefore be a better candidate for efficiency improvements than the Bilateral structure.

6.4 - Recommendations and suggestions for improvement

Chapter V concluded that the Community is weaker than the Bilateral structure in certain respects. There are clearly some areas where change would improve the performance of the Community structure. The following sections suggest how the Community might be moulded into a structure that is more effective and more transaction cost efficient than the current version. The suggestions in Section 6.4.1 target the interstate (i.e. Community) level, while the suggestions in Section 6.4.2 address the state-industry level. In line with the overall thrust of the thesis, the suggestions made focus on the Dutch point of view. It should be borne in mind that a different perspective may justify different recommendations. Furthermore, some suggestions may be used in transactions not involving the Dutch state or industry.

6.4.1 - Suggestions for improvement from the perspective of the state as member of the Community

6.4.1.1 - Effectiveness

One of the problems confronting Dutch policymakers is that their air transport goal is not always consistent with Community objectives. The Community, for instance, is moving towards a common market based on a smaller set of harmonised rules. This is clearly in conflict with the Dutch selective network goal, which requires a differentiation of air transport relations. As a result, the Dutch are not always able to translate the goal into acceptable requirements or apply the instruments needed to achieve the goal. The problem is not entirely due to the conflict per se, however. A lack of appreciation on the part of the Community for the exact nature of and motivation behind the selective network goal also explains some of the difficulties experienced at the Community level. The Dutch state could generate more cooperation at the Community level if it formulated the selective network goal within a
Community or global rather than a purely Dutch context. The current preference for KLM, for instance, could be transformed into a preference for Community carriers. The Community might also be more favourably disposed towards the Dutch if the hierarchy of goals that constitute the selective network goal were more transparent and if the trade-offs that the Dutch would be willing to make were clearer. An example of one such trade-off is as follows. The Netherlands favour liberalisation because it implies the abolition of strict requirements, for instance on capacity allocation, which reduce the negotiation power of small states. One important consequence of liberalisation, however, is non-discrimination, which is inconsistent with the Dutch desire to select and differentiate between trading partners. A trade-off thus needs to be made between selection and differentiation on the one hand and the effect of liberalisation on the other. By clearly identifying the acceptable trade-offs, national negotiators should be in a better position to find compromises with the Community or pursue policies at the Community level.

At the same time, Dutch policymakers need to acknowledge that the transfer of power to the Community is an ongoing and unstoppable process and is changing the role of domestic governments from policymakers to administrators. The ongoing social and economic integration of the world economy is also diminishing the state’s control over domestic events. The formation of international airline alliances, for example, enables the airlines to manipulate traffic flows more easily than the state. The state has fewer traditional instruments at its disposal to pursue a domestic policy and cannot always make adequate use of any remaining instruments. If national policymakers want to attain the selective network goal, they need to move away from a domestic focus and adapt their instruments to the common and global markets. The above suggestion to change the focus from domestic to Community carriers is a step in the right direction. Within the Community the Commission holds the right of initiative and needs to be lobbied. Other organisations, such as the European Parliament and COREPER, also need to be lobbied. The state further needs to realise that other domestic parties - the industry, in particular - will lobby the same organisations and that it would benefit from better co-ordination with those parties. At the state level, the additional co-ordination responsibilities of the Ministries of Foreign Affairs (preparation) and Justice (execution) may be combined in the State Secretariat for European Affairs, which is part of the Ministry of Foreign Affairs. Groups such as the BNC, CoCo and COCOHAN could be merged into a single entity. Decisions as to what will be pursued at the Community level (the hierarchy) should be taken in Cabinet. The minister responsible for the issue in hand (the Minister of Transport in the case of air transport) should hold prime responsibility. The current allocation of responsibility for Community affairs between the Ministries of Foreign Affairs and Justice is no longer appropriate, given that domestic law is becoming increasingly dominated by Community law. Community law should no longer be placed in the same category as
international law. At the industry level, the preparation of Community transactions in the area of air transport should include a consultative meeting between the Ministry of Transport and industry players at the beginning of the transaction process (as in Bilateralism).

In line with the previous suggestion, the Dutch state needs to become far more active in earlier phases of the transaction process so that it can influence the content of Community policies. Finally, explicit instructions to domestic representatives should be formulated much earlier in the transaction process. In giving these instructions, the representatives should be given a clear and well-defined mandate and their performance should be monitored closely. The reward mechanism should be overhauled with performance tied more closely to factors that motivate public servants (WRR, 2000: 70, 84). This may include incentives to stimulate values as responsiveness, responsibility, integrity and helpfulness. Contrary to what was noted in Section 2.7.3.3, traditional financial incentives may be used for this purpose, given that the state’s problem in using financial incentives is simply one of information asymmetry (see Section 5.9.4). If a transfer of powers occurs it will be important that the Netherlands should clarify any public interest aspects of the selective network goal. Clarity is particularly fruitful at the interstate level, given the inability of the domestic state to use coercion and consequent need to find other ways of engineering desired outcomes.

Viewing the size of the Community as an advantage rather than an obstacle could also benefit the Netherlands. With decision-making powers placed in the hands of the Commission, the small size of the Netherlands would cease to play a role in negotiations with third countries.

It may not be easy to implement these recommendations as the distribution of power at the Community level is by no means clear and is undergoing continual change. It is difficult to adapt national processes to an ever-evolving Community. Uncertainty surrounding the precise operation of the ERTA doctrine (see Section 4.5.6.1) in air transport is one problem afflicting the change process. Eventually, the operation of the ERTA doctrine will require Member States to provide the Commission with a full mandate to negotiate air service agreements. The Commission tried to clarify the scope of its powers as early as 1994, among other things, by invoking the ERTA doctrine but the Court rejected the Commission’s claim\(^2\). What is clear is that as long as the impact of Community legislation remains obscure, any transfer of power and adaptation of national structures should be managed carefully. To protect the state from unexpected adverse developments that may cause irreversible damage to the selective network, the state should adopt a phase-wise approach to change. On the external policy front, for example, the Dutch have been able to build a valuable package of rights, which must not be jeopardised by a poorly timed transfer of powers. The change process should also take into account the Dutch lack of size and hence the country’s lack of influence on decisions taken.
One strategy would be to identify issues that should not yet be transferred to the Community level and temporarily channel these through ECAC. This organisation is based on intergovernmental co-operation and the principle of equality among states. Its procedures could play a vital role in getting the Member States to better appreciate national interests. This may help bridge the differences between national and Community goals. When the time is ripe issues that have thus been resolved may be transferred to the Community.

The Subsidiarity principle mentioned in Section 4.7.2 could also be used to manage a transfer of powers to the Community.

6.4.1.2 - Transaction cost efficiency

Chapter V showed that, in the Community, uncertainty is the main source of transaction cost inefficiency at the interstate level. The system lacks transparency at the Community level, where decision-making processes and ultimate responsibilities are not clear. The situation is aggravated by the domestic 'poldermodel' which has given rise to overlapping mandates and compromises at the expense of clarity. The allocation of responsibility between the Ministers of Foreign Affairs, Justice and Transport illustrates one such inefficiency. Similarly, civil servants may be confronted with conflicting goals, whose content can only be clarified through elaborate information processing. A strategy geared towards lowering the degree of uncertainty should lead to considerable gains in transaction cost efficiency. Some of the suggestions that would improve the effectiveness of the structure may also improve its efficiency. These include the introduction of a hierarchy in decision-making, a clarification of areas of responsibility, a reduction in the number of people involved, as well as better co-ordination among policymakers and between policymakers and the industry. Each of these measures would improve information processing capacities and simplify decision-making. A second source of inefficiency within the Community is opportunism on the part of Dutch policymakers and representatives in Brussels. Well-designed incentives (see Section 6.4.1.1) directed at these parties would lower the cost of supervision.

Any room for efficiency gains at the interstate level is limited, however. Even though the Community has weakened the sovereign powers of Member States, each state continues to wield considerable powers enabling it to resist unacceptable changes to domestic systems. Moreover, the state is not always the right target for efficiency-enhancing measures as the air transport rights have been delegated to the industry. The state's relationship with the industry is addressed in the next sections.

2 Supra, pp. 106-107.
6.4.2 - Suggestions for improvement from a state-industry perspective

A state's ability to influence interstate relations in order to attain its own goals is restricted, especially in the Community decision-making structure, where differences in power have been formalised. An approach directed at the state-industry relationship is more likely to bear fruit.

6.4.2.1 - Effectiveness

As liberalisation proceeds, the state increasingly relies on the industry to realise its air transport goal. At the same time, the Community structure inhibits the Dutch state from building a selective network via the industry because some instruments are no longer allowed. Furthermore, the incentives provided by other instruments or mechanisms have not been adapted to the new environment and may even be misused by parties with vested interests. The industry would contribute more to the selective network goal if the state were to implement the following recommendations.

In the first place, a regulation introducing the compulsory disclosure of all commercial agreements entered into by the industry would keep the state informed of the industry's actions. This may help the state to co-ordinate competition policy and air transport agreements with third countries and with Member States, which is increasingly important given the formation of international airline alliances.

Secondly, the state should translate the selective network goal into requirements that are explicit and ranked in terms of importance. Given the diminishing influence of domestic policy, these requirements should be formulated in ways that are consistent with the interests of the industry and with the set of mechanisms permitted by the Community. The state should recognise that it is up to the industry to meet the requirements. The industry should be allowed to conduct and optimise its operations without being hampered by state interference. The dynamic air transport environment further implies a preference for framework rules. The industry's incentives could also be improved through slot differentiation based on environmental criteria.

The state has traditionally relied on close relations and legislation as instruments to elicit appropriate behaviour. Currently the state is switching towards the use of covenants with the industry. This may be a more productive strategy than the strategy of domestic legislation, which runs a growing risk of conflict with Community law. In its use of covenants, however, the state will have to refrain from obtaining promises from the industry at the expense of the public interest. Some interests may be so fundamental that they should be considered non-negotiable. Environmental protection, healthcare as well as safety and security issues are gaining in importance and may eventually constitute such interests. Furthermore, the demands flowing from such principles as legal certainty and equality before the law may prohibit the
state from replacing legislation with agreements, while competition law prohibits some forms of co-operation. In negotiating covenants, the state should also be aware that these covenants would bind Dutch carriers, but not other Community and international carriers, placing the Dutch industry at a competitive disadvantage. This would be one area where the power to coerce may still play a useful role. Because the state cannot directly regulate foreign carriers, coercion would imply regulation of airline behaviour at the airport. The most likely target of regulation would be the airport, given that its specific investments tie it to a fixed location. As liberalisation and market regulation are potentially in conflict, and the scope for regulation is limited, the state may resort to instruments like infrastructure investments (facilities), subsidies and taxes. One area where the state can still exert an indirect influence is the location climate. As the KEPD, and the 1998 and 1999 Cabinet decisions (Ministry of Transport, 1998c, Ministry of Transport 1999b) make clear, the state uses environmental planning instruments, fiscal measures and education to enhance the attractiveness of the Schiphol environment. The focus of government attention may increasingly shift to these areas.

6.4.2.2 - Transaction cost efficiency

Over the past five years, the air transport industry has undergone more rapid change than the instruments used to steer the industry. As explained in the previous section, the current instruments and mechanisms are no longer optimal in the new environment. There is a lack of appropriate incentives and hence a failure to limit opportunism on the part of the industry. The large volume of legislation, the difficulty in monitoring industry behaviour and the increased risk of opportunism lead to high costs of supervision. Uncertainty about the exact meaning of requirements or the hierarchy of goals has led to substantial information gathering and processing costs for both the industry and the state. The exposure to hold-ups resulting from transaction-specific investment is no longer mutual, causing the parties to search for other guarantees.

Current incentives are ill-designed and not capable of eliciting the behaviour desired by the state. Given the continuity objective of the industry, and the fact that financial incentives target an important element of this objective, one solution may be to tighten the link between performance and the financial rewards earned by the industry. The high costs of monitoring behaviour suggest that, in eliciting appropriate actions, the focus should be on output rather than on the underlying behaviour. Suggestions along these lines are already contained in the Optimisation strategy and the 1998 and 1999 Cabinet decisions on the future of Schiphol airport (Ministry of Transport, 1998c, Ministry of Transport 1999b). These decisions address the airport directly; the airline is only affected indirectly, via the airport. The suggestions include a change in the current airfield designation, splitting it up into an Airport Zoning

3 Current opinion is against the development of such a system, however.
Regulation (‘Luchthavenindelingsbesluit’), dealing with the buildings surrounding the airport, safety zones and locational issues, and an Airport Traffic Regulation (‘Luchthavenverkeersbesluit’), dealing with flight routes and noise monitoring. The strict volume caps will be removed, although a cap on noise and other emissions will be retained. The regulations aim to impose certain requirements on the industry, while leaving it free to choose its own means. To realise the potential for improvement, the state will have to provide the industry with a guarantee that investments will not be expropriated and that compliant behaviour which violates noise regulations will not be punished. A further point worth noting is that the allocation of responsibility within the sector is not consistent with the fact that only the airport designation is being changed. New requirements in airport regulation will lead the airport to claim a greater say at the industry level and may give rise to new forms of opportunism and thus new transaction cost inefficiencies. It may therefore be wise also to redesign airline licences and bring them into line with the new allocation of responsibilities. Sections 4.5.6.1 and 4.5.7 observed that the Community structure still gives the state some powers to tie a licence to factors that enhance goal attainment. An alternative strategy would be to stimulate the industry players to sign covenants or service level agreements codifying their underlying relationships. These agreements should be consistent with EC law. Coercion may continue to be needed because the presence of international airline alliances reduces the effect of any domestic measures targeting the airlines and because non-Dutch carriers may have only a limited incentive to enter into covenants. Section 6.4.2.1 noted that any such regulation would amount to airport regulation.

To reduce monitoring costs, the state could delegate monitoring activities to more independent third parties. In 1999, in the context of the disentanglement process (see Section 3.3.1), a suggestion was floated to set up a specialised airport institution. The Cabinet Decision of 17 December 1999 mentions a ‘Handhavingsdienst’, which would fall under the ‘Inspectie Luchtvaart’ and would combine all available expertise and authority concerning airport matters into a single organisation. However, as part of the Ministry of Transport, it would not be independent.

6.5 - Evaluation

Section 5.10 concluded that the Community has some strong features in certain respects but not in other respects. It postulated that sovereignty at the interstate level and coercion at the domestic level make the industry the more natural target for change than the foreign state. The suggestions made in Section 6.4 confirm that it should indeed be easier to effect change directed at the industry.

This conclusion and the analysis in the thesis may help policymakers as they try to influence the future development of the Community and their own position in that development. If
transaction cost minimisation and goal attainment remain appropriate criteria, the model may help policymakers identify where they should focus their attention as they devise and evaluate particular policies.

One example of how the model may be used is in the allocation of the property rights to the airspace. There is some discussion about whether the state should retain the remaining property rights or should delegate these to the industry. Chapter V showed that the assignment of property rights is an important factor in the distribution of transaction costs within a governance structure. In the Community, the industry has acquired the bulk of these rights, which has shifted the problems of uncertainty and opportunism from the interstate to the state-industry level. Coupled with the conclusion that there is more scope for improving the functioning of the market at the industry level, the model provides a case for delegating the property rights that remain with the state to the industry. A supporting argument may be found in Section 5.2.4, which noted that the industry may be capable of generating an efficient outcome, implying that the state cannot improve the performance of the industry without incurring significant costs. There are of course other considerations not addressed by the model. First, it is unlikely that the industry will generate an efficient outcome in the current environment because the industry's goals conflict with certain public interests. If the state completely withdraws from the market, the industry may not have sufficient incentives to act in line with those interests. Second, Chapters IV and V observed that the position of the Netherlands as a Member State of the Community restricts the powers of the state to unilaterally decide what to do with the property rights it possesses. Though the current structure allows the delegation of these rights to the industry, the intent of the structure is clearly to effect exchange with non-EC countries at the state rather than the industry level. As a result, the Netherlands may be accused of breaching its duties as a Member State if it were to effect such a transfer at this time. Notwithstanding these caveats, the model provides one argument in favour of the suggested transfer. A second example concerns the conflict identified in the analysis between greater freedom for the industry and the introduction of new legislation. The analysis has shown that the industry cannot easily cope with the pressures of a freer market and simultaneous regulation by the state. At present, Dutch society is placing a growing emphasis on healthcare, safety and other social goals. If these are accepted by the state in its current revision of air transport regulation, it would imply additional requirements and hence regulation for the industry. A recognition of this conflict is one input into the decision of whether or not to incorporate those goals.

It is hoped that the model may provide similar guidance in other policy decisions.