

Chapter 14

Some Considerations About Value Creation in Regard to Entrepreneurship and Innovation From Public Service Obligations on Scheduled Air Transport

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ABSTRACT

Airlines are open to and enjoy a high standard of regulations within the EU Internal aviation market. However, scheduled air services are at times restricted to the access of single markets due to the imposition of public service obligations. This situation is regarded as market failure so this chapter addresses some key aspects in which these impositions can provide elements to create value in regional economies and the private sector through entrepreneurship and innovation. To this end, authors analyze the importance of such fundamental concepts in the transportation sector in regard to air routes not sufficiently covered by carriers in a free market regime despite business opportunity or lack of profitability. This chapter suggests how to improve participation of entrepreneurial companies in tender processes and award of contracts for these specific impositions.

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INTRODUCTION

As a result of the intense liberalization process of the air transport carried out by the European Union (EU) between 1993 and 1997, airlines have been able to accomplish the conformation of a genuine single European market in this sector. In addition, the air transportation industry had in the past made enormous efforts to cut operating costs and improve performance efficiency. Simultaneously, this has been influencing the costs of likely air services to continue to result in further advantages for consumers. The effective opening of the European Single Market in aviation became effective on April 1, 1997, which has nonetheless brought a more substantial competition in the airline industry with the entrance of new competitors, as this has had a direct impact on airfares.

Despite all this, the internal air transport market does not always present a sufficient level of competition as expected, or sometimes do not even meet the needs of the population as airlines are missing on certain routes. Such market failure may therefore occur and cause a lack of supply of air transport in the territories concerned. When this happens, any Member State can decide whether or not to impose a Public Service Obligation (PSO) on particular scheduled air service, to evaluate whether this imposition can adequately serve transport needs of a given region. In fact, such impositions are usually requested by regions to national aviation authorities, which are in turn responsible to analyze the need for this transportation in their territories, as well as to ensure tender process and award of contracts for this, and obviously to communicate this to the DG MOVE¹. While not all imposed PSOs are subject to tendering procedure, all impositions must be at least notified to the European Commission through DG MOVE. Hence, information about each PSO like the imposition, the invitation to tender, or even any modification to which this may apply, shall be published in the Official Journal of the European Union (OJEU).

For several years, certain regional governments have been advocating improvements in transport connectivity in order to ensure the population mobility, thus contributing to the integration of the territory by means of public transport services. Nevertheless, not all routes within the deregulated European aviation market have always been covered from private initiative due to operational circumstances, and even by reason of a lack of profitability. When this happens, national civil aviation authorities are free to intervene within the EU Single Market in air transport by allowing residencias subsidies or impositions of public service obligation on scheduled air services in order to keep the supply of transport public services. Thus, typically, PSO air routes serve remote locations, or not so well connected, and so that it acts as a vital socio-economic lifeline in those regions particularly concerned by this issue.

Given the fact that transportation is a key element of development, which in turn contributes to the integration of territories, insufficient transport connectivity has a considerable impact at the regional level both socially and economically. Likewise, when possible, the development and promotion of public means of transport to the detriment of the use of the private car is highly desirable in terms of environmental sustainability. Therefore, transportation has a key role in achieving this goal, as it is considered as public service. In this regard, some aspects related to service assessment of transportation has also been considered in previous studies, such as the implication role of demographic characteristics (Yaya et al., 2015) or the level of satisfaction (Vicente & Rey, 2016) on this matter.

Thus, in the above context, the present chapter aims to consider some aspects involved in PSO air routes through an approach at a regional level in terms of value creation, and how this may relate to factors such entrepreneurship and innovation. Throughout this chapter attention will be drawn to certain issues worthy of attention on those imposed PSO routes, which act as generators of supply of air services, such as the capacity to attract investment and tourism in those territories, whose airports are

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