

## PRESS RELEASE

### **The CNMC publishes a study on the impact of airfare discounts for residents of non-peninsular territories**

- The number of inter-island and island-peninsula journeys increased after the ticket discount for residents was raised from 50% to 75% between 2017 and 2018.
- The average price of tickets purchased by residents held steady on inter-island travel.
- For travel to and from the peninsula, the average price of tickets purchased by residents increased, although the actual average price (after applying the discount) fell.
- Non-resident passengers changed their consumption pattern to protect themselves from price increases: they made their purchases earlier and travelled on *low-cost* airlines more.
- The cost of the discount to the State has doubled and is estimated to exceed €765 million in 2019.
- The CNMC recommends evaluating mechanisms to increase the sensitivity of resident passengers to price, reconsidering the entire connectivity support system and studying alternative systems.

**Madrid, 22 April 2020.**– The CNMC has published a study on the impact of airfare discounts in non-peninsular territories, which went from 50% to 75% between 2017 and 2018 ([E/CNMC/005/18](#)).

It analyses the effects of the increase in the discount for residents of the Canary Islands and the Balearic Islands on the island air travel market and price behaviour. This analysis was carried out at the request of the Directorate-General of Civil Aviation of the Ministry of Transport, Mobility and Urban Agenda, and of the Directorate-General of Ports and Airports of the Government of the Balearic Islands.

The study was carried out with data from prior to the declaration of the state of emergency on 14th March 2020, in response to the health crisis caused by COVID-19. For this reason, it refers to the previous market situation and the regulation that existed up to that time.

In 2017 and 2018, new measures were passed to encourage support for the connectivity of the Canary Islands and Balearic Islands. As a result, the discount on the purchase of airline tickets for journeys between the islands and with the rest of the country increased to 75%, compared to the 50% discount previously applied.

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## Impact on prices

Following the increase in the discount, there was a sharp increase in demand from residents of the islands, boosting average ticket prices on flights to/from the peninsula.

Despite the increase in prices for travel to/from the peninsula, resident passengers ended up paying less for their tickets, due to the discount effect, and travelled more, improving connectivity.

To protect themselves from price increases, travellers not residing in the islands chose to buy tickets earlier and travel more on *low-cost* airlines.

In contrast, there is no change in price trends for inter-island routes, which can be explained by greater spare supply capacity.

It is significant that the cost of this measure to the State has doubled and is estimated to exceed €765 million in 2019, following the increase in the discount.

## Recommendations of the CNMC

A review of economic theory and empirical evidence shows that there is no perfect system to support connectivity. Any measure has advantages and disadvantages because it affects market conditions and incentives for agents. This does not mean that support measures should not be taken, but that the administration must weigh the various alternatives in each case and assess their costs and benefits to ensure that they are beneficial to citizens.

The CNMC proposes a series of recommendations to minimise the undesired consequences of the increase in the discount, such as the price pressure that appears to have occurred on island–peninsula routes. Specifically:

- Evaluate measures to increase the price sensitivity of resident passengers (such as indicating the total price of the ticket together with the discounted price, settling the aid ex post, setting ceilings on the discount amount or limiting the discounted items on tickets).
- Take an overall view of all aid to compensate for insularity, given that the discount for residents coexists with other measures, and carry out a continuous review from the perspective of efficient economic regulation principles to ensure its effectiveness.
- Evaluate other possible aid mechanisms to compensate for isolation. For example, a system of tax exemptions for residents, not linked to travelling.

The CNMC is the independent regulatory body for markets that guarantees and promotes effective competition for the benefit of consumers and users. This study is carried out in the exercise of the powers provided for in article 5.1.h) of Act 3/2013, of 4 June, on the creation of the CNMC.