



Ryanair

**Review of ENAC Report on the Rise in the Price of Air Tickets
(Relazione concernente il rincaro dei prezzi dei biglietti aerei)**

Executive Summary

York Aviation (YAL) has been commissioned by Ryanair to undertake a high-level review of a letter recently produced by Italy's Ente Nazionale Per L'Aviazione Civile (ENAC) and provided to the pricing regulator within the Ministry of Enterprises. The letter outlined ENAC's view on recent air fares within Italy (specifically considering flights to Sardinia and Sicily) and potential control measures which could be applied to airlines going forward.

The analysis and conclusions are derived from an inaccurate understanding of the airline and air transport market and is supported by data with no clear origin or checks for accuracy (e.g. an Italian newspaper is bizarrely used as a source). ENAC make a number of assertions about algorithms and pricing strategies for airlines which are simply not relevant to the nature of the operators identified within the letter, which are primarily load-factor active low fares airlines that do not price to maximise profit per flight, but instead price to maximise seat sales in totality. Such a pricing model offers seats at the same price to all segments of the market at any point in time and can also lead to price reductions if sufficient seats have not been sold as the date for travel approaches. This varies from the strategies outlined by ENAC which appear to refer to the incumbent legacy carriers which price fares to maximise the yield per seat sold.

ENAC particularly fails to understand that the scale of a market has a direct correlation to the fares charged by airlines and that if minimum fares are imposed this will price-out some passengers from the market and therefore reduce the market size. The effect of this is to put in jeopardy a service if passenger numbers fall so low that an airline can better use its aircraft resources elsewhere, across other EU states. Any reduction in frequency and capacity would clearly see a reduction in competition. In any case, removing the lowest fares would lead to social disbenefit as there would then be a part of society that may not be able to travel, and this appears counterintuitive for island communities.

Proposals to impose minimum and maximum air fares and to require airlines to publish the full set of their fares is not consistent with free competition, contrary to ENAC's claim. Publishing charges would lead airlines to de-risk their operations by pricing higher than required in order to counter any reductions in market size or the inability to actively manage the load factor. Furthermore, requiring airlines to publish their fares will remove the need for competition and carriers will simply match fares, essentially leading to collusion without airlines ever engaging with each other. This is not consistent with free competition.

ENAC includes charts in its letter that highlight that air capacity between mainland Italy and Sicily increased by 13.9% in 2023 vs. 2019 and between mainland Ital and Sardinia has increased by 13.3% in 2023 vs. 2019. This rapid increase in capacity demonstrates a healthy and well-functioning market, and that consumers can sustain the air carriers' pricing models. This further demonstrates that ENAC is wrong to claim that price control measures are needed.

Ultimately the right for airlines to freely set fares is set out in EU Law in Article 22.1 of Regulation (EC) no 1008/2008¹. Airlines are not tools of public policy and should not be seen as such as to do so would undermine the liberalisation of the air transport market, and harm competition, choice and connectivity.

Introduction

York Aviation (YAL) has been commissioned by Ryanair to undertake a high-level review of a letter recently produced by Italy's Ente Nazionale Per L'Aviazione Civile (ENAC) and provided to the pricing regulator within the Ministry of Enterprises. The letter outlined ENAC's view on recent air fares within Italy (specifically considering flights to Sardinia and Sicily) and potential control measures which could be applied to airlines going forward.

This note considers specific points made in the letter in order, as well as providing an overall view of the findings and conclusions. Where points are made related to specific paragraphs and sections of the letter, we have provided the reference and both the original and translated English versions for completeness².

Review of Letter

In the first instance, it is important to recognise that pricing of airline tickets follows patterns typical of most companies across all sectors of the economy, so any intervention in the market is likely to result in competitive distortions.

Article 22.1 of Regulation (EC) no 1008/2008³ stipulates the freedom of air carriers to freely determine their own fares. Airlines are not tools of public policy and should not be seen as such as to do so would undermine the liberalisation of the air transport market, and harm competition, choice and connectivity. The letter and the proposals contained within it appear to be an attempt by the Italian Government to legislate, and thereby erode, the competitive market simply because it does not like what it sees in terms of outcomes on certain routes at certain times.

The European airline market can be seen as a contestable market in which airline entry is largely without barriers and where airlines are free to enter and exit markets, such that the threat of entry leads to airlines pricing their fares competitively even where they do not face direct competition. Whilst some airports are coordinated⁴ for the purpose of slot allocation, which may indicate the existence of slot constraints at certain times, a review of the slot coordination reports for fully coordinated airports on Sicily and Sardinia⁵ indicates the continued availability of significant capacity in many hours that could be available for new operators if they saw a market opportunity if the fares being offered by the existing airlines were seen as excessive. Even airports serving major Italian cities, such as Rome and Milan, had significant spare capacity⁶ that would allow entry by new operators if opportunities are identified to undercut any excessive fares on routes to Sardinia and Sicily (or any other Italian domestic route). The contestable nature of the European market and the lack of apparent new interest in these routes indicates that the way the market has been operating is consistent with the wider European air travel market where there have been significant rises in costs overall in 2022-2023 (e.g. fuel, labour costs, carbon pricing).

¹ REGULATION (EC) No 1008/2008 OF THE EUROPEAN PARLIAMENT OF THE COUNCIL of 24 September 2008 on common rules for the operation of air services in the Community (Recast), Article 22.1

² We have worked from a translation of the ENAC memo. We believe the translation is of a high enough standard to allow us to provide a critique of the points being made by ENAC

³ REGULATION (EC) No 1008/2008 OF THE EUROPEAN PARLIAMENT OF THE COUNCIL of 24 September 2008 on common rules for the operation of air services in the Community (Recast), Article 22.1

⁴ Only two of the four commercial airports on Sicily are full coordinated and only two of the four commercial airports on Sardinia are fully coordinated (with one only Summer Coordinated)

⁵ Assoclearance Summer Season 23 NAC Charts, <https://www.assoclearance.it/coordinamento/aeroporti-coordinati/>

⁶ Assoclearance Summer Season 23 NAC Charts, <https://www.assoclearance.it/coordinamento/aeroporti-coordinati/>

European legislation provides mechanisms for ensuring adequate air service access to remote communities and, where required, for setting price caps through the imposition of Public Service Obligations (PSOs) on certain routes, subject to approval by the European Commission. Restrictive PSOs are already provided between airports on both Sardinia and Sicily back to the mainland, which historically reserve certain routes to individual airlines. However, Italy has not made good use of “stage one” PSOs which provide the State with an opportunity to stipulate fare boundaries, without a need to remove competition from the route.

Throughout the letter, ENAC fail to recognise that the scale of the market has a direct correlation to the fares being charged and that if the lowest fares are increased then the market size will actually reduce due to the pricing-off of the most price-sensitive passengers, who simply will not travel at a greater cost. The only way to reinstate the observed market size would be through lower fares again which would not be permitted if ENAC’s proposals were implemented. In other words, there would be economic and social harm from ENAC’s proposals with far wider consequences, particularly for the island communities. The alternative, if demand were suppressed in this way, would be for airlines to reduce frequency or capacity, thereby reducing competition and choice for consumers.

ENAC try to suggest that suggestions within the letter are in line with free competition which is clearly not true if the state intervenes and sets out criteria for fares. Indeed, the proposals appear to be thoroughly anti-competitive because the pre-publication of all fares would just allow airlines to match their competitor’s fare levels, effectively creating collusion within the market.

The letter relies on data published in a newspaper and it is simply not clear how this data was obtained, nor whether it is accurate. It is not clear if the fare data is based on spot dates or averages over time, the latter of which would be impossible to project accurately as even airlines do not hold this data for their competitors. Given how unreliable this data may be, it is not a reasonable basis for the analysis and conclusions presented by ENAC.

No real data or evidence is provided to substantiate the claim that fares at Christmas 2022 were 70% higher than a year before, but even if this were the case, this is not a reasonable comparison as Christmas 2021 continued to be impacted by COVID-19’s Omicron variant and Government and international restrictions on travel which had led to a collapse in air fare prices. Indeed, all fare comparisons between 2023 and 2021/2022 must be treated with extreme caution as the markets were still recovering through this period post-COVID and air fares were very low as airlines tried to encourage passengers back to the air. Again, short term analysis and comparisons is therefore not a reasonable basis for the conclusions drawn by ENAC.

ENAC make reference to passenger demand increases at key airports on Sardinia and Sicily, but this is not relevant to the pricing coordination points included in the letter overall and is more likely a result of the increased demand for tourism which has been seen across Europe post-COVID. Furthermore, if fares were excessive on these routes then it would seem more likely that demand should be suppressed and falling, rather than climbing.

We now consider a number of points expressly made within ENAC’s letter.

Point 1 – Pages 5-6

Original Italian	Translated English
Le politiche tariffarie dei prezzi applicati 3ale compagnie aeree sono inevitabilmente condizionate 3ale peculiarità che caratterizzano l’offerta e la domanda del servizio di trasporto aereo. In particolare, la domanda, da un lato, è fortemente influenzata dalla natura del viaggio (business o leisure2) che incide sull’elasticità rispetto al prezzo e	The pricing policies applied by the airlines are inevitably conditioned by the specific characteristics of the supply and demand of the air transport service. In particular, demand, on the one hand, is strongly influenced by the nature of the journey (business or leisure) which affects the price elasticity and flexibility of the offer; on the other hand, the offer is prepared well in advance and is

<p>alla flessibilità dell'offerta; dall'altro lato, l'offerta è predisposta con ampio anticipo ed è legata a diversi fattori quali il numero di voli operati sulla rotta, la tipologia di aeromobile impiegato etc.</p> <p>Il vettore di norma persegue il riempimento dell'aeromobile aspirando al conseguimento del massimo profitto perciò, considerate le caratteristiche dei diversi segmenti di domanda, tende ad operare una discriminazione di prezzo con l'obiettivo di eguagliare il prezzo massimo che l'acquirente è disposto a pagare per il servizio di trasporto aereo. La discriminazione di prezzo è generalmente praticata attraverso la previsione di tariffe differenziate a seconda:</p> <ul style="list-style-type: none"> - della tipologia di passeggeri, ad esempio bambini oppure militari, sportivi etc; - delle classi di prenotazione ciascuna caratterizzata da un diverso livello di qualità e di flessibilità del servizio offerto (i.e. first, business ed economy); - dell'anticipo con cui sono acquistati i biglietti. 	<p>linked to several factors such as the number of flights operated on the route, the type of aircraft used, etc.</p> <p>The carrier normally pursues the filling of the aircraft with the aim of achieving maximum profit, therefore, in view of the characteristics of the different demand segments, it tends to discriminate in price with the aim of equalizing the maximum price that the buyer is willing to pay for the air transport service. Price discrimination is generally practiced through the provision of differentiated tariffs according to:</p> <ul style="list-style-type: none"> - the type of passengers, such as children or military personnel, sportsmen, etc.; - the booking classes each characterized by a different level of quality and flexibility of the service offered (i.e. first, business and economy); - the advance with which the tickets are purchased.
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There are a number of key aspects to this point which are false. Firstly, many of the larger low fares airlines in Europe, including Ryanair and Wizz Air, do not seek to maximise profit as described, but rather are load factor active, aiming to maximise the number of seats sold per flight rather than the specific revenue. This can actually mean fares fall over the booking period with these airlines to increase the number of seats sold if the targets are not being achieved. Secondly, considerations such as "military personnel, sportsmen, etc" are not relevant to most airlines in Europe, including low fares airlines such as Ryanair, Wizz Air, easyJet etc. which instead simply market a price for a seat and put them on the open market for anybody to buy. Where such practices may continue, this is likely limited to state-owned carriers with historic precedents for this. We understand that state-owned ITA Airways may still offer discounts for military and police for example and this may drive them to push up fares elsewhere, but this is not a common practice by airlines in Europe. Thirdly, in the context of the Sardinia and Sicily markets, it is not relevant to be highlighting first class which is not offered by any airlines on intra-European or domestic Italian routes and indeed is only offered by a very limited number of airlines in Europe on their long haul networks currently.

Despite significant misunderstandings by ENAC in relation to airlines in Europe within this point, any general principles around businesses offering differential products or pricing simply describes a market economy functioning as it should and represent a normal balancing of supply and demand. Allowing commercial operators in any sector to behave in this way is how markets reach equilibrium and achieve pareto efficiency.

By taking into account the demand elasticity of different market segments, the airlines also maximise the economic and social benefits of their services by ensuring adequate provision of capacity across all customer segments.

The approaches described here are common to other transport modes, such as ferries, coaches and rail travel in many cases and controlling demand and supply through differential pricing is common to other industries and sectors also. Furthermore, as the approaches described here are common across Europe then they appear to fit perfectly with the principles of Article 22.1 of Regulation (EC) no 1008/2008 as there is no different approach being taken in Italy which would justify market intervention by the State.

Original Italian	Translated English
<p>Per quanto specificatamente attiene ai vettori low cost⁴, questi ultimi praticano poi una discriminazione inter-temporale di prezzo, che prevede una sola tariffa per ogni istante di tempo. L'ottimizzazione del coefficiente di riempimento (i.e. load factor) e la massimizzazione del profitto sono perciò realizzati mediante la variazione dei prezzi all'avvicinarsi della data del volo. In tal caso quindi, la discriminazione opera attraverso la selezione dei soggetti con diverse disponibilità economiche individuate in base all'anticipo con cui questi sono disposti a prenotare.</p> <p>Data la crescente spinta competitiva dei low cost anche le compagnie aeree tradizionali⁵ hanno adottato la sopra illustrata tecnica per la fissazione dei prezzi, seppur in maniera meno accentuate.</p>	<p>As regards low -cost carriers specifically, the latter then practice inter-temporal price discrimination, with only one charge per moment of time. Optimisation of the load factor and maximisation of profit are therefore achieved by changing prices as the flight date approaches. In such a case, therefore, discrimination takes place through the selection of entities with different financial resources identified on the basis of the advance with which they are willing to book.</p> <p>In view of the increasing competitive pressure of low cost airlines, traditional airlines have also adopted the above-mentioned pricing technique, albeit in a less accentuated manner.</p>

The basic principles outlined here are consistent with a number of market sectors, not just air travel. Indeed, the principles outlined here apply equally to the state-owned railway system in Italy where tickets booked the day before travel are priced significantly higher than those booked further ahead. In reviewing the route between Milan and Rome on Trenitalia's website⁷, the price for travel the following day is five times higher than the same train times one week later and nine times higher than if the same services are booked four weeks ahead of travel. It is not clear why the State is opposed to these principles being adopted by airlines when it practices them itself on the railways and, indeed, at state-owned airline ITA Airways.

Furthermore, the load-factor active approach taken by low fares airlines means that fares fall as a flight date approaches if insufficient seats are already filled. This differs from more traditional airlines where fares will tend to simply get higher and higher as the date of the flight approaches due to their model of yield-maximisation for each additional seat sold (this also applies to the state-owned railways in Italy). Where low fares airlines do not lower their fares, this indicates that the market is working in equilibrium because they are matching supply and demand through pricing. If the market was not willing to bear the air fare costs, then seats would not be booked and the airlines would lower fares again to attain a demand/supply balance.

Point 3 – Page 7

Original Italian	Translated English
<p>Dunque, premesse le considerazioni sin qui svolte, occorre altresì evidenziare che dalle verifiche effettuate è emerso come la dinamica dei prezzi sia anche governata dagli algoritmi impiegati dalle compagnie aeree che tendono ad aumentare i prezzi dei biglietti man mano che rilevano un maggiore interesse nella clientela per quella specifica tratta. Gli algoritmi, oltre a valutare la tempestività dell'acquisto, sfruttano la geo-localizzazione, individuano il tipo di dispositivo utilizzato (iOS di Apple viene</p>	<p>So, given the considerations so far, it should also be pointed out that the checks carried out have shown that price dynamics are also governed by the algorithms used by airlines which tend to increase ticket prices as they detect greater customer interest in that particular route. The algorithms, in addition to assessing the timeliness of the purchase, exploit geo-location, identify the type of device used (Apple's iOS is associated with a mid-to-high-end of buyers, and therefore using it can lead to higher expenses) And every file saved on the computer of users who use a particular program to browse the Internet, such as Chrome, Firefox, Internet Explorer, Safari, and many more. In essence, all traces left on the web surface</p>

⁷ www.trenitalia.com

<p>associato ad una fascia medio-alta di compratori, e dunque utilizzarlo può portare a spese maggiori) e ogni file salvato sul computer degli utenti che utilizzano un particolare programma per navigare in Internet, come Chrome, Firefox, Internet Explorer, Safari e tanti altri. In sostanza, tutte le tracce lasciate sul web vengono a galla per “definire” il profilo del compratore e stabilire il prezzo che, appunto, può variare in base alle informazioni raccolte.</p> <p>L’utilizzo senza limiti dell’algoritmo comporta che gli incrementi di prezzo non si riscontrano unicamente a ridosso delle vacanze, bensì anche in occasione di incidenti ed eventi calamitosi che rendono non fruibili alternative tipologie di trasporto quali quello ferroviario o su strada come è recentemente accaduto in occasione del deragliamento del treno merci nei pressi della stazione di Firenze Castello o dell’alluvione in Emilia-Romagna. Nelle citate occasioni, infatti, alla soppressione dei collegamenti ferroviari e all’inagibilità di alcuni tratti autostradali è conseguita un’impennata della domanda di trasporto aereo e l’utenza ha lamentato eccessivi incrementi dei prezzi dei biglietti aerei che, con riferimento a specifiche rotte domestiche, sono arrivati a toccare anche i 1.000 € l’uno.</p> <p>Ebbene, l’utilizzo indiscriminato dell’algoritmo determina pratiche commerciali che appaiono discutibili in quanto sembrano sfruttare situazioni di necessità ed emergenza in cui versa l’utenza con la sola finalità di massimizzare dei profitti.</p>	<p>to “define” the buyer’s profile and determine the price, which can vary according to the information collected.</p> <p>The unlimited use of the algorithm means that price increases do not occur only close to holidays, But also in the event of accidents and catastrophic events that make alternative forms of transport such as rail or road inaccessible, as happened recently with the derailment of the freight train near Florence Castello station or the flood in Emilia-Romagna. On these occasions, the abolition of rail links and the inaccessibility of certain motorway sections has led to a surge in demand for air transport and users have complained of excessive increases in air ticket prices, which, with regard to specific domestic routes, have reached as much as €1,000 per person.</p> <p>Well, the indiscriminate use of the algorithm leads to commercial practices that appear questionable as they seem to exploit situations of need and emergency in which users find themselves with the sole aim of maximising profits.</p>
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Once again there are a number of falsehoods within this point, particularly when considering the low fares airlines. ENAC presents no evidence for its claim that airlines make use of flight search data to increase prices if demand appears high. To the best of our knowledge, airlines simply offer once price until it sells out and then offer the next pricing band (and can adjust downward if the required level of seats has not been sold by a certain point in time). We are also not aware that airlines use geo-location to adjust fares, contrary to ENAC’s claim. Furthermore, airlines such as Ryanair make no use of cookies on computers and other devices to change prices for passengers (we have confirmed this with Ryanair), any difference in fare seen when searching for flights will solely be the result of seats having sold in the intervening time.

As with the previous data analysis, it is not clear where the ENAC quoted figure of €1,000 comes from or what this relates to. It is not clear which airline this applies or the reliability of the figure. It is possible that this relates to state-owned ITA Airways, but does not fit the fare profile of typical low fares airlines as quoted in the letter and therefore is not a relevant example.

Importantly, ENAC seem to claim there is a common algorithm used by all airlines in Europe. This is simply not the case. Airlines do not share their algorithms and systems, nor do they buy any standard product. In the case of airlines such as Ryanair these are relatively simplistic because the fares set are purely a function

of seats for sale, not profit maximisation on each seat sold. Therefore, it is just as likely for fares to fall under the low fares airline model as it is for them to rise.

Furthermore, the use of algorithms is common across many different industries and not unique to airlines, such that there could be no justification for singling out the low cost airline sector to be penalised for their supposed use.

Once again, it is important to recognise that, in so far as such practices are common across air travel more generally in the European Union, it strongly confirms that they are entirely consistent with the principles of Article 22.1 of Regulation (EC) no 1008/2008, such that there can be no justification for intervention in localised cases.

Point 4 – Pages 7-8

Original Italian	Translated English
<p>Dall'approfondimento effettuato, inoltre, è emerso che i prezzi di alcuni biglietti (c.d. prezzi civetta) talvolta sono così bassi da non consentire né la copertura dei costi operativi né il recupero dei diritti aeroportuali oltretché degli altri corrispettivi posti a carico del passeggero che dovrebbero essere individuati nel titolo di viaggio ma che spesso non sono indicati dai vettori con il dettaglio richiesto dalla normativa unionale.</p> <p>A tal riguardo, si ritiene che debbano essere calmierati i prezzi dei biglietti relativi a tratte che preventivamente possono ritenersi con load factor completo. Per tali tratte da un lato, non dovrebbe consentirsi l'applicazione del prezzo civetta come sopra definito e, dall'altro, per evitare la "riffa" finale, sarebbe opportuno obbligare i vettori ad esporre il prezzo di tutti i posti disponibili, seppure variabili in ragione del giorno di prenotazione</p> <p>In conclusione, sono certamente diversi gli elementi che incidono sulla determinazione dei prezzi da parte dei vettori quali la domanda elevata per determinati periodi dell'anno, le politiche dei prezzi adottate dai competitor e le eventuali limitazioni nell'incremento dell'offerta date anche dalle caratteristiche degli scali coinvolti (e.g. aeroporti coordinati o soggetti ad ulteriori restrizioni come Milano Linate), oltretché, come sopra evidenziato, l'impiego indiscriminato degli algoritmi.</p>	<p>Moreover, the analysis showed that the prices of certain tickets (so-called civet prices) are sometimes so low that they cannot be covered operating neither the recovery of airport charges as well as other passenger-borne seats that should be identified in the travel document but which are often not indicated by carriers with the detail required by union law.</p> <p>In this regard, it is considered that ticket prices on routes which can be considered to have been fully loaded must be calmed. For these routes, on the one hand, the civet price as defined above should not be allowed to apply and, on the other hand, in order to avoid the final "runaway", carriers should be obliged to display the price of all available seats, albeit variable according to the day of booking.</p> <p>In conclusion, there are certainly different factors affecting the pricing of carriers, such as high demand for certain periods of the year, the pricing policies adopted by competitors and the possible limitations in the increase of supply due also to the characteristics of the airports involved (E.g. coordinated airports or airports subject to further restrictions such as Milan Linate), as well as, as highlighted above, the indiscriminate use of algorithms.</p>

This simply reflects different price points of demand and price elasticities of different market segments, which are basic economic principles. Without the lowest fares, many passengers would be priced out of the market with subsequent social and economic disbenefits. Even for passengers willing to pay higher fares, if these get too high then fares will automatically come down if the airlines have mis-priced to fill sufficient seats.

ENAC appears not to understand that the scale of the market has a direct correlation to the fares being charged and that if the lowest fares are increased then the market size will actually reduce due to the pricing-off of the most price-sensitive passengers, who simply will not travel at a greater cost. The only way to reinstate the observed market size would be through lower fares again which would not be permitted if ENAC's proposals were implemented. In other words, there would be economic and social harm from ENAC's proposals with far wider consequences, particularly for the island communities.

Indeed, such a reduction in the market size would not only have social disbenefits, with parts of society unable to travel (and therefore even more discriminated against than ENAC considers in its other points) but there is a real risk that lower demand could undermine services altogether, leading to frequency reductions or to services being suspended altogether. The consequence would be a reduction in competition and connectivity in the market, with the likelihood of higher fares overall. The load factor active low fares airlines would simply move their resources to other bases and routes if they consistently could not achieve their target loads because a proportion of the market can no longer afford to fly. This could also damage the local tourism economies on the islands that ENAC seeks to protect.

Given that the most price-sensitive passengers are likely to have the longest booking window (i.e., the furthest from the point of travel) then it remains reasonable to offer the lowest fares early on when these passengers will be looking at booking flights.

Requiring airlines to be more transparent with their pricing will also undermine competition between the carriers because they will simply be able to price match. With such certainty on the fare levels available there will also be less incentive for airlines to reduce fares if they are not selling sufficient seats before a flight because they will know whether their fares are cheaper than competing airlines. Publishing fares and allowing other airlines to see and match these may arguably equate to collusion in the market and would be illegal.

ENAC's references to airport slots is irrelevant here because, as illustrated earlier in our note, there remains plenty of capacity which would allow new entrants into the market and, if as asserted, fares were excessively high, there would be a host of airlines trying to undercut the existing carriers. This has clearly not been the case.

It is also worth noting that ENAC's indication that the routes in question are high demand does not sit with the principle that routes to/from Sardinia and Sicily need to be subject to PSOs. This is considered in more detail below.

Once again it is not clear why ENAC are suggesting unrealistic uses of algorithms here which are simply not relevant to most of the airlines being highlighted in the letter which have simplistic pricing structures and a load factor active approach to pricing.

Point 5 – Pages 10-11

Original Italian	Translated English
<p>Con riguardo alle rotte nazionali che coinvolgono le due isole maggiori, rispetto alle quali è stato rilevato il maggior aumento dei prezzi delle tariffe aeree, occorre altresì evidenziare come alcune di queste rotte siano anche "onerate" ossia ricadono nell'ambito dei cd. oneri di servizio pubblico (OSP).</p>	<p>With regard to the domestic routes involving the two largest islands, where the highest increase in air fares was noted, it should also be noted that some of these routes are also 'burdened', i.e. fall within the scope of the cds. Public service obligations (PSOs).</p>
<p>Sul tema l'art. 16 del Regolamento n. 1008/2008 prevede la possibilità per uno Stato</p>	<p>On this subject, Art. 16 of Regulation No. Amendment No 1008/2008 provides for the possibility for a Member State to 'impose public service obligations in respect of scheduled air services operated between a Community airport and an airport serving a peripheral or developing</p>

membro di "imporre oneri di servizio pubblico riguardo ai servizi aerei di linea effettuati tra un aeroporto comunitario e un aeroporto che serve una regione periferica o in via di sviluppo all'interno del suo territorio o una rotta a bassa densità di traffico verso un qualsiasi aeroporto nel suo territorio, qualora tale rotta sia considerata essenziale per lo sviluppo economico e sociale della regione servita dall'aeroporto stesso. Tale onere è imposto esclusivamente nella misura necessaria a garantire che su tale rotta siano prestati servizi aerei di linea minimi rispondenti a determinati criteri di continuità, regolarità, tariffazione o capacità minima, cui i vettori aerei non si atterrebbero se tenessero conto unicamente del loro interesse commerciale".

L'istituto di che trattasi persegue dunque lo scopo di contemperare il diritto dei vettori aerei unionali di effettuare liberamente servizi di trasporto aereo su rotte intracomunitarie in base al proprio interesse commerciale, con l'esigenza di garantire il diritto alla mobilità dei cittadini (cfr. art. 16 Cost. e art. 21, par. 1 TFEU per il diritto alla libera circolazione dei cittadini comunitari all'interno dell'UE), in particolar modo con riguardo alle realtà territoriali periferiche o in via di sviluppo.

In Italia, l'imposizione degli oneri di servizio pubblico è disposta con decreto del Ministro delle Infrastrutture e dei trasporti sugli scali contemplati dall'art. 36, L. 17 maggio 1999, n. 144 nonché dall'art. 82, l. 27 dicembre 2002, n. 289 e deve avvenire previa Conferenza di servizi indetta dal Ministro dei Trasporti ovvero dal Presidente della Regione su delega del Ministro medesimo. Ebbene, all'interno del citato decreto vengono espressamente indicate le tariffe agevolate massime da applicare sulle tratte onerate ai residenti (periodicamente aggiornate all'inflazione e alle variazioni del costo del carburante) e, generalmente, viene disposto che la tariffa applicata ai non residenti sia libera.

Pertanto, con esclusivo riferimento alle rotte onerate, sono previste tariffe massime per i residenti proprio al fine di garantire loro l'effettivo e concreto esercizio del diritto alla mobilità. Le tariffe per i non residenti, al contrario, sono soggette alla libera fissazione da parte dei vettori e, conseguentemente, risentono dell'andamento del

region within its territory or a route with a low density of traffic to any airport within its territory, where such a route is considered essential for the economic and social development of the region served by the airport. This charge shall be imposed only to the extent necessary to ensure that minimum scheduled air services are provided on that route meeting certain criteria of continuity, regularity, pricing or minimum capacity, which air carriers would not comply with if they only took into account their commercial interest."

The Institute in question therefore pursues the aim of balancing the right of Union air carriers to freely operate air transport services on intra-Community routes on the basis of their commercial interest with the need to guarantee the right of citizens to mobility (see art. 16 Const. and art. 21, par. 1 TFEU on the right to free movement of Community citizens within the EU), in particular with regard to peripheral or developing territorial realities.

In Italy, the imposition of public service obligations is laid down by decree of the Minister for Infrastructure and Transport on the airports covered by Art. 36, L. 17 May 1999, n. 144 and art. 82, l. 27 December 2002, n. 289 and must take place following a Conference of Services convened by the Minister of Transport or by the President of the region on the delegation of the Minister himself.

The decree expressly States the maximum preferential tariffs to be applied on the routes paid to residents (periodically updated to inflation and changes in fuel costs) and generally provides that the tariff applied to non-residents is free.

Therefore, with exclusive reference to onward routes, maximum tariffs are provided for residents precisely in order to guarantee them the effective and concrete exercise of their right to mobility. On the other hand, the tariffs for non-residents are subject to free fixing by the carriers and, as a result, are affected by market developments and peaks in demand that may occur at certain times of the year.

mercato e dei picchi di domanda che possono caratterizzare determinati periodi dell'anno.	
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These points are irrelevant where air carriers choose to operate routes on a purely commercial basis as they will not have to meet any specification laid down by the State, nor will they be entitled to any support from the State for the services they choose to offer. ENAC appears to misunderstand the role of PSOs or how they are to be justified and tendered by suggesting that all services to Sardinia and Sicily may be subject to the same rules, even where a commercial operator is assuming all the commercial risk for a route.

Some forms of PSOs can include a price cap (Stage One PSO) on a route otherwise unrestricted (i.e. any airline can enter, many airlines can enter, frequencies are not dictated, etc.). Italy has not chosen to use this form of PSO however, and instead has predominantly used the "Stage Two" PSOs with tenders for a monopoly operator, rewarded by the State with a PSO subsidy.

By inferring here that the island communities are dependent on the commercial air services, ENAC is undermining the case for the PSOs that operate on routes to and from the Islands. It is not possible for the Italian Government to have it both ways, either the commercial services are inadequate, so justifying the provision of additional PSO services, or the communities are effectively sufficiently well served by (and effectively reliant on) the commercial services, which would mean that there would be less justification for a PSO service. Either way, there is simply no economic justification for intervention in the fare levels of the commercial services as, if services are not sufficient to meet all reasonable social and economic needs, the State has the ability to introduce additional "Stage Two" PSO services, reserved for one airline and with a subsidy as it has done on the island routes at issue.

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Original Italian	Translated English
<p>Al fine di porre un freno agli sproporzionati aumenti di prezzo sopra descritti, sarebbe auspicabile un intervento legislativo che consentisse ad una apposita autorità (che potrebbe essere la stessa ENAC) di monitorare la domanda/offerta di posti sulle varie rotte aeree ed intervenire, nelle tratte in cui vi è la presenza di una forte domanda, chiedendo la pubblicazione in anticipo dei prezzi di tutti i posti disponibili su ogni aeromobile in modo tale che non ci sia una variazione determinata dalla condizione dell'acquirente. Viceversa, sulle rimanenti tratte, permane la libertà dei vettori di definire tariffe anche sottocosto al fine di stimolare la domanda e incentivare il riempimento dell'aeromobile.</p> <p>In altre parole, dovrebbero essere calmierati i prezzi dei biglietti relativi a tratte che preventivamente possono ritenersi con load factor completo. Per tali tratte da un lato, non dovrebbe consentirsi l'applicazione del prezzo civetta (i.e. prezzo sottocosto che non consente neanche la copertura dei cd diritti aeroportuali) e dall'altro, per evitare la "riffa" finale, i vettori sarebbero da obbligare ad esporre il prezzo di tutti i posti</p>	<p>In order to put a stop to the disproportionate price increases described above, it would be desirable to take legislative action allowing a special authority (which could be ENAC itself) to monitor the demand/supply of seats on the various air routes and intervene, On routes where there is a high demand, requiring the advance publication of the prices of all available seats on each aircraft in such a way that there is no change determined by the condition of the purchaser. Conversely, on the remaining routes, carriers remain free to set tariffs even below cost in order to stimulate demand and stimulate the filling of the aircraft.</p> <p>In other words, ticket prices on routes that can be considered to have a full load factor in advance should be calmed down. For these routes, on the one hand, the civet price should not be allowed to apply (i.e. below cost price which does not even allow coverage of the so-called airport charges) and, on the other hand, in order to avoid the final "bribe", carriers should be obliged to display the price of all available seats, this may vary depending on the day of booking.</p> <p>This would be consistent with free competition.....</p>

disponibili, seppure variabili in ragione del giorno di prenotazione.	
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Tale possibilità sarebbe coerente con la libera concorrenza.....	
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ENAC has fundamentally misunderstood large parts of the aviation market, particularly failing to recognise that the current high demand is a function of the pricing structures adopted by the airlines, including low pricing which caters for a segment of the market which is ultra price-sensitive and for which other fares would simply be too high, pricing them out of the market and discriminating against a proportion of the population that cannot afford to travel at higher fares.

ENAC's apparent desire to bring demand and capacity more in line by limiting both low and high fares, is more likely to have the opposite effects as it would result in the pricing out of a segment of the market. There would be further potential impact to the extent that such intervention undermines the airlines' business case for these routes and could see them deploy aircraft elsewhere, reducing capacity and competition in the market further.

Publication of all pricing is likely to lead to a rise in all fares as the airlines will not be free to dynamically price and, therefore, will need to err on the side of caution and publish higher prices. This will actually lead to higher average fares with subsequent consumer disbenefits.

Conclusions

ENAC has clearly demonstrated a misunderstanding of how functioning market economies operate, balancing supply and demand through pricing. Price adjustments simply allow the markets to reach equilibrium.

The proposals for removing the lowest fares are likely to discriminate against a proportion of society that could not afford to travel if fares were higher. This would bring social disbenefits. This may also reduce demand to a point that services are no longer commercially viable for load-factor active airlines and is likely to see them redeploy their aircraft assets to other routes, leading to a reduction in capacity and associated competitive pressure on other airlines resulting in higher prices and restricted services.

Given that the European market can be considered contestable, and there would be sufficient airport capacity to allow other airlines to enter the markets if they saw an opportunity to undercut fares, then this suggests the fares are in balance with the costs to the airlines and the willingness to pay of the consumers.

The State is granted the ability to impose "stage one" PSOs with price caps in cases where they deem certain routes to be of vital importance to social and economic cohesion of insular communities.

The pricing dynamics identified by ENAC as undesirable are, in practice, common across all transport modes more generally in the European Union, which confirms that these are aligned with the principles of Article 22.1 of Regulation (EC) no 1008/2008 and should not be subject to intervention in localised cases.

RC/LC 21.8.23