Airport Slot Allocations In The EU: Current Regulation and Perspectives.

Olivier d'Huart

December 2009
Objectives of the study

- Identify what the current situation of slot allocation is in the European Union.

- Identify which driving forces have influenced the decisions of the European Commission and Parliament since 1992.

- Identify and evaluate the possible options for reform of the current slot allocation process in the EU.

- Suggest a reform that would be both:
  - Efficient for demand management?
  - Comply with the identified driving forces?
  - Realistic at the EU scale?
Context

- Priority currently given to rail rather than air in the EU.
- Yet consciousness that air is at stake for global competitiveness of the EU.
- Foreseeable capacity crunch, with double traffic and estimated 20 airports congested 8 hours a day by 2025.
- No matter the scenario, capacity increase cannot follow the increase in demand
- Need for an efficient demand management system of slot allocations at the EU level.
Current regulation


- Grandfather rights if the slot is used 80% of the time. If a slot is under-utilized through the airline’s fault or if airline does not renew it, it joins the “slot pool”.

- If new entrant demand is sufficient, 50% of the slot pool is reserved for new entrants.

- New entrant:
  - Holds less than 5% of slots at an airport, less than 4% at the multi-airport system, and either:
    - Holds fewer than 5 slots/day at the airport after allocation
    - Holds fewer than 5 slots/day for a non-stop service with a maximum of 3 competitors after allocation.

- One-on-one exchange of slots allowed.
What are the driving forces of EC decisions?

- Improve capacity utilization
- Liberalize air transportation with a single market for global competitiveness
- Have neutral, transparent, non-discriminatory rules
- Place the user at the center of the policy
- Limit total capacity (as opposed to the US) for congestion, safety and environmental issues.
- Strong reform averse airlines
- Slow reform environment: many parties involved, lots of communications and proposals, little reforms. Regulations now have to go through the UE parliament.
Parties involved in slot coordination

source: EUACA

- Member State
  - EU
    - Commission
    - Council
    - Parliament
  - CAA
- ATC
- Airport Coordinator
  - Coordinated Flights
  - Co-Parameter
  - Slot Monitoring
- Airlines
  - Schedule Information
  - Slot Monitoring
  - Initial Requests
  - Coordination Parameter
  - Coordination
- Airports
Is the current system efficient?

- The slot pool is not enough to allow for growth of new entrant competition.
- At Heathrow, slot exchanges exceed slot allocations.
- There is no incentive for an incumbent carrier that operates a not very profitable route to make it available to competition...

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Existing local supplementary regulations

Mainly Heathrow: Peak-hour pricing (since 1972!) and trading of slots between airlines. Provides good insight of possible impact of such measures at the European level.

Düsseldorf: OPUS, Optimisation Program for Using slots. Prohibits the use of high frequency service with small aircrafts.
Solution 1: Peak-hour pricing

- Keep the current system but with higher costs at congested times, lower costs at off-peak times.

- Efficient on the short term, but on the long term requires an overall increase of costs. Unfair to the airlines?

- Will always be unfair to some airlines. It is really difficult to evaluate the real value of external costs of congestion. Airports authorities have been sued many times and had to change their peak-hour pricing.

- Impossible to have a regulation imposing a single peak-hour pricing structure to all EU airports: charges vary, externalities vary etc. All the regulation could say is “airport should implement a form of peak-hour pricing...”
Solution 2: Secondary trading

- Airlines own slots, can sell/buy/lease/exchange them.
- Should match better slot capacity with slot demand, and ease new entry. (Principle of market-based mechanisms)
- Should **theoretically** lead to an increase in:
  - high load factor services
  - long haul services
  - overall passenger volumes
  - utilization of slots
- Requires centralized anonymous transactions
- Requires that the keep-it-or-lose-it rule be kept.
- Slot ownership should be restricted to carriers (cf US)
Solution 2: Secondary trading

- But the problem with secondary trading lies in practical experience at Heathrow:
  - Risk of incumbent major carrier hub consolidation.
  - Over the last years, buying operations of slots by BA account for 75% of slot transactions at Heathrow!
  - Market principles best apply to homogenous goods, but airport slots are heterogenous, the value of each slot is different for each airline, slots being all interconnected for scheduling.
  - The positive impact of trading in the US might not be transferrable to Europe. JFK is less of a monopoly than FRA, US slots do not cover facilities, only US domestic are traded etc.
Solution 3: Auctions

- Poses serious scheduling issues for airlines.

- Auctioning that would be scheduling-friendly is very complex to implement.

- It has been suggested to limit auctioning to a small number of slots:
  - Make of slots time-limited concessions with grandfather rights and that would be periodically auctioned: Strong opposition from airlines who would lose grandfather rights + money during auctions + long term strategic planification impossible due to auction uncertainty
  - Auctioning the slot pool, with overall secondary trading.
My recommendation

- Auctioning the slot pool, with overall secondary trading. (Will take time to come with EU inertia, but only way to go?)

- Secondary trading is easy to implement above the existing framework.

- It is OK with some airlines now, as they would gain ownership of slots, begin with their current allocations, and overall increase of costs for them is limited.

- 50% of the slot pool could still be reserved for new entrant auction only. I would enlarge one of the definition of a new entrant to more than 5 slots by airport.

- Utilization rates could be made more stringent to avoid hub consolidation and to increase slot pool size.

- Benefit from the pool auction would go to the incumbent airline: No more bankruptcy exemption.
“The first priority in a slot debate should be to increase capacity. Secondly, airlines should be able to maintain the slots that they use. Thirdly, incumbent carriers, particularly at their hubs, should be allowed to participate proportionately in growth whenever new slots are available. Fourthly, the arrangements by which slots are exchanged should be maintained.”

“there is no proven benefit in a change of the existing rules of allocation”

“We firmly believe that Europe needs a stability of slots [...] to meet the region’s economic and social needs.
Questions? Comments? Disagreements?