Measure 21: Slot on Community airports

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Policy package: **3A**: Air transport liberalisation and harmonisation
Measure 21: Common rules for the allocation of slots at Community airports
What is the problem being addressed ? Insufficient runway capacity cause major airports delay problems around the world. Airport slot allocation is necessary when demand for airport's services exceeds its capacity. This may be resolved in different manners, for instance through more efficient mechanisms to allocate the scarce capacity, such as slot auctions. Nowadays, traffic at the most busy airports in the EU is rationed by administrative slot allocation systems. The most common system is based in the creation of scheduling or slot coordination committees at airports, where capacity limits exist. Typically this issue is resolved by "grandfathering", whereby slots are allocated giving incumbent airlines slots according to their prior use of these slots. This method has been one of the most controversial topics in air transport economics and not exempt of strong criticism for anti-competitive concerns. For this reason, some countries have introduced some special clauses "use it or lose it", where airlines lose the slot if they do not use it above 80 percent of the time. This clause tries to impede some strategic action of incumbent airlines in order to deter the entry of new competitors. This is the system of slot allocation currently used in the Community, based on Regulation No 95/93 (see below). In a nutshell, the current system perpetuates the market presence of an air carrier at an airport without making sure that slots are allocated to these air carriers which then make the best use of them, i.e. offer competitive services to the largest possible number of passengers.
Measure's costs and/or benefits: Additional information on measure's costs is needed.
Legislative implementation at the EU level: The allocation of landing and taking-off slots at Community airports is regulated by Council Regulation No. 95/93, the purpose of which is to ensure an efficient distribution of slots in a transparent and open manner. This regulation is broadly based on well-established slot scheduling procedures devised by the International Air Transport Association (IATA). However, the Regulation has recently been amended with the Regulation No 793/2004 of the European Parliament and the Council of 21 April 2004 – published on the Official Journal of the European Union and entering into force on 30 July 2004 - in order to: • promote efficient allocation of slots through clear rules on methods and procedures, better definition of airport capacity and transparent, neutral procedures of consultation and mediation. • encourage the efficient use of slots. • enhance competition between incumbent carriers and new entrants. Particular attention has been paid in the amending Regulation to reinforcing the independent status of the slots coordinator, and ensuring that the coordination committee was also free from undue influence. A possibility of sanctions is provided for, in particular when air carriers repeatedly and intentionally fail to comply with the slot allocation rules, and the division of tasks between the coordinator, coordinator committee and Member States was also clarified to ensure the proper handling of complaints. The basic objective to improve the technical functioning of the slot allocation system has been considered in the amending Regulation. In addition, a broadening definition of "new entrant" was accepted as well as a provision giving a greater priority to new entrants in the allocation of slots from the "slot pool". Finally, the "use-it-or-loose-it" rules, which requires air carriers to use 80% of their slots in one scheduling season in order to receive them again for the next season, was slightly adapted in the sense that unforeseeable circumstances, on which an air carrier has no influence and which make it impossible to use slots, will not negatively affect the effect of the 80-20 rule for an air carrier. However, this revision has not enabled the Commission to introduce a market mechanism to address congestion problems by rendering slot mobility technically and economically attractive and possible. As

the Council (blocking minority) did not agree the Commission authorised the Commissioner to accept the text of the Reg. 793/2004 on the condition of a declaration where the Commission announced its intention to present new legislative proposals in 2004 focusing on market access aspects.

What are the objectives ?

Though allocation of slots has particular relevance to airports that are congested for whatever reason: either physical capacity constraints or due to exogenously-imposed air traffic movement limits (e.g. curfews), environmental air traffic movements limits (e.g. noise restrictions) or possible consequences of price regulation on new investment.

According to the Regulation, Community airports with a serious shortfall in capacity should be designated as "coordinated airports" on the basis of objective criteria after a capacity analysis has been conducted, taking into account environmental constraints at the airport in question. Slot allocation should be considered as giving air carriers permission to access the airport facilities for landing and taking-off at specific dates and times for the duration of the period for which the permission is granted. The access of new entrants in the allocation of slots from the "slot pool" is facilitated. However, in the interest of stability of operations, the existing system provides for the reallocation of slots with established historical precedence ("grandfather rights") to incumbent air carriers.

Thus, objective achievement for this measure shall be evaluated in terms of:

- Number of coordinated airports and the smooth working of related independent coordinators and coordination committees;
- Number and consistency of new entrants in the allocation of slots at coordinated Community airports;
- Impacts on market variables, such as ticket prices for travellers to high congested airports;
- Reduction of congestions and improvement of safety at the coordinated airports.

Interactions with other WP measures:

Slot allocation is a short term response to shortfall in airport capacity. The Regulation clearly affirms that, while considering the allocation of slots, this has to be based on an analysis of capacity which shall consider the possibilities of overcoming such shortfall through new or modified infrastructure, operational changes, or any other change, and the time frame envisaged to resolve the problems. Therefore, there is a strong link with the package of airport infrastructure measures (Measure 20), which include facilitating air transport through financial support to airports (TEN-T), through adoption of measures to decongest airports, and increasing the cooperation between air and rail transport (air/rail intermodality).

It is relevant to mention in this context also the interaction with the review envisaged of the airport charges systems: indeed, airport charges that cleared the market for landing slots are frequently invoked as a better mechanism to promote more efficient outcomes. Indeed, disequilibrium between capacity and demand has been explained by failure to properly price runway use. Charges at most airports are proportional to aircraft weight and invariant with respect to time of day. This practice disincentives airlines to consolidate traffic onto large planes, and also ignores the loss in capacity that comes from the greater in-trail separation requirements and slower approach speeds of small aircraft. Therefore, there is an important potential interaction between the slot allocation systems and the measures concerning airport infrastructure charging which are still to come.

Besides the complementarity with airport infrastructure pricing, any system of slot allocation has to take into account possible ramifications on other policies such as <u>environment</u> (emissions and noise measures applicable at airports); <u>regional development</u> (priorities for regional "thin" routes which benefit from public service obligations); <u>competition</u> (no creation or reinforcing or abuse of dominant positions); <u>internal market</u> (no discrimination between air carriers on grounds of their identity or nationality).

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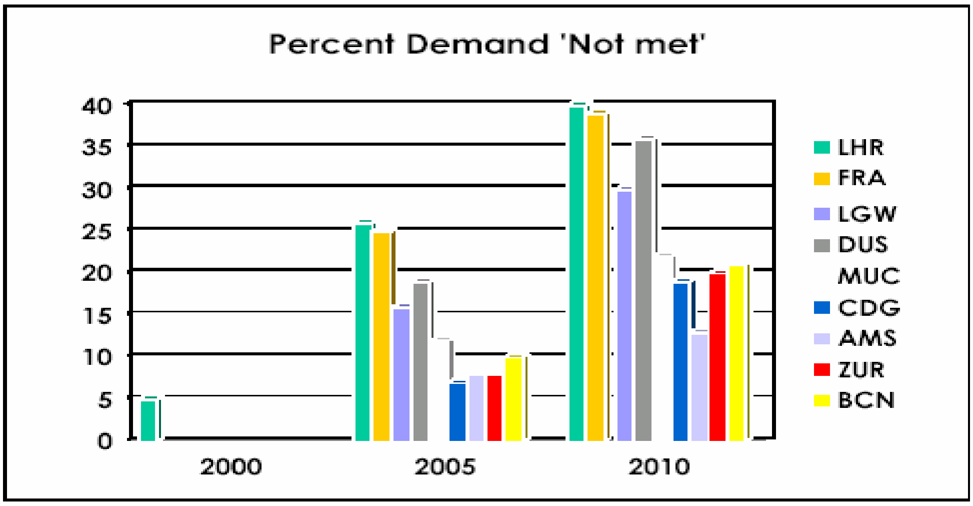
Output indicators:

Output indicators shall monitor the smooth operation of the slot allocation system at coordinated airports in the Member States. They can include:

- Number of coordinated airports in the Member States.
- Existence of local guidelines for the allocation and monitoring of slots at coordinated airports
- Usage of allocated slots, in total and per air carrier at coordinated airports (these are regularly monitored to apply the 80% "use it or lose it" clause).
- Volume of slots transferred or exchanged confirmed by the coordinator, at coordinated airports.
- Number of complaints submitted to the coordination committees.
- Percentage of demand "not met"

The analysis of prevailing future growth trends for air transport invariably shows a growing shortage of aircraft take off and lending slots at all the major hub airports in Europe by 2010. Many hubs are indeed expected to be congested by 2005, such that it is likely that a substantial percentage of potential airline requests for slots cannot be met. The diagram below, taken from the "Air/Rail Intermodality study" (see measure 67 of this report) illustrates the situation, which indicates the shortfall likely at a number of major hub airports.



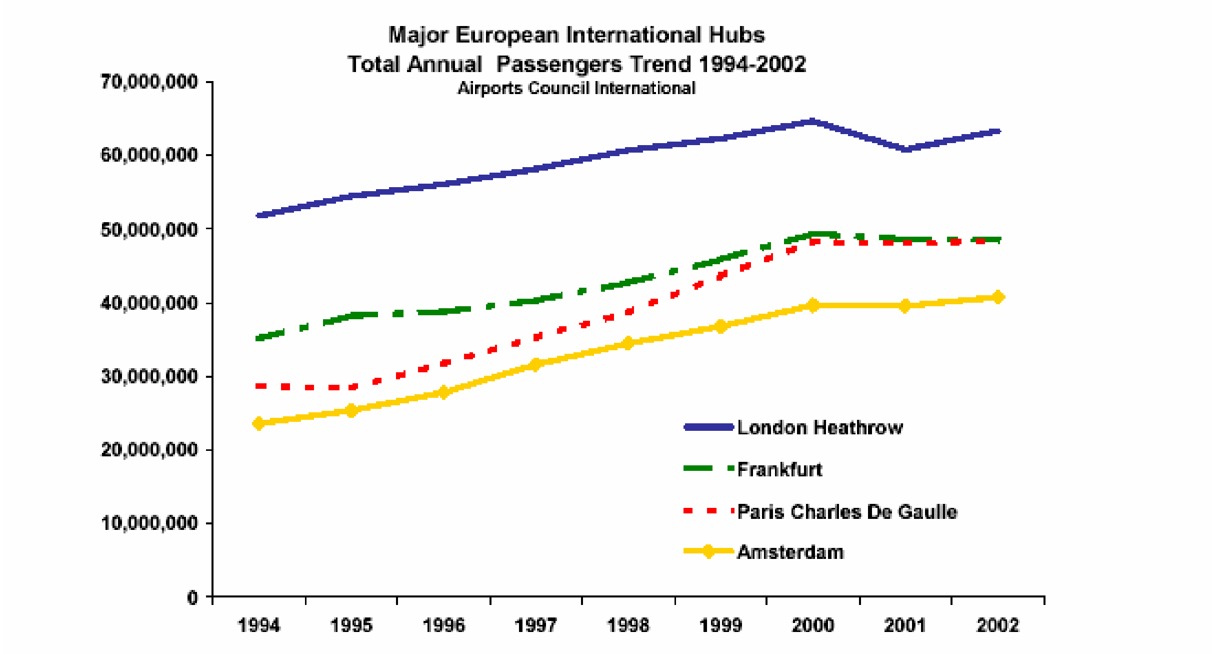
Source: Eurocontrol

Outcome indicators: intermediate impacts on transport markets

The measure is expected to have impacts on air traffic and congestion at the coordinated airports, on the structure of the market of air carriers operating at those airports (e.g. incumbents, new entrants) and on airfares applied by the dominant carriers, reducing the so called "hub premiums" as a consequence of allocation of slots to new entrants. Therefore, the main market indicators to be considered for the aggregate of coordinated airports in the Member States are:

- Air traffic (growth) at the coordinated airports.

Trends of traffic at the major European hubs must be noted. London Heathrow remained Europe's largest passenger airport. The gap between Heathrow and Frankfurt and Paris CDG increased in 2002 to circa 15 million passengers. However, this followed a number of years when the faster growth of Frankfurt and Paris CDG airports (on average 7% per year) as compared to the growth a the severely slot constrained Heathrow (3% per year) had narrowed the difference in passenger throughput.



- Share of slots holdings by incumbent carriers (decreasing) or, alternatively, share of slots holdings by new entrants (increasing).

Outcome indicators: final impacts on transport users and non users

The measure is expected to reduce congestion at the coordinated airports, due to more rational use of time slots.