



International Chamber of Commerce

The world business organization

Policy statement

Slot allocation

Commission on Air Transport, 10 July 1992

Introduction

With the failure of governments around the world to invest adequately and on a timely basis in their airports and with the increasing impact of environmental concerns on airports and related development, airlines - and thus their users - are increasingly facing difficulties because of a shortage of adequate slots to cope with demand. This has led to airlines' needs being unsatisfied and has put increasing pressure on slots at congested airports and on the slot allocation system.

Within the European Community there is an intention to develop a code of conduct or regulation on the allocation of slots between airlines. The UK Government has instituted a consultancy study on slot allocation options. The US Government has its own unique system of slot allocation. The Japanese authorities, who have for some time frozen the number of movements available at Osaka Airport, are now faced with Narita being full and have their own allocation system.

Over the years local scheduling committees have been created which follow IATA guidelines (with local interpretations) so that airlines may coordinate their requirements at slot controlled airports. Although these IATA guidelines have no legal basis, they have worked remarkably well to date and both airlines and their governments have accepted them as fair and reasonable.

Since slot allocation poses fundamental questions of aviation policy, the ICC Air Transport Committee has decided to express its view on this subject from its unique position as an organisation representing business, business users and the industry.

The present system

The traditional, IATA-based, system of slot allocation acknowledges an incumbent airline's "grandfather right" to a particular slot time at an airport where that slot was used in the previous equivalent season. These grandfather rights continue until an airline ceases to utilise a slot or surrenders it back to the Scheduling Committee coordinator. Slots which are not "grandfathered" are allocated by the Scheduling Committee coordinator in accordance with priorities set out in the IATA guidelines in a non-discriminatory manner. That is, the nationality of the airline plays no part in the decision of the coordinator allocating the slot. Slots allocated in this way become "grandfathered" once they have been used.

Slots allocated to an airline - whether grandfathered or newly available - may be exchanged for slots held by another airline. The coordinator can facilitate such exchanges by putting airlines in contact with those who may be willing to barter. Flexibility in the allocation system is essential, as airlines' operating programmes change from time to time and airlines need to have matching slots at airports around the world if those plans are to be realised. The IATA system has worked historically because the parties have a vested interest in maintaining a flexible and workable procedure. The system is vulnerable, however, when airports are so congested that they are, to all intents and purposes, full. Once an airport is operated at maximum capacity, flexibility is lost, new entrants are denied access and incumbents are denied growth. Such pressures put considerable strain on the IATA system, which relies on the goodwill of the participants.

International Chamber of Commerce

38 Cours Albert 1er, 75008 Paris, France

Tel +33 (0)1 49 53 28 28 Fax +33 (0)1 49 53 29 42

E-mail icc@iccwbo.org Website www.iccwbo.org

Airports which can be categorised as effectively full using present procedures for this purpose are Osaka and Tokyo (Narita) in Japan and London's Heathrow. Osaka has for years been denied to new entrants and growth opportunities for incumbents have not been available. Narita has a government-imposed environmental limit (not a physical limit) and the Japanese Government has intervened in the allocation of such slots as from time to time they make available in a way which suits the Japanese industry or satisfies the political needs of Japan.

London's Heathrow was until recently congested but not full but, with the decision of the UK Secretary of State for Transport to do away with the Traffic Distribution Rules which restricted new entrants to airports in the London area other than Heathrow, can now be categorised as effectively full - which explains the British Government's consideration of alternatives to the present system. The European Commission, which views market access as the key to promoting enhanced competition, is also looking for a new system which gets round this difficulty. So far both the European Commissions thinking and that of the consultants employed by the British Government envisage the need for slot confiscation from incumbents to provide opportunities for new entrants.

The United States employs its own system in that airlines are permitted to own terminals and gates and thus effectively control market access. Since most congested US airports are dominated by one or at most two airlines, it is effectively the dominant airline which manages access to the airport from its ownership of the gates. The FAA ensures that aircraft do not take off unless arrival is assured and airspace can cope.

It is worth noting that airlines which have gone out of business in the US have been able to sell their holding of gates for a considerable sum of money which has been used to pay off creditors.

At the four airports for which slot allocation is mandated, only two (New York-Kennedy and Chicago-O'Hare) cater for international traffic. At these international airports priority is given to international flights over domestic and operators of domestic rights can ultimately be required to surrender slots needed for international services. This reflects the US Government's position that countries have an obligation to provide slots to meet the capacity needs of airlines operating under government agreements.

It is interesting to note the Japanese Government, in its allocation of slots at Tokyo Narita Airport, also seeks to give precedence to airlines of States which it perceives have a strong justification under their bilateral air services agreement with the Japanese Government.

The issues

The ICC considers that there are three main interests to be taken into account.

The first is the interest of airports in having the most efficient use made of available runway, terminal and freight facilities.

The second is the aviation industry - charter and scheduled airlines and operators of business aircraft - which needs the security to support investment in route development, aircraft and airport infrastructure which would be denied by threats of arbitrary slot confiscation. At the same time there is a potential conflict between airlines which wish to grow and new entrants wanting to enter the marketplace.

An airline based at a congested airport is therefore in a particularly vulnerable position.

The third interest is of course the customer -passenger or shipper. The business user in particular needs an extensive network, continuity of service and reliability of operations at the airports of his choice. At the same time he requires airlines to be stimulated by competition into providing the best price/service options for his selection.

The options

1. **The status quo.** This will remain the preferred option for so long as it continues to function adequately. However, once an airport becomes effectively full, this system cannot work since it fails to provide opportunities for new entrants, for incumbents and for the interests of the consumer.

Some additional flexibility in the present system could, however, be achieved by tightening the provisions regarding grandfathering a slot so that it either had to be used or lost and the definition of "used" could be strengthened to, say, 85% rather than the present level. Greater impartiality could be guaranteed by having a neutral coordinator or perhaps the setting up of a coordinating body which has an arms-length relationship with the airline which is the largest user of the airport.

2. **Administrative intervention.** It has been argued that competition requires a guaranteed proportion of the slots at a "full" airport to be made available to carriers other than the incumbent.

This suggestion presents considerable problems. While this may mean that new opportunities will be created at the airport in question, there is no assurance whatsoever that the outcome will be an improved choice or indeed increased competition. Left to themselves, the tendency of airlines would be to give up routes which produce the least profit. The result for the consumer could well be a loss of service to the less profitable destinations.

If on the other hand slots have to be surrendered on a route-by-route basis to provide access for new entrants, there is no guarantee that substitution will materially improve the lot of the consumer.

The proponents of confiscation, which features in the European Community's ideas, envisage a panel of wise men who would seek to allocate slots among the most deserving applicants. Little thought has been given to the policy objectives such interference is designed to serve. Quite aside from reasonable doubts about whether such decisions would be wise, this does represent a high level of bureaucratic interference in the market place - interference which might well undermine the competitive nature of the market which the ICC (and, we believe, the European Commission) supports. Within the framework of the competition rules, the structure of a liberalising industry is best left to market forces.

3. **Arbitrary confiscation and slot auction.** In an endeavour to make option (2) more market sensitive, it has been suggested that slots made available under that system for reallocation could be put up for sale - perhaps by auction to the highest bidder. This sort of solution is being considered by the UK Government's consultants who also seem to envisage some sort of threshold as a percentage of the available slots above which airlines would be denied grandfather rights in order to contribute to this more freely available slot pool.

Quite obviously such a capping could have very severe impact on airlines who happen to be based at "full" airports and could give them a quite significant competitive disadvantage against airlines which are based at airports which are not congested or where such a confiscation system is not introduced.

Aside from this arbitrary confiscation which looks highly undesirable (robbing Peter to pay Paul is not competition but is substitution), the idea of the sale of the slots has some attraction. It brings the disciplines of the marketplace into play and encourages the best use of scarce slots.

4. **Secondary trading.** In its recommendations to the British Government on Traffic Distribution Rules the UK Civil Aviation Authority appeared to acknowledge that the secondary trading of slots for money might well already exist and perhaps should exist in order to enable the new rules to work with sufficient flexibility. In practice, the United Airlines' acquisition of Panam and its slots at Heathrow has, with British Government acquiescence, seemed to give official blessing to such a concept.

An open market which provides for secondary trading of slots would, while not in any way compensating for the inadequate airport provision caused by government failures to invest appropriately, seem to go furthest towards meeting the reasonable objectives of security and possible growth opportunities for incumbents while providing an opportunity for new entrants to gain access if they are prepared to pay an adequate price.

It may be considered that it is wrong for airlines to receive windfall revenues for slots for which they themselves have not been required to pay. However, since in practice airlines which sell slots are effectively giving up their own revenue earning opportunities, this may not be regarded as too problematic a feature of such an arrangement. For the money to go to airports would give the airlines no incentive to trade. For the money to go to the Government would again give no incentive to trade and would divert money away from the industry and thus increase costs to the user.

In many cases the trading of slots could possibly be done without payment - simply a swapping of slots as is provided for by the present system. However, an exchange of slots together with a financial inducement could add flexibility to the system.

Recommendation

The ICC urges most strongly that governments and airport authorities should make adequate and timely investment in airports as part of the aviation infrastructure. Failure to do so has resulted in airport and airspace congestion which threatens to damage international trading and thus the economic welfare of trading nations worldwide.

Until such time as airports are developed which satisfy the needs of their users, there will remain problems of airport congestion and inadequacy of slots. Where this occurs the ICC would recommend that the traditional system of grandfather rights be retained but that

1. Civil aviation authorities should make a determined effort to make the best use of existing facilities. In that connection the ICC fully endorses the measures suggested in the ECAC Handbook on Airport Guidelines;

2. A neutral coordinator, not a government employee, should be appointed whose procedures should be developed by a Committee appointed by the air operators and the results of the coordinator's work should be transparent and available to the public;
3. Use-it-or-lose-it rules on grandfather rights should be tightened to avoid airlines sitting on slots which are under-utilised;
4. Preferential access to slots not grandfathered - or slots given up as the result of under-utilised grandfather rights - should be given to new entrant carriers, except that incumbent airlines should not be disadvantaged by giving such preferential access to carriers which dominate other airports not subject to slot controls;
5. Airports, charter and scheduled airlines, as well as business aircraft representatives, should be more closely involved in the slot allocation process in order to increase the chances of more efficient use of facilities.

Since it is likely that when an airport is very congested, secondary trading of slots will take place, such trading should be at market prices and the process should be made transparent to the public.

Document n° 310/391 Rev. 2
10 July 1992