



***How new slots might
be distributed by
market mechanisms***

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Today's presentation

- **Current approach to distribution**
- **Some initial questions**
- **Possible measures – with questions**
- **Some more questions**
- **Some concluding comments**



The background is a complex collage of aviation-related images. At the top left, a large commercial airplane is shown in flight. In the center, a control tower stands prominently. Below the tower, a terminal building with a checkered floor and people walking is visible. To the right, another airplane is shown in flight. At the bottom, an aerial view of an airport tarmac with runways and taxiways is shown. A line graph with a green and blue line is overlaid on the bottom center of the collage. The entire scene is set against a dark blue, cloudy sky.

***Current approach
to distribution***

How are new slots currently distributed?

- Generally, in accordance with IATA guidelines/procedures which are consistent with EU Regulation 95/93
- New slots (strictly slots in the pool) should be allocated 50% to new entrants, 50% to incumbents
- Co-ordinators apply their own interpretation of this rule, although generally to the satisfaction of the industry

End of presentation!?

- Original Speaker Brief accomplished!

“assess how new slots are being distributed”

- But there's a lot more to say about what might happen in the future



Some initial questions

What slots are we talking about?

- Not ATC (or ATFM) slots, despite the location of this presentation in the ATC stream!
- Not bi-lateral traffic rights, which some commentators refer to as slots
- Airport slots, as currently allocated by Co-ordinators

What is a slot?

- A permission to operate or a permission to plan to operate?
- Access to the runway resource, or something more?
 - Apron/ramp space?
 - Terminal facilities?
 - Air-bridge served stand?
 - Necessary environmental permits/quotas?
- Some airports have constraints in addition to or instead of runway constraints

What is being sold?

- An indefinite right or a time-limited concession (e.g. for ten years)?
- The right to use any runway or just the new runway?
 - Slots at Tokyo Narita are runway-specific
- Are just runway resources included?
- A slot or a slot pair (i.e. one arrival and one departure)?
- Would the use-it-or-lose-it rule apply?

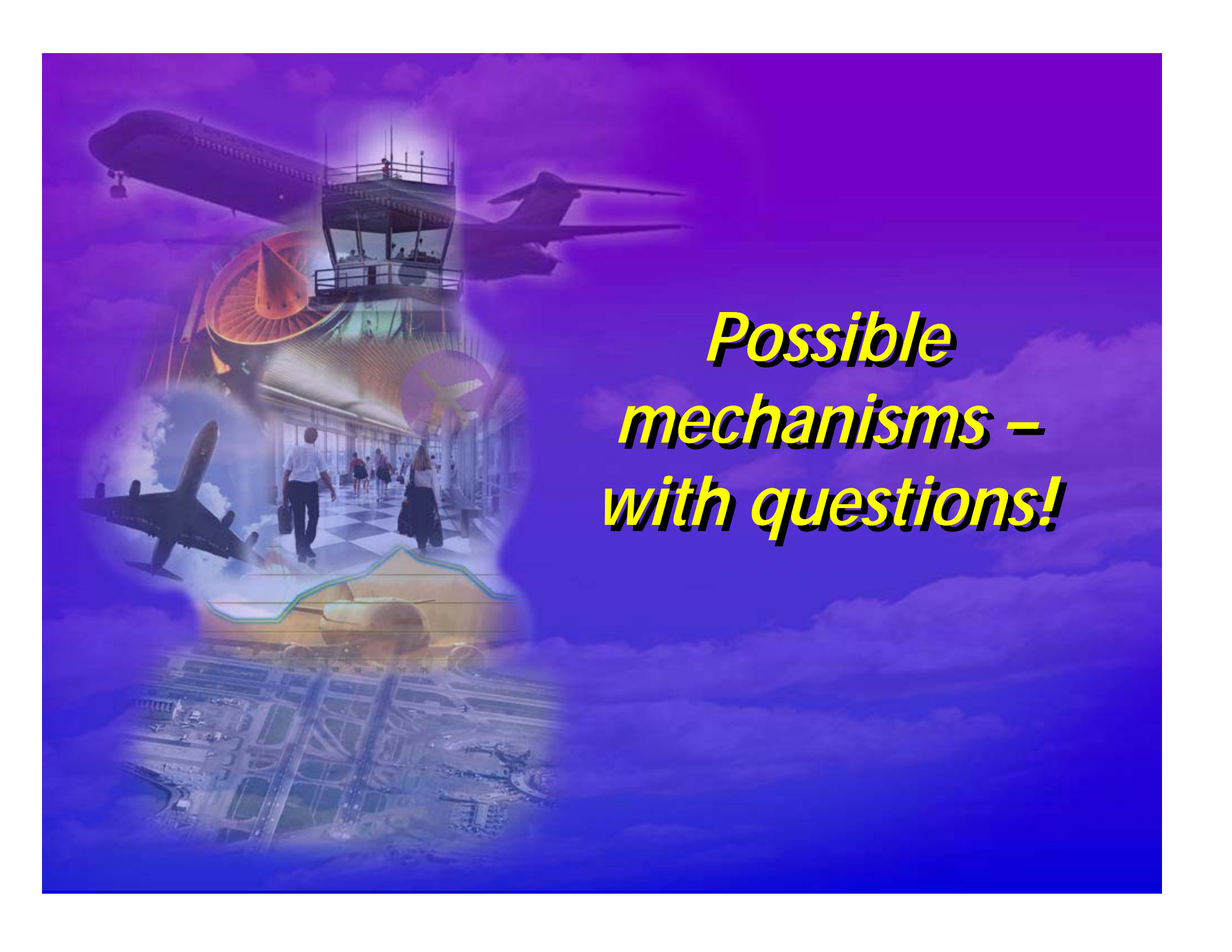
How have new slots been created?

- Has there been:
 - A new runway (lots of slots); or
 - A fast-exit taxi-way; or
 - Improved operating procedures

} A few extra slots per hour
- The number of slots to be allocated influences the feasibility of the allocation method
- If there's a new runway, and not all slots are required, why should anybody pay anything for a slot – other than the airport operator to attract traffic!

A minor, legal problem!

- The current EU Regulation says that slots may only exist at capacity-constrained airports.
- So a new runway removes a constraint
- So that slots don't exist
- So how can they be allocated?



***Possible
mechanisms –
with questions!***

What are the possible market mechanisms?

- An auction
- Posted prices
- Airport charges
- Blind/sealed bids



Features of an auction

- **Competitive bidding for slots, with knowledge of value of other bids**
 - **But should identities of other bidders be transparent?**
- **How long should the auction last – a few hours or a few months?**
- **Is everyone in the same room, or is it a remote auction, with bids either submitted live/electronically or on a round-by-round basis with a number of days between rounds?**
- **How are slots bundled into lots for sale?**
 - **More important if many slots have to be allocated**

Features of posted prices

- An authority decides the price of each slot and airlines indicate which slots they want
 - Which authority? and
 - How does it decide the price?
- Not guaranteed to find a 'solution'
 - Too high a price and slots remain unallocated
 - Too low a price and there would be an over-subscription still leaving a decision on who should be allocated a slot
- Could quickly become an auction

Features of airport charges

- The airport operator introduces higher landing charges at times of highest demand
- Does not really help for the allocation of new slots since they are very likely to be created at all times, both peak and off-peak
- Airport operator would receive the proceeds, at least initially until any monopoly profits were taxed or 'regulated' away

Features of a blind/sealed bid

- Airlines submit their first and final offer for slots
 - If theirs is the highest fine, if not, “tough”!
- Is it necessary to prevent collusion?
 - Probably not because of the wild card risk
- Is it necessary to try to prevent gaming?
 - Probably yes because of the wild card risk – an entrepreneurial airline bidding high to win, and then holding other airlines to ransom in secondary trading
- Is it possible to prevent gaming?
- Again there is the question of if and how slots are bundled into lots for sale



***Some more
questions***

How is a slot price determined?

- **Employ SH&E!**
- **And then pray that you get the slots at the other end of the route!!**

Suppose we find a mechanism, do we charge incumbents?

- Yes, of course:
 - A new entrant would be dis-advantaged otherwise: the playing field would not be level
- Even if we have lots of new slots from a new runway?
- Which incumbents? The ones at the same time, or within 15 minutes, or should it be 30 minutes or an hour? A clock hour or a rolling hour?
- How much should the incumbents pay? The same amount?
- If the slot purchaser is a long haul airline and one incumbent is operating a 50 seater? And what if it's a PSO route?
- How do we set the market clearing price?
- And, what about gaming?
- Well, perhaps only if we have a few extra slots per hour
- Well, it's arbitrary really, so let's say all in the clock hour
- Er, yes I think so
- Aaah! I see the problem. Well we should charge the market clearing price
- I'm not sure
- Maybe, the answer is not quite so obvious!

Who would get the proceeds?

- Now the fun really starts!

- Airports?

**“Without infrastructure,
there could be no slots”**

- Airlines?

**“Without services, there’s
no demand for slots”**

- Governments?

“We make the rules!”





***Some concluding
comments!***

Conclusions

- The style of the presentation may have been somewhat flippant, but the questions are serious, real and difficult
- Even more fundamentally, the airlines cannot afford to pay, unless they can pass the costs through to passengers and shippers
- Air fares would have to rise
- There would be huge resistance to change – the airlines are fighting for their lives





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