

**Amsterdam Slot EUACA meeting
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Benefits and cost analysis of opening markets – Slot trading

Mr Chairman, Mr Commentator, Ladies and Gentlemen,

I'll take as my starting point two words in the session title – '**opening markets**'. It was of course in 1993 that an open market for air services was established between the 12 countries that made up the EU at that time. This 'deregulation' – enshrined in the Third Package of liberalisation measures – came into force on 1st January of that year. Eighteen days later was signed the Council Regulation 95/93 for the allocation of slots at Community airports.

What does this remarkably short time interval tell us? Clearly, the intention of the EU policy-makers went beyond the transfer of sovereignty – from national regulators to the market – that the Third Package involved. Behind it, there was obviously a vision of some utopian marketplace where prices were low, choice was high, and efficiency was at a premium.

Evidently, the regulators had decided in advance that liberalisation alone would not deliver their free-market utopia, that it would have to be given a little help, moulded into shape by some judicious rule-making. In fact, when the Commission first presented its proposal for slot allocation rules in 1991, they claimed that lack of adequate airport infrastructure would frustrate the Council's policy of market entry and competition.

The airlines, of course, had recognised well in advance that the competitive challenges and opportunities posed by liberalisation were best tackled through strengthening their hub-based networks. The run-up to the Third Package was a time of frequency-building as airlines jockeyed for position on the starting grid. Capacity at the busier airports suddenly became a scarce resource – one which has, in the intervening period, become still more scarce.

So, fifteen years ago, AEA pointed out that the Commission's concerns about congestion should have led it to develop an action plan to remedy the situation, involving short- and longer-term solutions, investment programmes and a timetable for action, at Member State and Community level.

Fifteen years on, we are still asking for the same thing.

As long as the underlying problem of inadequate infrastructure is not addressed, a slot allocation system will be necessary to facilitate market access at congested airports and ensure fair competition between operators. However, we should be quite clear on one thing – an allocation system never created a single additional slot.

Much more questionable would be the benefits of introducing a market-based trading mechanism for slots. Airlines function in a very competitive environment, which means that their decisions and actions are ultimately rewarded or sanctioned by the market. If the organisation of networks – for example, in the choice of routes or aircraft size – were to be conditioned by the regulators' failure to develop adequate capacity, both airlines and their customers would be worse off.

Worse still, a primary trading mechanism would provide airports with a strong incentive to maintain congestion, since slot value would increase with scarcity.

The original Slot Regulation was amended in April 2004, in a so-called 'technical revision'. Already there are moves for further changes. Should we assume from this that the Commission is still trying to micro-manage the industry in search of that elusive idealised outcome?

One has to wonder where they think the current environment fails to meet their objective. European travellers have an array of options as never before, at rock-bottom prices offered both by no-frills and full-service airlines. The no-frills carriers have embraced the 7th-freedom opportunities of liberalisation, establishing offshore bases at uncongested airports, while the network carriers have done their best to optimise their hub operations to serve the broadest possible range of markets, large and small.

Bearing this in mind, let us review where we stand on the principles of slot allocation. Firstly, the concept of historic precedence ('grandfather rights') is not an arbitrary principle. It is precisely because airlines have invested into product development at a specific airport that access to that airport has acquired value. Historic rights ensure the integrity of the product, and bring economic stability to both airports and airlines. They are no more a barrier to entry – probably less so – than primary trading mechanisms.

Slots, under the present regime, are not 'free'. We all pay, handsomely, for access to airport infrastructure. Generally speaking – but with some honourable exceptions – the busier the airport, the higher the landing fees and passenger charges will tend to be.

The 2004 slot revision severely curtailed some of the flexibility inherent in the previous regime. An area in which flexibility is maintained is in the ability of airlines to exchange slots. Member States adopt their own interpretation as to whether these exchanges can include monetary compensation. In any case, such transfers are invariably used as a scheduling tool rather than a commercial transaction.

In this respect, I cannot emphasise enough the importance of slot availability to the integrity of the networks. It is no coincidence, and it is certainly no conspiracy, that the European network carriers hold the largest blocks of slots at their respective hubs.

Finally, I would point out that European network carriers operate in an international environment, and that includes a slot allocation system which is understood and practiced worldwide. A unilateral adoption by Europe of a radically new regime – and I am thinking in

particular of a primary trading system – would introduce the potential for conflict into a global environment based on reciprocity.

So, to conclude: the slot regulation should have been a temporary instrument to bridge the interval between the market's reaction to liberalisation and the response of the infrastructure providers. For better or for worse, it seems to have transformed into a permanent mechanism to manage scarce resources.

If we are to have an ongoing allocation system, it should involve the stability and predictability which go with the preservation of historic rights, as well as the flexibility inherent in exchange of slots. It should not involve the additional financial burden – and disincentive to growth – which primary trading would bring.

Most importantly, slot management should not divert attention from the overriding need for a truly European policy on the expansion of airport infrastructure. Adequate capacity should be the rule, congestion the exception, and slot allocation a historical footnote.

Thank you