

# What is the French thinking with regards to a new/amended slot regulation?

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GARS  
Bremen  
November 19<sup>th</sup> 2004




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# What is the French thinking with regards to a new/amended slot regulation?

**This** document is the reproduction of the slides used during the presentation at GARS on 19<sup>th</sup> of november 2004.

It is incomplete without the oral comments that have accompanied its presentation.




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- Recall of the events
- Presentation of the 2 studies
- What is the next step?




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# Recall of the events

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- 19<sup>th</sup> of April 2002, the EC launched a call for tender to realize a « Study to assess the effects of different slot allocation systems »
- NERA was chosen and started its work in october 2002
- The French DGAC launched its own study at about the same time with BIPE/SH&E
- The French study was finished in june 2003 and the NERA study around december 2003
- A conditional part of the French study was to analyse the NERA study when it would be released. This final part was completed in spring 2004




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- Recall of the events
- Presentation of the 2 studies
  - ▶ The French analysis/assessment
    - The approach
    - The results
  - ▶ A brief critics of the NERA study
- What is the next step?

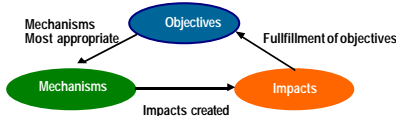


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# Objectives and methodology of the French study


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- Objectives :
  - ▶ bring enough technical and economical informations about this challenge to help DGAC define and formulate its answer to the consultation that the Commission will launch after the results to the NERA study are published
- Approach :



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graph TD
    Objectives([Objectives]) -- "Mechanisms Most appropriate" --> Mechanisms([Mechanisms])
    Objectives -- "Fulfillment of objectives" --> Impacts([Impacts])
    Mechanisms <--> |"Impacts created"| Impacts
  
```



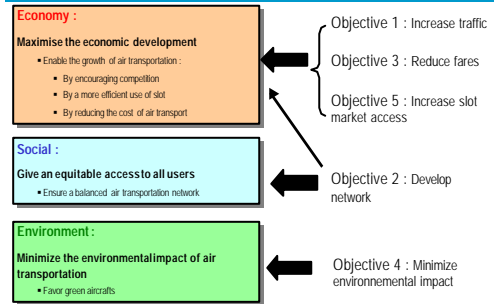
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14 objectives for a new mechanism have been identified, 5 were selected

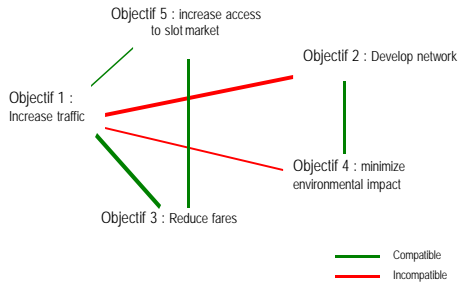
Objectives
1. Increase traffic
2. Develop network
3. Reduce fares
4. Minimize environmental impact
5. Increase market access



The 5 objectives selected were then tested against the three finalities of a sustainable development



First major problem : All objectives are not compatibles!



6 mechanisms of primary allocation were then selected for analysis

**ADMINISTRATIVE**

- Amended Statu quo
- Aircraft size/frequency algorithms
- Lottery of all slots

**MARKETBASED**

- Sealed bids
- Auction of 10% of grandfathered slots
- Posted prices

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Strengths and weaknesses Administrative Mechanisms

	Amended Status Quo	Algorithms	Lottery
<b>Strengths</b>	<ul style="list-style-type: none"> <li>• No significant change</li> <li>• Feasible</li> <li>• Pool criteria can be adjusted to meet particular policy objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Guarantee policy</li> <li>• No slot acquisition costs for airlines</li> <li>• No use-it-or-lose-it rule required</li> </ul>	<ul style="list-style-type: none"> <li>• Cannot argue with chance</li> <li>• Stimulates secondary trading</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• No significant change</li> <li>• No improvement of market access of allocative efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Heavy involvement of Regulator</li> <li>• Potentially perverse results</li> <li>• Regulator knows market better than airlines</li> <li>• Seasonal disruptions</li> </ul>	<ul style="list-style-type: none"> <li>• Fictitious bids to acquire slots for secondary trading</li> <li>• Heavy regulatory oversight</li> <li>• Market distortions – lucky and unlucky airlines</li> </ul>



## Strengths and weaknesses Market Mechanisms

	Sealed Bids	Auction 10%	Posted Prices
<b>Strengths</b>	<ul style="list-style-type: none"> <li>Practical</li> <li>No use-it-or-lose-it rule</li> <li>Economically efficient allocation</li> </ul>	<ul style="list-style-type: none"> <li>Lowest slot acquisition costs of a market mechanism</li> <li>Economically efficient allocation</li> </ul>	<ul style="list-style-type: none"> <li>No use-it-or-lose-it rule</li> <li>Slots grouped by time period = lower complexity</li> <li>Dutch auction shorter</li> <li>Economically efficient allocation</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>Challenge to bid 'right' price first time</li> <li>Holding airlines to ransom in secondary trading</li> </ul>	<ul style="list-style-type: none"> <li>Unlikely to be feasible</li> <li>Very long process time and high transaction costs</li> <li>High administrative burden for airlines and coordinators</li> <li>Market disruptions every season with confiscation process</li> </ul>	<ul style="list-style-type: none"> <li>Risk of collusion</li> <li>Relatively long process time</li> </ul>

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## Analysis of mechanisms compatibility with Objectives

	1. Increase traffic	2. Develop Network	3. Reduce fares	4. Minimize environmental impact	5. Increase market access
Status Quo	-	-	-	-	-
Algorithms	Yes Probably	Yes	May be	Yes per pax Not total volume	Yes
Lottery	Yes Probably		Probably not	Yes per pax Not total volume	Yes
Sealed bids	Yes		Probably not	Yes per pax Not total volume	Yes
Auctions 10%	Yes		Probably not	Yes per pax Not total volume	Yes
Posted prices	Yes		Probably not	Yes per pax Not total volume	Yes

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## Problems with third countries

Two options possibles :

- Third countries accept the new slot allocation system
- Third countries do not accept the new slot allocation system, 2 responses possibles :
  - European Commission imposes its system leading to retorsions from most of third countries (very unlikely)
  - European Commission creates a specific status for third countries which enable them to keep their slots on the basis of the « use it or lose it » rule, keeping at the same time the possibility to get some slots on the secondary market (more likely)

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## Problems with the transition period Adaptation issues

- For all actors to the new method of slot allocation (education, information)
- For airlines (redeployment, reduction or increase of production means)
- For airports to the volume of traffic and to the new network (investments, concession contracts)
- For passengers/shippers to the new supply

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## Conclusions

- It is likely that « best » means « least bad »
- Amended Status quo most likely with secondary trading
- Among the least bad :
  - Algorithms : as the best means of achieving likely objectives, although it would be equivalent to re-regulation, and
  - Sealed bids, as the most practical of the market mechanism

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## Nera's Report for the Commission

- The report considered the introduction of market mechanisms for the primary allocation of airport slots
- The objective of moving from the existing system is to increase slot mobility
  - ▶ Nera gave little meaningful discussion of the objectives of slot mobility
    - To maximise the use of capacity?
    - To provide a wide range of air services?
    - To assure small communities of access to major cities?
- A number of primary mechanisms were put forward, but the practicalities were not thought through
- Secondary Trading was discussed thoroughly, with Nera concluding that a formal market place offered no advantages



## Nera's consideration of the consequences was unconvincing

- Meaningful discussion of the relationships between the EU and other states was relegated to an appendix
- There was no discussion of the impact of inter-airline competition if one carrier buys a slot but another gets it for free
- Commission's early announcement that Nera was not to consider who might receive the proceeds of primary slot sales completely undermined any impact assessment
- The quantitative impact was though puzzling:
  - Low Cost Carriers would buy slots to operate to Vienna
  - Despite the imposition of higher costs, traffic would grow



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## The Commission has issued a consultation paper

- Views are sought on 'commercial slot allocation'
  - ▶ Secondary Trading
  - ▶ X% 'redistribution' of Grandfathered slots
  - ▶ Higher posted prices
  - ▶ Auction of pool slots
  - ▶ Auction of 10% of slots
- Responses by 1st of december!!!



## The French are preparing for the negotiation that will take place in 2005

- Consensus is likely to be lacking!
- Agreement with the Commission view is likely to be absent
- Even if the Commission decided to press ahead, could the impact assessments made be regarded as sufficiently robust to satisfy the Commission's obligations in this regard?

