

Reforming slot allocation

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Introduction

- **The CMA has provided advice to the UK's Department for Transport (DfT) on its Aviation Strategy.**
 - In December 2018, we published our assessment of the [competition impact of airport slot allocation](#) to support the DfT's consultation.
 - In March 2019, we [blogged](#) on why we were advocating the case for change on slot allocation
 - In July 2019, [we responded to DfT's consultation](#) on a range of issues, including airport slot allocation
- **CMA's other aviation related work include:**
 - Current live antitrust investigation into the [Atlantic Joint Business Agreement](#) (between American Airlines, IAG (British Airways and Iberia) and Finnair)
 - Recent merger investigations include [Sabre/Farelogix](#), [Aer-Lingus/CityJet](#), [Menzies/Airline Services](#) and [Clariant/Kilfrost](#)
- **Our predecessor (the Competition Commission) undertook BAA airports market investigation leading to the divestiture of Gatwick Airport.**

Case for change

- Primary allocation of slots is critically important.
 - It has effects on competition in downstream markets
 - Secondary market may not ‘fix’ primary mis-allocations
- Current administrative allocation rules risk substantial inefficiency.
 - Historic rights mean that slots are used in a way that benefits incumbent users and their network
 - No obvious way to transition from existing use to more efficient use within current rules
 - Loss of allocative efficiency constrains competition between airlines to the detriment of passengers through lower quality of service and choice

Challenges for administrators

- Informational asymmetry will limit an administrator's ability to select the most efficient slot user.
- Excess demand will require an administrator to make subjective judgements.
- Secondary criteria such as effects on competition requires substantial quantitative analysis and modelling.
 - E.g. assessing trade-offs between increasing number of competitors and improving the scheduling of existing competitors
 - Comparisons of competition impacts between different routes without an established framework

A market-based solution

- A well-designed auction captures information otherwise unavailable to an administrator.
- A direct cash cost creates the right incentives for airlines to use slots efficiently.
- Designing auction will be complex and will have to take into account, among other things, heterogeneity and complementarity of slots.
- Airlines with market power bidding aggressively and reinforcement of barriers for new entrants are other risks to consider in design.

Potential changes to current system

- Increase liquidity of secondary market.
 - Office notice board for slot sales
 - Publication of average prices
 - Create formal market place
- Time-limit 'grandfathered rights'.
- Relax criteria on 'new entrant' rule.
- Increase transparency of administrative decision-making.

Allocating new capacity at Heathrow

- Scale of allocation beyond anything previously undertaken through the administrative system.
 - Potentially as many as 350 additional slot pairs
- Timely to test efficacy of policy changes.
- Can then be rolled out to all capacity at congested airports.

Concluding remarks

- Slots are critical input so decisions on allocations best made by end-users, ie the airlines.
- Administrative system is inherently flawed as infeasible to make ex-ante assessments on most efficient users. Slot constraints and historic rights reinforce inefficiencies.
- Designing auctions will be complex but sector can reap longer-term benefits by investing time and resources to optimise mechanism design.

Questions?