Study to support the revision of the Slot Regulation

Final report

Report

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1   European Coordinator

Introduction

1.1   In its proposal for the revision of the Regulation, the Commission put forward the idea of a single European Coordinator that would be responsible for slot coordination and schedule facilitation in all Member States. The detailed structure of this organisation was not defined, but it was expected to take over the existing roles of the national slot coordinators.

1.2   The Parliament supported the Commission's proposal in its first reading of the proposed Regulation, but the Council removed it from its text.

1.3   This note discusses the potential impact of establishing a single European Coordinator to replace nationally appointed coordinators, covering:

❙ in quantitative terms, the impact on the costs of coordination (taking into account both set-up and ongoing costs); and

❙ in qualitative terms, the potential advantages and disadvantages of moving away from the current situation.

1.4   Our analysis is based on data and comments received from eight national coordinators providing coordination services in ten Member States (AT, BE, DE, DK, ES, FR, IE, NL, PL, UK); airports and their representatives associations (Fraport, Schiphol, German Airport Association and ACI); and airlines (IATA). This information was collected in May and June 2013.

Quantitative assessment: Cost implications

Background

1.5   We have assumed that the European Coordinator would be established as a central EU-level agency which would replace national coordinators.

1.6   This agency should be able to achieve economies of scale as it would be larger than existing coordinators and therefore have more flexibility to deploy its staff as effectively as possible, recruit staff who could undertake specialised roles, adopt common systems, and achieve other economies of scale through integrated procurement.

1.7   However, there would also be costs associated with the transition to a new agency, including:

❙ redundancy or retraining costs for existing coordinator staff; and

❙ other set-up costs for the new agency.

1.8   There would also be additional ongoing costs for staff travel, as staff working for the new agency would need to visit the airports they coordinated, for example to attend Coordination Committee meetings, and to meet with airport staff. This would partly offset the savings achieved through economies of scale.

1.9   In addition, it is possible that if the agency had the status of an official EU agency (such as EASA) or another international organisation (similar to Eurocontrol), the

staff costs would be higher than for national organisations. We have not quantified this as it is not clear what form the new agency would take.

Benchmarking of coordination costs

1.10 In order to assess whether there are economies of scale in coordination activity, which would mean that there could be lower costs if there was a single agency, we have collected data on the costs of coordination in 10 Member States.

1.11 The data provided by the coordinators revealed that costs per slot are similar in most Member States. Unit costs are much higher in Austria and Belgium compared to the States with coordinators which undertake larger volumes of coordination activity, which indicates that there are some economies of scale. However, lower unit coordination costs are also achieved in:

❚ Denmark, as although the scale of coordination activities is relatively low, the coordinator cooperates with other Nordic coordinators to pool resources; and

❚ Ireland and Poland, which are served by a remote coordinator appointed through competitive tender.

1.12 There was no material difference between unit costs of coordination in the larger States, irrespective of their size.

1.13 Overall this analysis implies that there are economies of scale but there are diminishing returns to increased size. This conclusion is consistent with data provided by one of the coordinators which showed that there had initially been an improvement in efficiency as its workload had expanded but this had levelled off. The evidence indicates that States with smaller volumes of coordination activity can reduce the unit costs of coordination activity either through cooperation with other States or appointing another party as the coordinator.

Estimated costs of an EU-level coordinator

1.14 Based on the data we have collected, we have developed an estimate of the potential cost implications of moving to a central EU coordinator. This estimate is inherently uncertain as it represents a simple 'top down' estimate extrapolated from data collected from coordinators. However, it should provide an indication of the potential impact.

1.15 We have estimated the costs that the EU coordinator would incur as follows:

❚ The ongoing costs of the agency would be based on the average costs per slot of the larger existing coordinators, which handle a mix of airports and coordination complexity.

❚ Consistent with this, the agency would need approximately 10% less staff than the current coordinators (for calculation purposes we have assumed it would need 95 full time staff).

❚ Setup costs would be incurred, with values calculated on a per staff member basis using the first-year accounts of other EU-level agencies (EBA, ESMA, TEN-T and ACER).

❚ Existing coordinator staff would (initially at least) be retained to ensure sufficient knowledge of local circumstances is transferred to the agency. However, not all staff would be required so some would be made redundant -

redundancy costs would vary substantially between Member States depending on national legislation, their terms and conditions of employment, and other factors such as their length of service; we have assumed a cost of €25,000 per current coordinator employee. There would also be other considerations, such as the need for relocation, but these have not been included here as they are assumed to be included in the first year setup costs already identified.

❙ Additional travel costs would be incurred to visit coordinated and schedule facilitated airports to meet management, airlines and national authorities.

1.16 On this basis, we estimate the one-off costs to establish the new agency could be around €10.9 million, comprising €10.4 million of set-up costs and €0.5 million of redundancy costs, based on the benchmarking of other EU agencies. The ongoing operating cost of the new agency could be €15.6 million per year, which when offset against the existing coordinator cost saved of €17.1 million results in a €1.6 million cost saving per year – equivalent to the average cost per slot decreasing by -9% from €1.49 to €1.64.

Impact on airline costs

1.17 In principle, a single coordinator would simplify procedures for airlines and therefore potentially allow them to make cost savings, and any such savings should be included in the quantitative assessment. However, we raised with IATA whether there could be any such cost savings and it believed that there would not be.

Qualitative assessment: Other implications

1.18 We consulted with coordinators, airlines and airports to understand their views on the potential advantages and disadvantages of the Commission's proposal for a single Coordinator. Whilst it is not entirely surprising that coordinators identified a number a problems with a proposal that would replace them, similar issues were identified by both airlines and airports.

Enforcement and legal issues

1.19 Coordinators and airports considered that the establishment of a single European Coordinator would face important legal issues. They argued that the designation of airport coordinators and specification of coordination parameters are sovereign tasks of Member States, and that centralising these responsibilities would not be aligned with the principle of subsidiarity. Further, the stakeholders were unclear over how conflict resolution would be addressed, under which state's legal jurisdiction cases would be brought to court and how the single agency would exercise its enforcement powers.

1.20 In our view the argument around subsidiarity is dependent on the other advantages and disadvantages of an integrated coordinator – if there were significant benefits to be achieved through an integrated coordinator, then implementing this would not be inconsistent with the principle of subsidiarity.

1.21 However, the issue of enforcement is key. As discussed in the original impact assessment, some coordinators (e.g. UK) have the power to impose administrative sanctions themselves, and in general this is likely to be more effective than a system in which sanctions are imposed by another body or which relies on criminal prosecutions. If there was a single European Coordinator, then either

ll this power would need to be transferred to a separate national agency (e.g. the CAA or a government Ministry), with the central coordinator referring potential enforcement cases to it; or

ll there would need to be an EU-level power to impose sanctions (e.g. the Commission would need to have this right, as it does under the Regulation on Computer Reservation Systems).

Impact on competition

1.22 Stakeholders also argued that the single coordinator would be a monopoly and questioned how it would be regulated.

1.23 Although coordination of an airport is a natural monopoly, there is potential for competition for the market, and as discussed above two Member States have appointed coordinators through competitive tenders. Setting up a European coordinator agency removes this scope for competition. A coordinator also argued that, after an initial IT procurement competition, the central coordinator would become locked-in to its IT provider. In principle this could result in increased costs although it could also present an opportunity to standardise systems and adopt best practice from existing legacy systems.

Loss of flexibility and local knowledge

1.24 Other issues that all stakeholders - coordinators, airports and airlines alike – expected included a loss of flexibility, responsiveness, customer orientation and local knowledge, which they argued could result in reduced service quality

1.25 Coordinators argued that their objective is to allocate scarce capacity at individual airports, without necessarily accounting for system-wide utilisation levels. They believe that they are better placed to do this than any central agency might be, since they are closer to the individual business of each airport and can readily facilitate its negotiations with airlines. A similar argument was made by IATA.

1.26 Both airports and coordinators added that as well as their main role, existing coordinators further support the airports they coordinate by acting as expert witnesses at legal proceedings – for example at public enquiries on noise issues or night movements when airports are seeking planning consent to alter/extend their activities. Again, existing coordinators argued that it would be difficult for a central agency to offer this support at the local level.

Advantages of a single coordinator

1.27 Different coordinators adopt different interpretations on some elements of the Regulation, and airlines have previously expressed some frustrations about this. Introduction of a single coordinator would result in a common interpretation of the Regulation across Europe. It would ensure a more consistent application of rules and uniform handling of requests.

1.28 A single coordinator could also encourage the development of industry-standard data and communication protocols which would reduce the administrative burden on users (although this was not considered disproportionately large by airports or airlines).

1.29 Airlines have also previously highlighted differences in the transparency and effectiveness of different coordinators. Although introduction of a single

coordinator would not in itself guarantee an improvement to service quality, it does provide an opportunity to standardise processes and systems and ensure that 'best practice' is adopted by all coordinators.

1.30 Some stakeholders also acknowledged that a single coordinator would have reduced costs compared to the existing European coordinators as it would benefit from economies of scale. However, coordinators believed that there would be limits to these economies of scale, and that some of the potential synergies could be achieved through enhanced cooperation of existing coordinators.

Airline views

1.31 IATA said that, from the perspective of the airlines, the existing situation is not considered to be problematic. Coordination costs represent a very small part of industry costs. Further, the costs of coordination are monitored locally by the airports and airlines that use coordinators' services, which provides a mechanism to ensure that these are efficient, effective and fair.

1.32 IATA conceded that occasional difficulties do arise from the fragmentation of coordinators and their differing interpretations of the rules, but also that these difficulties are generally mitigated by high level constructive dialogue that ensures airlines are clear about the decisions taken by coordinators.

Conclusions

1.33 Overall, there is likely to be significant stakeholder resistance to the Commission's proposal for a single European Coordinator and the main party which might be expected to benefit from this (the airlines) also does not support the proposal.

1.34 Our analysis indicates that some cost savings could be achieved through setting up a single coordinator, but these would be relatively small, and there would be significant transition costs.

1.35 If the cost savings are limited, the main potential benefit of a single coordinator would be to ensure a consistent interpretation and application of the rules. However, there are only a small number of issues over which there are differences in interpretation between coordinators, and there already exist mechanisms through which it may be possible to agree common interpretations - for example through the coordinators' association EUACA (which has already taken measures to develop best practice). The draft Regulation also allows for the possibility of detailed provisions to be defined through implementing rules, which could also be used to address inconsistencies. One of the coordinators also suggested that post-legislative guidance could be issued by the Commission.

1.36 However, due to traffic growth, it is likely that several smaller Member States will need a coordinator for the first time in the next few years. Evidence from other States has been that it is unlikely to be cost-efficient for these States each to establish new standalone slot coordinators, as their coordinators would probably only ever need to coordinate one or two airports. These States should consider either:

❚ pooling of resources, as in the Nordic States; or
❚ designation of a coordinator from another State, selected through a competitive tender process.

1.37   At present only ACL appears to be active in providing coordination services on a competitive basis to airports in other Member States. However, there is no reason why other coordinators could not seek to enter this market and they should be encouraged to do so in order to increase competition.

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