Capacity Challenges

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Addressing the Capacity Crunch

- The crunch is coming – if not already here - Worsened by continued capacity cuts from governments

- Tightening the screws even further on airlines is not a solution

- All stakeholders – including the airports – must work to squeeze more from existing capacity

- Regulations are necessary to ensure that they play their part

- IATA Slots White Paper sets vision for the future

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- I don't think I'm going to surprise anyone here by suggesting that IATA sees serious challenges both today and in the future with respect to airport capacity. IATA and others have been sounding the alarm about the capacity crunch for years, and this message continues today.

- For those of you who were here last year, you may recall that we spent some time discussing how this challenge is exacerbated by governments which seem to be reflexively turning to capacity cuts as a blunt instrument to solve all sorts of perceived problems. Last year there was a big focus on noise and the need to apply the ICAO Balanced Approach prior to making any cuts, as exemplified by Amsterdam. But capacity cuts have also been used to address perceived ground infrastructure challenges, environmental issues, or other political concerns.

- What I'd like to discuss today is, in a sense, a continuation of the discussion. Last year we explained why we oppose capacity cuts, and today will consider what positive steps can instead be taken to address the capacity crunch. Option A should always be to consider infrastructure improvements to increase capacity, but we know this isn't always feasible or politically achievable.

- While we consider Plans B, C, etc., we strongly believe that this issue cannot be solved by just continuing to tighten the screws on airlines, presumably with the ultimate goal of forcing airlines to divest slots and create artificial churn in the slot pool. That does absolutely nothing to improve capacity - and only causes chaos for consumers.

- Instead, it is necessary for all stakeholders to work together to get the most out of our existing capacity – importantly, including the airports.

- And while we hear positive messaging coming from some airport associations, we unfortunately don't believe that enough is being done from all airports on this issue. In the absence of meaningful competition to incentivize airports to address the crunch, we call for changes to the Slot Guidelines and ultimately slot regulations to ensure that this happens. Unfortunately, we can no longer just rely on their good graces to hope that they do their part.

- With this in mind, today we have launched our Slots White Paper to further explain our vision for the future of slot policy, which I'll talk to a bit more at the end of the discussion.

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Airport Slots

A permission given by a coordinator for a planned operation to use the full range of airport infrastructure necessary to arrive or depart at a Level 3 airport on a specific date and time

- Not every airport is slot coordinated ("Level 3")
- All carriers must have a slot to operate – but these are not ATC slots!
- Independent coordinators manage the slot process
- Neutral, non-discriminatory, and fair access
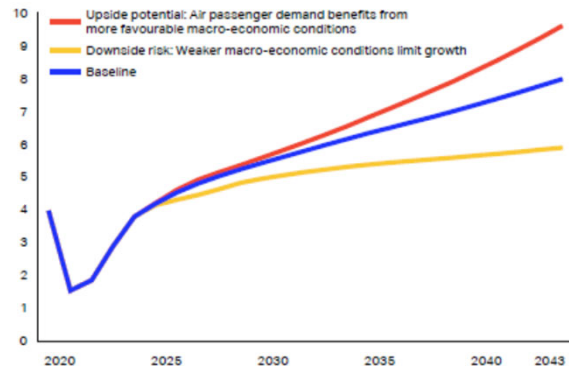
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- To begin, I'd like to start with a brief reminder on the basics of airport slots. For those of you who were present at my discussion last year, my apologies as this will be a bit of a refresher.
- You have the definition of an airport slot there on the screen – as this indicates, these are planning tools, issued in advance to help organize the schedule well in advance of the actual on-the-day operations.
- Not every airport requires airport slots. Only what we call Level 3, highly congested airports are constrained to the point where slots are a necessary planning tool. At a Level 2 airport, slots are not needed but instead voluntary adjustments are made by airlines to enable schedules to work within existing capacity, and at a Level 1 airport capacity is sufficient to meet demand without any changes. Level 1 should always be our goal, but we realize this is not always feasible in reality.
- While all carriers at one of these Level 3 airports must have a slot to operate, it is important not to confuse them with ATC slots, which are the on-the-day tool used once we move from the planning stage to the operational.
- Airport slot allocation is managed by independent coordinators in order to provide neutral, non-discriminatory, and fair access.

3

Air Travel Demand Continues to Grow

3.8% year on year growth until 2043
- 4 billion additional passengers under baseline projection

Chart 14: Global air passenger journeys, billion

Upside potential: Air passenger demand benefits from more favourable macro-economic conditions

Downside risk: Weaker macro-economic conditions limit growth

Baseline

Source: Air Passenger Forecasts, February 2024 update

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- With that background, let's turn to the potential capacity crunch.
- As we all know, air travel demand is projected to continue to grow on a steady basis for the foreseeable future.
- IATA projects 3.8% year on year passenger growth until 2043, representing an additional 4 billion passengers under our baseline projection – the middle, or blue line in the chart.
- I should note here that this chart was prepared in June of this year, and may have been slightly updated recently – so I would encourage you to review the presentation earlier this morning from our economics team. The overall trend, however, remains the same – we expect demand to steadily increase into the future.
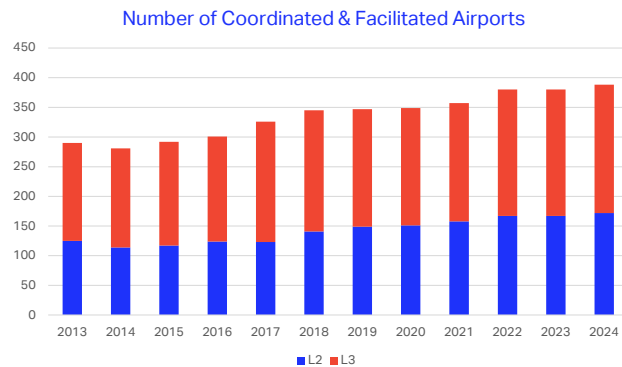
Airport Capacity Risks

9 new Level 2 or Level 3 airports are declared each year, on avg.

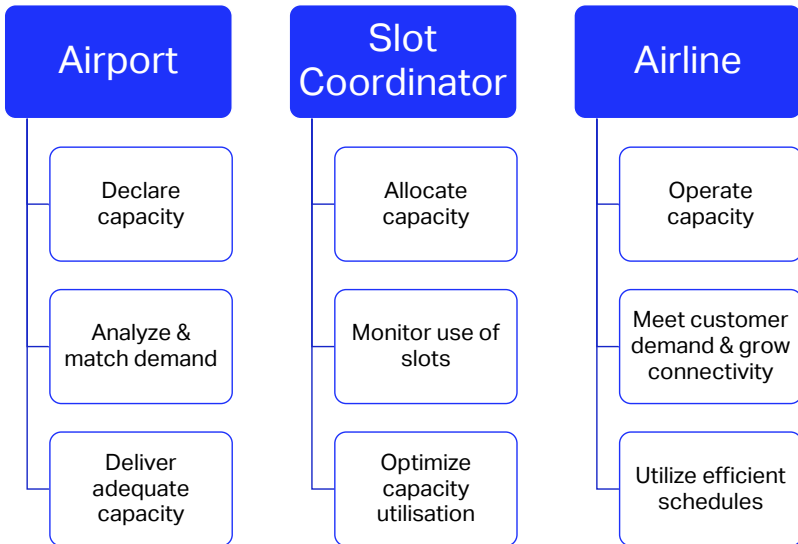3-12% of EU demand will not be met by airports in 2050

6 EU countries will have airports with capacity gaps in 2050

Airspace constraints compound the issue, as do environmental or noise-based restrictions

Number of Coordinated & Facilitated Airports

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- Unfortunately, airport capacity is not keeping up with this growth in demand.
- One way to track this is through the number of Level 2 and Level 3 airports in existence around the world.
- As shown on the chart, approximately 9 new Level 2 or Level 3 airports are declared each year.
- In addition, some existing Level 3 airports are growing ever more congested, with some super-saturated airports nearing effective 100% capacity throughout the entire day.
- ACI-Europe projects that somewhere between 3-12% of demand in the EU will not be able to be met by airports by 2050, with at least 6 EU countries having airports with capacity gaps. While Europe has historically been the region with the most Level 3 airports, we believe that a similar trend will be seen in other regions as well, if to a lesser extent.
- In addition to airport capacity, airspace constraints can compound the issue. We could have an entire discussion on ATM issues, Single European Sky, etc., but suffice it to say that airspace issues only increase the capacity challenge, often rendering it impossible for airports to deliver 100% of their theoretical capacity due to an inability for that traffic to be managed in the air.
- Finally, we are seeing an increasing number of environmental or noise-based restrictions on capacity, such as we discussed last year with Dublin and Amsterdam. While these are important issues which must be taken into consideration, if the ICAO guidelines of the Balanced Approach are not followed, we could see unnecessary restrictions on capacity instead of governments addressing potential concerns through other means.

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Airline-Only Approaches Will Fail

Airport
- Declare capacity
- Analyze & match demand
- Deliver adequate capacity

Slot Coordinator
- Allocate capacity
- Monitor use of slots
- Optimize capacity utilisation

Airline
- Operate capacity
- Meet customer demand & grow connectivity
- Utilize efficient schedules

"…to find ways to tap into extra capacity… all stakeholders operating at an airport need to be involved."

ACI-Europe
Airport Capacity Position Paper
November 2024

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- Ultimately, these airport capacity risks need to be addressed. Not only is there an important financial impact on both the airlines and the airports when demand cannot be met, but more importantly there is also a negative impact on the consumer, who will face decreased choice, unoptimized service levels, and potentially higher costs when capacity is insufficient to meet consumer demand.

- The most obvious fix is of course to build more capacity. And that remains an important medium to long term goal, but we are under no pretenses that this can be our only approach. We have been calling for infrastructure improvements since well before 2013 (the start of the previous chart), but as we've just seen the number of Level 2 and Level 3 airports only continues to grow.

- So what else can we do?

- In reviewing this issue, we have identified three key stakeholders who participate in the slot process and whose efforts are vital in making the most of existing capacity.

- The chart provides a summary of the contributions of each stakeholder. In its most simple form, the airport must first declare the capacity so that the coordinator can allocate that capacity and the airlines can ultimately operate it.

- Let's look a bit closer at that first step. In order to properly declare capacity, airports must first do what is called a demand and capacity analysis. This should be an in-depth piece of work, which takes into consideration all of the various factors impacting capacity – runway, apron, terminal, immigration control, airspace, etc. – and matches them against demand to understand the limitations and potential bottlenecks in capacity. Once this is done, the airport must make a seasonal capacity declaration, in advance of the slot coordination process, so that the coordinators know what is available to allocate. While the in-depth analysis does not necessarily need to be redone each season, it is critical that the airport seasonally consider the analysis, and determine whether circumstances have changed to the point where a new or updated analysis is needed. What the airport can't do is pat itself on the back, stick the analysis in a drawer, and never look at it for years on end.

- If the airports do not invest in a meaningful and regular analysis, their seasonal capacity declaration may not make the best use of existing capacity. From that sub-optimal starting point, there is nothing that the coordinators or airlines can do in the allocation and operation phases to recover that lost opportunity.

- Further, the airports must ultimately deliver on their declared capacity. It does no good to declare and allocate capacity which ultimately cannot be operated because of runway works, unexpected airport staffing shortages, or other issues.

- And of course, coordinators and airlines must also do their part. Coordinators must allocate capacity in the most efficient way possible, using modern technology to assist where appropriate, and monitor to make sure slots are used as agreed. Airlines must operate that allocated capacity via efficient schedules, delivering the ultimate shared goal of service to airline consumers.

- In summary, we agree with the quoted comment of ACI-Europe in their recent position paper on airport capacity. We must get the most out of existing capacity, and the only way to do this is through the efforts of all stakeholders involved in the process.

Collaboration, not Airport Mandates

"Ultimately, airports should be recognized as being the masters of their capacity. An airport which has little or no capacity available can find itself at the mercy of others in how its capacity is used and allocated – thanks, for instance, to slot rules which permit incumbent airlines to decide themselves how capacity is used…"

-ACI Europe Airport Capacity Position Paper, Nov 2024

"Running an airport is too often akin to managing a factory you have invested in without being able to really control its throughput and performance."

-ACI Europe Director General, 27 Nov 2024

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- Unfortunately, ACI-Europe goes much further in its position paper, moving from a nominal call for collaboration to what appears to be their true vision – total control by the airport masters over which airlines they will permit to enter the airport and dictate to where they may fly.

- The factory analogy quoted here is particularly inapt. Unlike the hypothetical factory owner, the airport managing body is a monopoly provider. The owner may be free to choose to make either shoes or gears or toys, but if consumer demand calls for another product then another factory owner can step in to meet that demand, perhaps even building next door. If I don't like the service provided by Geneva Airport, I can't build an international airport a mile in that direction.

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Airports are the toll booth collectors

We wouldn't allow a highway toll booth operator to tell us how and when we choose to travel

For the same reason, it would be ridiculous for monopoly airports to be given the same power.

- A better analogy might be that of a motorway toll booth operator. When we go on a motorway, we certainly don't expect the toll booth operator to tell us when we can and cannot use the highway, what kind of vehicle we're allowed to use, or what our ultimate destination is going to be. That would be ridiculous. And for the same reason, giving monopoly airports that power would be equally ridiculous.

Competition Drives Airlines

| Airport	Slot Coordinator	Airline
Declare capacity	Allocate capacity	Operate capacity
Analyze & match demand	Monitor use of slots	Meet customer demand & grow connectivity
Deliver adequate capacity	Optimize capacity utilisation	Utilize efficient schedules

COMPETITION

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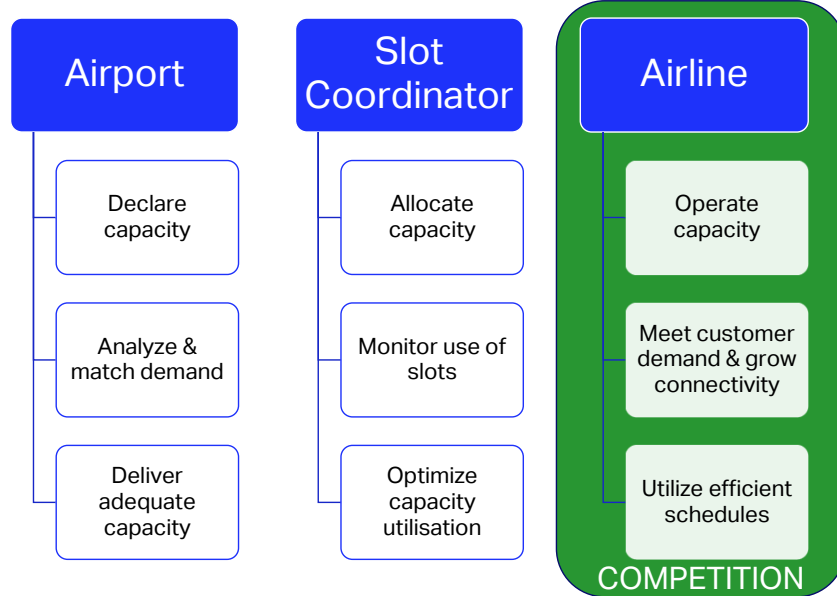
- Of the three stakeholders involved in the slots process, only airlines face true competition, which provides natural incentives to make sure that they meet their obligations to use capacity, meet demand, and schedule efficiently.
- If they do not, we have all seen the results – and I used to be an airline bankruptcy lawyer, so if needed I can name names, as well.
- We do not blame airports for this situation, which is the natural outcome of limited physical space for airports near our major cities – but believe that more focus is necessary in the Slot Guidelines and in regulation to ensure that this monopoly position is not abused and that airports meet their obligations to aviation consumers.

Regulatory Balance is Needed

Airport — Declare capacity

Airline — Operate capacity
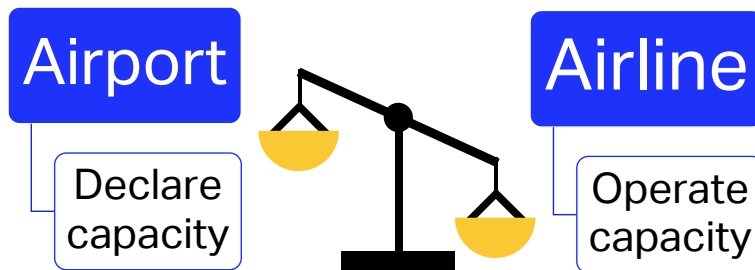
- Unfortunately, current regulation does not focus heavily on the airports, providing insufficient guiderails around their contributions to this process.
- As an example, we've pulled out in this graphic the requirements placed on airports and airlines with respect to their primary obligations – declaring and operating capacity.

Regulatory Balance is Needed

Airport

Declare capacity

Airline

Operate capacity

Existing regulatory requirements

Analyze capacity once
(no consequence)
Declare capacity
(no consequence)
Info to coordinator
(no consequence)

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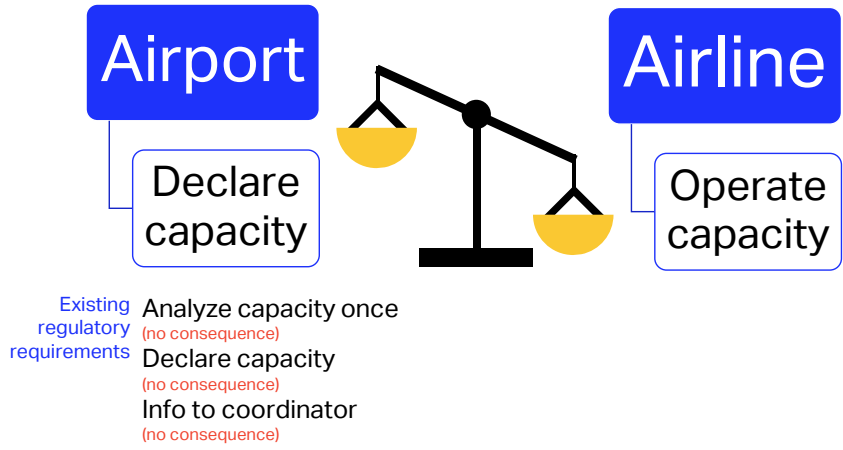
- Airports have relatively few requirements placed on them in regulation, and have no consequences or sanctions for failure to comply.

Regulatory Balance is Needed

Airport

Declare capacity

Airline

Operate capacity

Existing regulatory requirements

Analyze capacity once
(no consequence)
Declare capacity
(no consequence)
Info to coordinator
(no consequence)

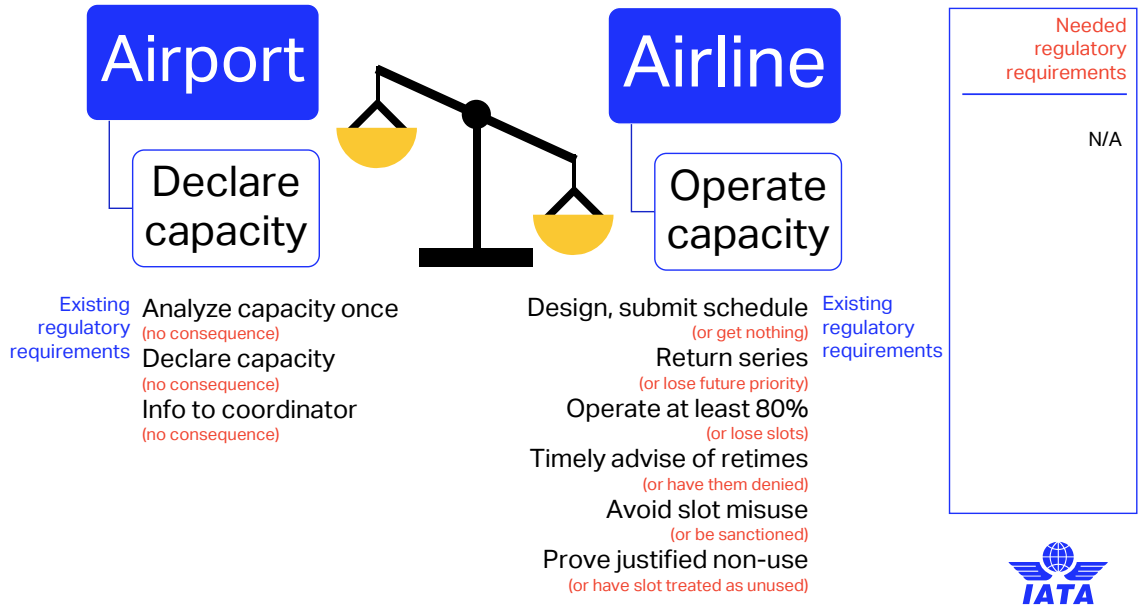Design, submit schedule
(or get nothing)
Return series
(or lose future priority)
Operate at least 80%
(or lose slots)
Timely advise of retimes
(or have them denied)
Avoid slot misuse
(or be sanctioned)
Prove justified non-use
(or have slot treated as unused)

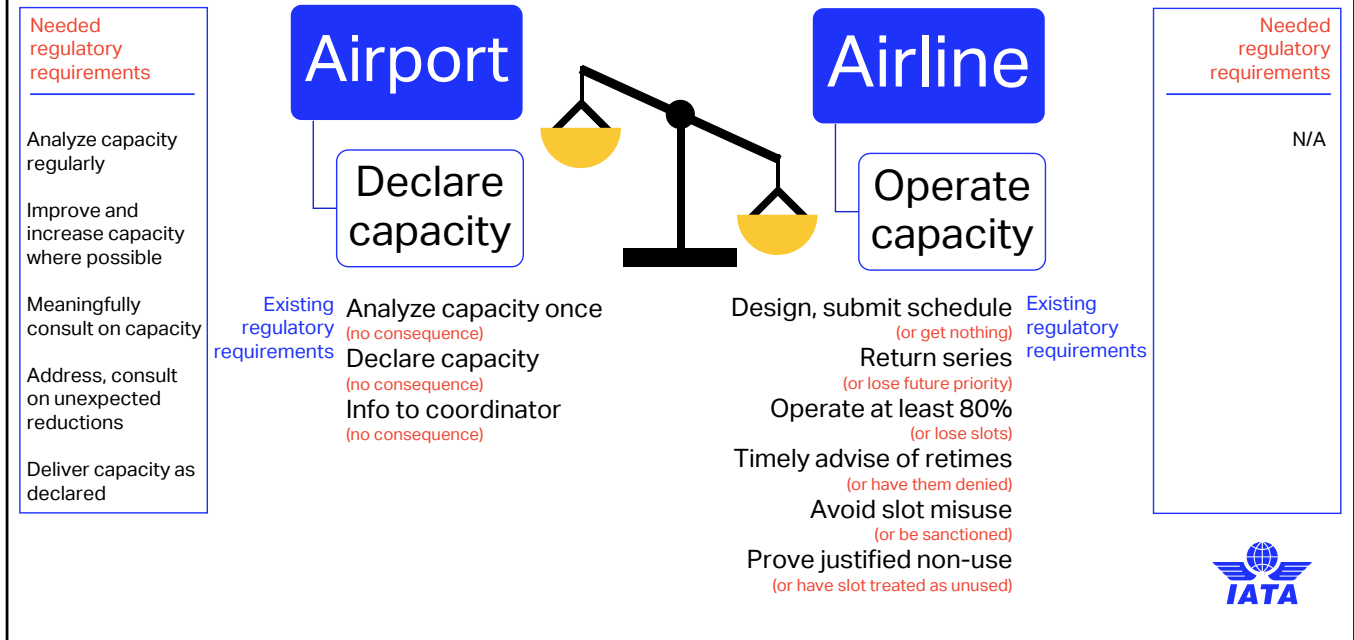Existing regulatory requirements

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- Airlines, by contrast, are heavily regulated, with consequences at each step of the process for failing to meet their obligations. Use your slots, or lose your historic rights. Follow the agreed calendar, or lose priority for your requests in future seasons. Avoid slot misuse, or be sanctioned.

Regulatory Balance is Needed

Airport — Declare capacity

Airline — Operate capacity

Needed regulatory requirements

N/A

Existing regulatory requirements

Analyze capacity once (no consequence)
Declare capacity (no consequence)
Info to coordinator (no consequence)

Design, submit schedule (or get nothing)
Return series (or lose future priority)
Operate at least 80% (or lose slots)
Timely advise of retimes (or have them denied)
Avoid slot misuse (or be sanctioned)
Prove justified non-use (or have slot treated as unused)

Existing regulatory requirements

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• And on top of the slot regulation itself, the airlines obviously are subject to a number of other regulations addressing their obligations to efficiently operate airport capacity. One such example is passenger rights legislation, which as we all know can impose strict monetary penalties on airlines who fail to deliver on their schedules. Unfortunately, no such recourse exists for situations in which the airports fail to initially declare capacity correctly or ultimately fail to deliver that declared capacity.

Regulatory Balance is Needed

Needed regulatory requirements

Analyze capacity regularly

Improve and increase capacity where possible

Meaningfully consult on capacity

Address, consult on unexpected reductions

Deliver capacity as declared

Airport

Declare capacity

Existing regulatory requirements

Analyze capacity once
(no consequence)
Declare capacity
(no consequence)
Info to coordinator
(no consequence)

Airline

Operate capacity

Design, submit schedule
(or get nothing)
Return series
(or lose future priority)
Operate at least 80%
(or lose slots)
Timely advise of retimes
(or have them denied)
Avoid slot misuse
(or be sanctioned)
Prove justified non-use
(or have slot treated as unused)

Existing regulatory requirements

Needed regulatory requirements

N/A

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- And to be clear, we are not suggesting airlines shouldn't be regulated. On the contrary, these slot requirements are largely taken from and adopted by the Slot Guidelines, which the airlines helped write and of course support.

- What we are asking for is balance. You can see here on the left of the slide our suggestions for some of the airport responsibilities which should be added to and addressed in the Slot Guidelines and ultimately in regulation.

Interim Measures

1. **Airports must voluntarily meet their obligations**
   - WASG Section 6
   - ACI-World Guidance on Airport Capacity Declarations

2. **Greater use of Coordination Committees to monitor declarations**
   - Mandated by EU Slot Regulation, et al.

3. **Governments must not go backwards**
   - Dublin, Amsterdam, Mexico City

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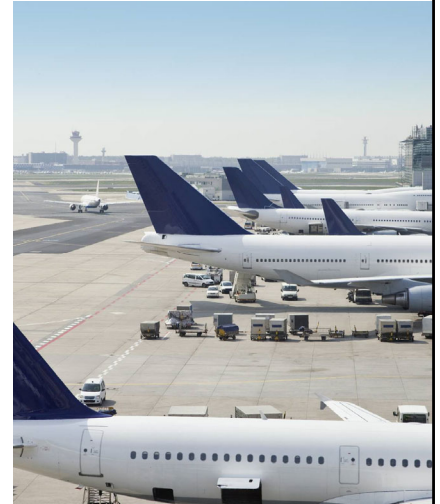
- We understand that it takes time to change the industry best practices, however, and perhaps even more so to change regulation.

- In the interim, we call upon airports to voluntarily meet their obligations in this area. Since the airports have joined the Slot Board we have agreed on a new Section governing capacity and demand analysis and the capacity declaration – Section 6. This good work was followed up on by ACI-World, who has put out an incredibly helpful guidance document on Airport Capacity Declarations. Some airports have been and remain strong positive examples in this area, such as London Heathrow and Gatwick.

- Unfortunately, other airports have not kept pace. Airports fail to regularly update their capacity analyses (or do this in secret, without consultation or transparency), do not in a timely or meaningful manner consult on their capacity declarations with the airlines and other stakeholders, and do not quickly respond to or provide sufficient advance notice of temporary issues such as capacity reductions due to works. IATA and the airlines stand ready to assist the airports in this process where necessary, sharing best practice to help get the most out of existing capacity.

- Further, it is critical to use existing tools to monitor capacity declarations, such as Coordination Committees. These consultative forums, which are mandated by law in certain countries such as the UK and EU, provide a vital opportunity for the airlines, coordinator, and other stakeholders to receive, review, and comment upon capacity declarations to ensure that the airports are following agreed best practice. Of course, these require that information be shared in advance of the meeting, that all airlines be invited to attend – with their slot experts, not just a local representative – and ideally that information is shared in English so that all participants may contribute.

- Finally, governments must comply with international best practice and avoid using capacity reductions as a blunt purpose tool to address perceived noise issues or to tackle political concerns. As discussed last year, it is critical that governments follow the Balanced Approach before making any noise-related capacity reductions. Similarly, we object to reductions based on what appear to be purely political motives, as was seen in Mexico City.

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WASG and Regulation Updates

1. Strengthened airport obligations requiring regular, updated demand and capacity analyses and timely capacity declarations
   - What consequences would be appropriate if this is not met?

2. IATA Slots White Paper
   - Airline vision for the future of slot policy, regulation, and the WASG
   - https://www.iata.org/en/programs/ops-infra/slots/slot-rule-reform/white-paper/

3. Ongoing discussions with the Slot Board – and regulators

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- Meanwhile, we will continue to work towards strengthening the obligations on airports in regulations and the Slot Guidelines. One issue that we are considering is how to incentivize airport behavior, in the absence of meaningful competition. Financial penalties can be a blunt tool, especially in an environment where the temptation will be to simply pass those back on to the airlines through charges. Perhaps a more creative solution, such as strengthened governmental oversight, would be a better approach.

- To this end, we have worked with the airline community to prepare a Slots White Paper. As you can imagine, this includes the topics we have discussed today around airport accountability – but equally touches on a number of other topics which form the airline vision for the future of slots policy. The paper includes a brief history of the slot process, for example, as well as a discussion on the economic importance of slots – and in particular, historic slot rights – to airline businesses and ultimately to the consumer. The White Paper has gone live today, and we have included a link on the slide which will take you there for more information.

- As we set out in the White Paper, and have hopefully made clear today, we believe that slot policy is best served when the industry works together. We have seen good results with the airports rejoining the slots governance process, including the development of new Sections on capacity declarations and slot performance monitoring. We look forward to continuing the discussion of today's issues with our partners with the airports and coordinators on the Slot Board, and hopefully to further improvements to the Slot Guidelines accordingly. If necessary, we will of course also raise our concerns with regulators – although we remain optimistic that the industry will continue to collaborate and compromise to ultimately lead the way forward.

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Thank you.