

Airport slot allocation system reform - response from the Competition and Markets Authority

Background

1. The CMA is the UK's principal competition and consumer authority. It is an independent non-ministerial government department, and its responsibilities include carrying out investigations into mergers and markets and enforcing competition and consumer law. The CMA helps people, businesses and the UK economy by promoting competitive markets and tackling unfair behaviour.¹ The CMA has a role in providing information and advice to government and public authorities.² The CMA's advice and recommendations are made with a view to ensuring that policy decisions take account of the impacts on competition and consumers.
2. The CMA's strategy includes "getting about and travelling" as an area of focus and which continues in the CMA's Annual Plan 2024-25. The transport sector has great significance in supporting economic activity. The aviation sector helps the UK trade and allows people to travel internationally and domestically for work and pleasure. The air transport sector alone contributed £5.47 billion to the UK economy in 2019, with the entire aviation industry contributing almost £22 billion.³ However, airport capacity is scarce and needs to be allocated efficiently. We welcome measures to improve competition in this sector in the interests of passengers, such as through reform to airport slot allocation.
3. The CMA has engaged extensively with the Department for Transport (DfT) on the issue of airport slot allocation system reform since 2018. We have consistently made the case for using market-based approaches in allocating airport slots. The CMA believes that, as well as improving competition in the interests of passengers, market-based approaches can improve dynamism

¹ The CMA's statutory duty is to promote competition, both within and outside the UK, for the benefit of consumers.

² Under Section 7(1) of the Enterprise Act 2002, the CMA has a function of making proposals, or giving information and advice, "on matters relating to any of its functions to any Minister of the Crown or other public authority (including proposals, information or advice as to any aspect of the law or a proposed change in the law)."

³ [UK Aviation: Reform for take-off](#), House of Commons, 2022, paragraph 24.

and innovation in one of the UK's largest services export markets, making a sizeable difference to the economy.⁴

4. This response draws heavily both from the [advice](#) we gave to DfT in 2018 on competition impacts of airport slot allocation and our [response](#) to DfT's *Aviation 2050* consultation in 2019. This response should be read in combination with those previous responses. We have continued to engage with officials at DfT following these pieces of advice and we welcome their work getting the consultation into this place.
5. The passenger aviation industry faced significant disruption during the COVID-19 pandemic. However, aircraft movements and passenger numbers have returned to near their pre-pandemic levels and are set to grow further.⁵ We welcome that DfT is considering the issue of slots policy once again. We continue to believe there is much to be gained from opening up the system to market-based mechanisms.
6. The CMA's stance in favour of using market-based mechanisms to allocate slots is unchanged from our 2018 advice and 2019 consultation response. Using market-based mechanisms helps ensure that scarce resources are allocated to whoever values them the highest. Market-based mechanisms also lower or remove barriers to entry for new airlines which supports competition.
7. The CMA recognises that reform in this sector is complex. However, the impact of effective reform will be substantial, both in terms of direct benefits to passengers and the industry itself from enhanced efficiency and competition, but also the wider UK economy, which depends on a productive and competitive air services sector. The reform of slot allocation is a fundamental change to a system which airlines and airports have been accustomed to for a long time, although this is not a reason not to do it. How the new system is designed and its roll-out will impact parts of the industry in different ways, but the CMA maintains that the aggregate benefit of slot reform will be net positive. Capacity constraints, which are only set to get worse over time, make the case for slot reform, both for new and existing slots, compelling.
8. This response begins by restating the case for using market-based mechanisms in allocating airport slots. It then offers the CMA's overarching position regarding slot reform. The consultation proposes multiple measures to help allocate scarce slot capacity and our response puts on record the

⁴ [UK trade in numbers \(web version\) - GOV.UK \(www.gov.uk\)](#), Department for Business and Trade, 2024.

⁵ [2022 in review: UK air travel reaches 75% of pre-pandemic levels as Spain tops most popular destination list | Civil Aviation Authority \(caa.co.uk\)](#), Civil Aviation Authority, 2023.

CMA's advice regarding the impact these measures may have on efficiency and competition.⁶

The case for using market-based mechanisms to allocate airport slots

9. Airlines will primarily compete for passengers on price, quality of service offering and route connection options (in terms of route variety and route frequency).⁷ A market-based approach in the airline industry so far has led to significant competition, lower fares for passengers and greater connectivity. Competition between airlines drives innovation and efficiency among airlines, leading to improved services and passenger experience. Indeed, pro-competition interventions in the aviation market have led to benefits for passengers, as evidenced by the CMA's [evaluation of the decision to break up BAA](#).
10. Liberalisation of routes and the entry of low-cost carriers has increased competitive pressure on incumbent carriers in the last 30 years. The European Common Aviation Area (ECAA) has facilitated the growth of these low-cost carriers and the UK's ongoing participation in this agreement following its departure from the EU continues to provide benefits to passengers. Whilst, legally, these agreements permit any airline to fly to and from any airport within the ECAA, an airline's access to a particular airport at a particular time (a slot) is now the principal restriction on competition.
11. Airport capacity is extremely limited and some airports in London and the Southeast of England are expected to have exhausted that capacity by the 2030s. While the introduction of significant additional capacity in the Southeast of England has been proposed (through an additional third runway at London Heathrow and the use of the northern runway at London Gatwick), how any additional capacity should be allocated is important. Currently, incumbent carriers, through historic rights to slots, have entrenched positions at major airports in the UK. Slot reform is therefore a further measure DfT could take to open the market further to competition in the interests of passengers.
12. In the current administrative system of slot allocation, airlines do not pay for the *economic value* of airport slots. If an airline operates the slot for a given proportion of the season, they retain the right to use it, avoiding paying the price they would otherwise pay to buy or lease this slot on the open market. This results in rigid slot holdings, especially at congested airports, that

⁶ <https://www.gov.uk/government/consultations/airport-slot-allocation-system-reform>

⁷ [Advice for the Department for Transport on competition impacts of airport slot allocation \(publishing.service.gov.uk\)](#), CMA, 2018, paragraph 49.

compound the underlying capacity constraint. This means that airlines find it difficult to obtain additional slots to expand existing and launch new services; as a result, competition in air services markets is constrained to the detriment of passengers. This lack of dynamism in slot holdings means that some slots have been held by airlines for a long period of time. Together with the inability of new airlines to enter and provide services at an airport, or smaller scale existing airlines at an airport to increase their operations, this makes it likely that the existing pattern of slot holdings does not reflect the most efficient use of all slots.

13. Part of the reason incumbent airlines hold onto slots is due to the difficulty of acquiring new ones. This suggests that incumbent airlines may not be making the most efficient use of some of their slots. Indeed, if slots could be obtained easily through market-based methods, there would no longer be such a 'retention premium' on holding existing ones and so we would not expect the level of slot holdings of incumbent airlines at certain major airports.
14. Absent any major increase in airport capacity, the CMA continues to believe that the slot system should be reformed to ensure airlines pay a price to acquire a slot which reflects the economic value of that slot. This may be best achieved through auctions, but we suggest there may be other measures, as outlined in the consultation, which can help airlines understand and take account of the economic cost of holding onto a slot.
15. Market-based mechanisms in airport slot allocation could also improve competition. We think that there are two complementary primary channels of how airport slot allocation can affect competition in air services markets. Firstly, intra-airport competition, where changes in slot policy could lead to a greater range of airlines at a given airport. In turn, this puts pressure on fares and quality at that airport. Secondly, inter-airport competition, where changes to the slot system allows passengers to access and connect through alternative airports owing to entry by new airlines with newer routes or incumbent airlines adapting routes in the face of competitive pressure.
16. Competition within airports is the primary channel through which slot reform could affect competition, given this is likely to be airlines competing for passengers within an airport. Our previous advice and this response is therefore targeted at measures which will enable greater competition between airlines at a given airport. Although changes to slot reform may also lead to more competition between airports, in practice this is most likely within the London airport system, where geographic proximity may allow these most congested airports to compete more effectively.

The CMA's position on slot reform

17. In 2018 the CMA published advice to DfT on how to make changes to the airport slot allocation system to improve competition in the interests of passengers. The guiding principles there continue to apply in this response.
18. **Market-based approaches remain the only approach to substantially increase allocative efficiency in slot use.** Changes to the current administrative allocation mechanism would likely yield only marginal benefits and continue to place responsibility on an administrator when those choices could be more efficiently made by market forces. In line with our response to *Aviation 2050*, we are still of the view that a market-based approach to allocating slots at capacity-constrained airports is the most effective method to ensure the efficient allocation of slots, and the benefits this efficient allocation will bring to passengers, airlines and the wider economy.
19. **Market-based approaches could be introduced for existing slots as well as new slots.** Proposals set out in the DfT's consultation to consider market-based approaches for new slots are welcomed, as well as proposals to set a limit on how long these slots can be held for. We recognise that the aviation sector has faced significant uncertainty during the pandemic but would still encourage DfT to consider expanding these proposals to include more slots, and not limit its consideration to just new ones.
20. **Changes to the current administrative system will likely only result in marginal benefits.** Allocations made by the current administrative system are not based on market forces. Instead, they are based on a set of prescriptive criteria, the primary one being grandfathered historic rights. So long as these rights remain, allocative efficiency will be limited.
21. **DfT's proposed changes to the existing administrative system should still be made, given lead-in times for major system reform.** We still see merit in adapting current rules within the administrative slot system to improve efficiency. Recognising that more wholesale system reform will require a significant amount of time and policy effort, in the interim, changes to the slots allocation process would have some impact in boosting competition in this sector.
22. **We welcome DfT outlining its objectives for reform, and we see opportunity to go further.** In our *Aviation 2050* response, we suggested that DfT should clarify its objectives from slot reform. We suggested the primary objective should be maximising the efficient use of scarce capacity through encouraging competition in the interests of passengers. DfT's objectives for

slot reform go some way to meeting the challenge posed by the CMA but we would challenge DfT to go further.

Improving the current system

23. The consultation divides changes to the current system into two parts, first a *more efficient slot system* and second a *more transparent slot system*. In line with our previous advice, we consider these two elements together in our response. The CMA is supportive of changes which enable a more efficient and transparent slot-allocation system but cautions that small changes may not deliver the big gains in efficiency that could be achieved from wholesale reform.

A more efficient slot system

24. The allocation of airport slots in the current administrative system is inherently flawed. Absent changes to historic rights for airlines to hold slots, the current system is impeded by slots not being returned to the pool and thus not being made available for reallocation to airlines which could utilise them in a more optimal way, delivering more efficient use and outcomes. The consultation outlines five distinct proposals for the delivery of a more efficient slot system, which we outline and provide our response to in turn below:

- (a) **Redefine the new entrant rule:** DfT has proposed introducing a power to enable the Secretary of State for Transport to make changes, through regulations, to the definition of a new entrant. This could include either updating the regulations to be in line with international guidelines or making changes to the UK system or individual airports as appropriate. This could change the definition based on number or proportion of slots held, and/or other additional criteria. DfT has also proposed to remove references to an 'airport system'.

We agree that the current definition of a new entrant for the purposes of slot allocation is unnecessarily restrictive and would benefit from reform. In particular, the current definition unduly restricts the ability of airlines with small operations at an airport or within an 'airport system' from being able to obtain slots more easily. This limits the ability of airlines to grow their operations and benefit from scale, such as providing increased frequency on a route and/or being able to offer a greater variety of routes. This proposed change would foster a more competitive environment, which is ultimately beneficial for the sector and passengers.

The CMA's position on competition within airports is unchanged. We believe that airlines with some presence at a given airport which benefit

from economies of scale are more likely to compete more effectively with much larger scale incumbent airlines than airlines which may only operate one or two flights per day. We agree with the proposed reforms, as these changes could allow airlines with a smaller presence at a particular airport to grow their operations to a position where they can better challenge and impose a stronger competitive constraint on large incumbent airlines.

- (b) **Restrictions on newly allocated slots:** DfT has proposed to ensure parity between the conditions attached to newly allocated slots, regardless of whether they are being allocated to new entrants or to incumbent airlines. Currently, new entrants face additional restrictions on use of slots compared with incumbents.

We agree that the differential application of restrictions on newly allocated slots to new entrant and incumbent airlines can distort competition. This proposed reform would help ensure equality of treatment among all airlines, regardless of their size or tenure in the industry. Moreover, it would encourage airlines, regardless of whether they are new or incumbent airlines, to consider how the slot is to be used as part of their application for it, rather than being granted discretion to change it at a later date.

- (c) **Removal of re-time priority:** DfT has proposed to remove the priority incumbent airlines have in requests to re-time their slot against requests to allocate new slots. Whilst we recognise that incumbent airlines may benefit from re-timing their slots for operational and commercial reasons, this unequal playing field is currently, as with restrictions on slot use, acting as a competitive distortion in this market.

We agree with the proposal to remove re-time priority such that applications for re-times are considered alongside (and given the same priority as) requests for new slots, including from new entrants. This will remove the distortion to competition that the current differential treatment creates.

- (d) **Permanent powers to improve resilience:** The consultation proposes an update to the justified non-utilisation of slots (JNU) provisions to reflect learnings from the COVID-19 pandemic legislation which was temporarily introduced to provide much needed additional flexibility to the sector. Required new legislation would provide permanent powers to the Secretary of State for Transport to make regulations about slot alleviation in response to a crisis.

We agree that the introduction of such powers could be helpful in providing the sector with required additional flexibility in specific circumstances. However, we suggest the grounds for such intervention should be explicit, limited, clearly defined and subject to consultation, except perhaps in the most exceptional circumstances. This approach would ensure a balance between the need for resilience and to minimise the risk of unintended consequences flowing from the use of such powers.

- (e) **Increased slot usage ratio:** The consultation considers how slot usage ratios could be increased from the current 80:20 ratio, whereby an airline must use at least 80% of its series of slots for the scheduling season it has been allocated. Under the current arrangements, if an airline fails to meet the minimum 80% usage of the series of slots, all the slots in that slot series are returned to the slot pool and become available for reallocation to other airlines.

We agree that having a non-utilisation margin is important to provide airlines with flexibility to plan their operations and make changes to their schedules based on demand even after the slots have been allocated. Increasing the slot usage ratio may still enable the utilisation of existing capacity to be maximised. DfT may wish to consider higher ratios which apply across the system. As noted in the consultation, the associated risks of increasing the slot utilisation ratio are likely to be lessened if implemented alongside enhanced JNU provisions.

The consultation asks whether airports should be given the option to decide whether to apply any higher usage ratio. We encourage DfT to consider introducing a higher default ratio applicable to all airports, (e.g. 85% or 90%) but to provide for individual airports to deviate from this subject to justification and potential review.

A more transparent slot system

25. Increased transparency in the trading system can facilitate the market in determining appropriate prices for slots. Increasing the role of transparency in the slot system is beneficial for competition, although we would caution against the assumption that this will automatically boost competition. For there to be meaningful change in the market, this would have to be accompanied by willingness from airlines which hold slots to trade these with their competitors. This may not necessarily be forthcoming, particularly if airlines lack incentive to lease slots to a direct competitor. The consultation outlines five distinct proposals for the delivery of a more transparent slot system. We have focused our response to this section on measures which will impact competition, in particular the proposal to introduce a slot register and mandate trades.

- (a) **Establishment of a slot register, mandatory trading system and regulatory oversight of slot trades:** The consultation proposes to create a compulsory slot register for level 3 coordinated airports to increase transparency. This register would include as a minimum all slot holdings, showing who holds the historic rights to a slot, who operates each slot, and record the duration of slot lease agreements. The consultation also proposes a mandatory trading platform, with a formalised role for a regulatory body in providing oversight of this market.

We agree with these proposals, as opening up scrutiny to the slot market will help new entrants to determine a 'price' for slots they wish to acquire, as well as provide a way for them to acquire slots. Currently, many trades or sales of slots happen 'off-book', with airlines only required to inform the coordinator after the deal has concluded. A slot register and mandatory trading system allows new entrants and incumbents to observe the market and acquire slots. Recognising that incumbent airlines may not have incentives to sell or lease slots to a direct competitor, we are also of the view that the successful operation of the slot register and slot trading platform will necessitate the development of specific rules and procedures, focused on trading and leasing activities. The establishment of such guidelines will ensure that all transactions are conducted in a fair and transparent manner, thereby promoting trust and confidence among all stakeholders involved in the process.

The consultation proposes that the regulatory body would review and approve slot trades when an airline holds a defined proportion of slots at an airport with significant market power, as assessed by the CAA. On this proposal:

- (i) Cambridge Economic Policy Associates (CEPA), an economic consultancy, in its [report on slot allocation](#), suggested the CMA could have a role providing oversight of secondary trading. We do not consider the CMA to be the appropriate regulatory body for such oversight. As is the case with other markets (e.g. radio spectrum sale and trading), where there exists a sector regulator, this public body is usually best-placed to examine and oversee the functioning of the market. Any public body given responsibilities would need to be given the right powers through legislation to oversee this market, and additional resources to undertake new functions.
- (ii) We suggest that the criteria for reviewing and granting necessary approval for trades by a public body should be where the airline acquiring the slots at a given Level 3 airport has or is in reasonable prospect of obtaining a strong market position. This approach would

ensure that such reviews are targeted to the trades which might be most harmful for competition, as this will be driven by the airline's market position at an airport, rather than whether the airport has been assessed by the CAA to have significant market power.

(iii) If the slot trading system is set up in an open and transparent way, with suitable rules around trading, it could be the case that oversight from a public body may not even be necessary.

(b) **Limit on slot leasing:** The consultation proposes that slot leasing is limited to a set period, after which the slot will have to either be returned to the pool for reallocation or flown by the original slot holder.

The proposed reform could help to address the advantages that leasing provides to the original slot holder by being able to avoid costs of running a service using the slot (eg aircraft running and maintenance costs and personnel costs) and it being able to ensure that the slot is not used by a major competitor. This is because such a limit may result in more slots being returned to the pool and therefore becoming available to other airlines. However, it is also possible that a limit could encourage incumbent airlines to use the slot inefficiently themselves rather than returning it to the pool. Any changes to the arrangements related to slot leasing, which provides additional flexibility to airlines, including entrant airlines, should be carefully considered to avoid unintended consequences which could be harmful to competition.

(c) **Guidance on secondary criteria:** This proposal provides for the introduction of a new power to allow the Secretary of State for Transport to amend the secondary criteria used by the slot coordinator for awarding slots at an airport. The power would also allow the Secretary of State to provide guidance to the coordinator on the prioritisation and interpretation of these secondary criteria.

We recognise that the flexibility that such a change would afford could be useful in a diverse and dynamic market like UK aviation. It would be helpful for DfT to outline in what circumstances the Secretary of State may intervene. We would encourage DfT to adopt a set of principles where guidance on secondary criteria may be issued.

(d) **Power to direct the UK slot coordinator:** The consultation proposes to create a new power for the Secretary of State for Transport to direct the slot coordinator, requiring it to undertake a certain action. Any direction would need to be in keeping with the Airport Slot Allocation Regulations and not require the coordinator to take action on the allocation of

individual slots or which would unfairly benefit a particular airport, airline or country. The consultation envisages that such a power would only be used in exceptional circumstances.

To help achieve the stated aim in the consultation for slot coordination to remain independent and impartial, we think it is important for there to be sufficient clarity on why this power is required and how it would be used. If implemented, we encourage DfT to explore whether there are measures that could be included to ensure that the independence of the slot coordinator is maintained.

Auctions

26. In addition to reforms to the current system, we welcome DfT's proposals to examine the potential for auctions to allocate new slot capacity, should any become available. In this section we consider how auctions may improve competition but also the main risks of auctions and how these could be mitigated through effective auction design.
27. In line with our previous advice and consultation response, we suggest that DfT considers whether it is appropriate to go further in this respect, such as through a phased approach to auctioning existing slots. This approach would see a certain proportion of existing slots being auctioned periodically, in addition to new slots being auctioned when they become available.
28. As acknowledged in the consultation, incorporating the use of auctions in slot allocation will require legislative change. In order to future-proof the system, we suggest legislation to introduce the current proposed reforms could be drafted to provide for the option to extend the use of auctions to existing slots as well.

Case for auctions

29. Auctions can promote efficiency in the allocation of slots. By allowing the market to determine the value of slots, auctions can ensure that scarce slots are allocated to the airlines that value them the most. The value that airlines place on slots will reflect the value that passengers place on the services that can be provided, utilising the slots and any network effects arising from an airline's slot holding. Ensuring that slots are allocated to the highest value user will lead to more efficient use of airport capacity and better outcomes for passengers, in terms of route availability, range of service availability and range of price offerings.

30. Auctions can also increase efficiency in the slot allocation process itself. Instead of the slot coordinator having to allocate slots through a prescriptive set of criteria, which airlines have an incentive to align their interests to, slots are allocated by price alone. This helps ensure a level playing field between airlines and helps remove barriers to entry and expansion for airlines. In a competitive auction, bidders will bid (close to) their willingness to pay, so the airline that values a slot the highest will win the auction. The auction extracts and uses information unavailable to an administrator.

Objective for using auctions

31. An auction has two main outputs. One is the decision on the allocation of slots – which airlines get which slots – and the other is the revenue raised from the auction. These link to two potential objectives for the use of auctions: either to ensure the most efficient allocation of slots such that the use of the slots by the airlines to which they are allocated offer the highest value use; or to maximise revenue generation from the auction. These objectives may be in conflict, such that the best design from the perspective of efficiency may not maximise revenues.
32. The premise in the consultation is for the potential reforms to slot allocation to increase efficiency. We support this approach and are of the view that this would best enhance competition. As such we suggest that the framework to be developed around a move to auctions is explicit that the objective of any auction is to secure most efficient use of slots and that it is not about maximising revenues.
33. That said, given that auctions will undoubtedly raise revenue, there remains a question about who should receive the revenues of auctions. Primarily, this is likely to be either the airport where the slots are being auctioned, or government.
- (a) Auction revenues could be used by the airport to invest in airport infrastructure improvements and/or to lower airport charges. Investment in infrastructure improvements can enhance the overall quality of service and passenger experience and potentially increase capacity further. Further, to the extent that new capacity is auctioned in advance of the capacity being available, auction revenues could be used to part forward-fund the capital investment costs, reducing project risk and potentially also flattening any required increase in airport charges levied on airlines.
- (b) However, airports being recipients of auction funds could distort incentives on the airport to maintain some level of capacity scarcity eg through artificially limiting any capacity expansion, such as to maintain

scarcity post expansion to help ensure auction fees are higher than they otherwise could be. Therefore, this risk should be explored further and potential mitigations to such risks identified prior to any decision being made.

- (c) Alternatively, revenues from slot auctions could be paid to government. Auction revenues could be allocated to government generally, or potentially ringfenced for aviation-related matters, eg contributing to funding aviation noise mitigation or airport surface access improvements. The more specific any ringfencing is, this could create incentives for an auction to be designed to increase revenues, which, as noted above, can undermine the efficiency objective.

Risks around auction design

- 34. It is important to note that while auctions have potential benefits, they also require careful design and implementation to ensure that they do not lead to unintended consequences, such as market concentration. As outlined in our December 2018 advice to DfT, the main risk of auctions would be if they facilitated an airline with market power at an airport to enhance its market power through the auction process. For example, this could be through an auction design which incentivised such an airline to bid a price which reflects the value of its enhanced market power. All things equal, this would increase its likelihood of success in the auction, as other bidding airlines would not have such an additional value to factor into their bids. This could lead to a greater concentration of slots in the hands of such an airline. This would clearly be detrimental from a competition perspective. However, as we stated in 2018, there are a number of ways to design an auction to prevent these risks materialising, or mitigate them, for example by:
 - (a) Guaranteeing a certain proportion of slots to new entrants (similar to what currently happens within the administrative allocation system).
 - (b) Capping the number/proportion of slots that could be purchased by specific airlines or groups.
 - (c) Ensuring that there is a sufficient volume of slots available for auction to reduce the relative disadvantage faced by new entrants, if necessary, by re-auctioning some existing slots in addition to new slots. And/or:
 - (d) setting out a clear plan for the allocation of slot capacity over time, so that all airlines are able to predict when new slots will become available.
- 35. Auctions could allow new entrants to build their own strong position by bidding for a large number of slots. By contrast, if only a small number of slots

are auctioned, then it is more likely that an incumbent airline with market power would be willing to bid a higher price for the slots than a new entrant, since this could prevent entry from a competitor into the market. It is important for the auction design process to identify and mitigate such risks.

Auction design

36. Auction design should be informed by the objective of the auction. The CMA continues to believe that the primary objective of the auction should be to maximise efficiency in the allocation of slots. Annex B of the consultation highlights two important sub-objectives of auction design to facilitate efficient outcomes, namely, i) truthful bidding and ii) price discovery. In our view, an auction design along the following lines could help achieve these sub-objectives and an efficient outcome overall.
- (a) Slots being made available in different combinations / packages with these able to be amended as the auction progresses. This would allow an airline to express its preferences for different slot combinations, reflecting its intended route plan, scale of operation etc.
 - (b) A transparent “clock auction” to allow an airline to amend its bidding as the auction progresses, responding to other airlines’ valuations of slot packages.
 - (c) A two-stage process, whereby when the auction clears (the end of the first stage), winning airlines can between them refine their slot holdings in a second stage to best suit their intended use and any differential in valuations.
 - (d) Use of a second price approach to determine the price to be paid by winning bidders, which can help address the risk of the ‘winner’s curse’. Auction prices may be higher than anticipated or the winning bidder in a public value auction may overbid for the asset. These risks can be managed to some extent by the design of the auction, for example using a second price rule, which requires that the winning bidder pays the amount bid by the second highest bidder.
37. However, as noted above, the precise auction design will need to be informed by the circumstances, including whether the auction requires any form of competition component, such as slot caps, or public policy intervention, such as ringfencing of slots for specific purposes.
38. Further, while an auction with the above characteristics will be relatively complex to design, it will be important that the bidder process and auction interface is kept simple to enable bidders to bid effectively. While the

mechanics of the auction design should be fully transparent for example, through prior consultation, the bidding process should be as simple as possible. The decisions to be made by a bidder in each auction round should be kept simple so that bidders can bid their true valuations as the auction progresses. As noted in the consultation, there are likely to be valuable insights available from the various spectrum auctions that have been undertaken in the past 20-plus years. We encourage DfT to continue to engage with other markets where auction design has been instrumental.

Operationalising the auction regime

39. A necessary consideration for any initial auction system will be to ensure it can be implemented effectively. The results of this phase could then allow for auctions to be rolled out across the system for slot allocation.
40. In our view, auctions for new slots should be considered by default. There are capacity constraints to some extent at all UK level 3 airports. Appropriately designed auctions provide an efficient way to allocate this scarce capacity. DfT may benefit from setting out the cases where it expects the auction system to be used. There should still be provision to use the administrative system, for example where there may not be sufficient demand for a reserve price to be met. In cases where auctions are unlikely to be successful in allocating slots, DfT should consider setting an administrative incentive price, to expose the user of the slot to its opportunity cost.
41. Operationalising the auction regime demands expertise across the industry and from government. The most similar comparison to the auctions system has been spectrum auctions by Ofcom. Any public body tasked with designing and carrying out auctions of slots will require expertise and the necessary powers to optimise slot capacity and competition between airlines, in the interests of passengers.

Ringfencing slots for specific purposes

42. The consultation explores the potential to ringfence new slots for specific policy purposes. Government is best placed to make the trade-off between public policy objectives against potential distortion of competition. We note that in the context of spectrum awards, there have been occasions where broader public policy objectives have been included where spectrum has been reserved for certain uses such as requiring high proportion of geographic coverage not expected to be achieved solely by the market (for example in 4G and 5G spectrum auctions). Such broader policy objectives in these cases did not undermine the ability to use auctions to allocate the

spectrum. We expect this would be similar when using auctions to allocate slot capacity.

43. If a public policy objective intervention is relatively limited, for example, to ensure domestic connectivity, then any resultant competition distortions are also likely to be limited. The CMA cautions against an approach whereby multiple different public policy objectives are sought to be addressed through a slot allocation process. This is in line with our previous advice and engagement we have had with DfT since 2018, where we have consistently argued that competition and efficiency should be the primary objective of slot allocation reform.

Fixed duration historic rights

44. The consultation explores the potential for a limit to be introduced to limit the historic rights for new slots to a fixed duration, for example 15 years (as opposed to the current position where airlines retain the slot in perpetuity, as long as they comply with the utilisation ratio). The consultation envisages that after the fixed duration has expired, slots would be returned to the pool for reallocation. Criteria for the allocation of returned slots would be consulted on later, but could include by auction or an administrative process, but would not be based on historic use.
45. The current approach can restrict competition from airlines which may want to enter the market or expand their portfolio, as well as reduce the dynamism and efficiency of the market. As covered elsewhere in this response, the current arrangements can lead to slots not being allocated to the airlines who would provide the most efficient allocation, instead being offered to airlines which have accrued rights by operating a slot over successive seasons.
46. By contrast, the allocation of new slots with a fixed duration, as opposed to an indefinite period, could increase dynamism in the slot allocation process. Over time, this approach could lead to a more efficient allocation of slots. By limiting this method to new slots at first, it would be possible to assess the impact of introducing this over time and, as with auctions, could be further expanded to include existing slots.
47. In the CMA's view, the most efficient system would be to auction new slot capacity, with slots following from this auction subject to fixed duration rights. Airlines would be able to know the market price for a slot, as well as how long they would be able to operate it for. DfT may wish to consider the duration of rights and how these impact on the industry. The longer the period of fixed duration, the greater the risk that the dynamism and greater efficiency introduced by the reform would be undermined. However, if the initial

allocation is conducted via an auction, such risks would be reduced and as such a longer duration could be more justifiable. This would ensure that the allocation process is fair and that all parties have an equal opportunity to acquire slots.

Conclusions

48. This response has reaffirmed the CMA's pro-competition position regarding airport slot allocation. Although there has been significant disruption in the industry during and following the pandemic, some UK airports remain significantly capacity constrained. Slot reform is therefore necessary to open-up new capacity and to promote competition and efficiency in the interests of passengers.
49. We acknowledge that there are challenges in implementing these changes and transitioning to a new system. Change is often met with resistance, particularly from those with a vested interest in maintaining the status quo, and there will undoubtedly be hurdles to overcome. However, we are committed to continue to work with government to advise on how to address these challenges. We believe that the potential benefits of these changes, such as increased efficiency and fairness, continue to be significant, for passengers, the industry and the economy as a whole.

Competition and Markets Authority

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