

**US Department of Transportation
Federal Aviation Administration**

In regards to:)
)
Notice of Market-based Actions to)
Relieve Airport Congestion and Delay)
_____)

Docket No. OST-2001-9849

Comments of the International Air Transportation Association

Summary

The International Air Transport Association (“IATA”) submits these comments in response to the Notice of Market-based Actions to Relieve Airport Congestion and Delay (Docket No. OST-2001-9849) issued by the Department of Transportation (“DOT”), Federal Aviation Administration (“FAA”) on August 21, 2001. IATA’s position is that the market-based approaches being considered would be ineffective, largely for operational reasons, and would have a direct and negative financial impact on its Member airlines serving the United States. Making more efficient use of existing airport capacity in the short run, while a commitment to increased capacity in the long run is the most appropriate response to the needs of the airlines and travelling public they serve.

Background

The US DOT/FAA has asked for comment on the possible role, feasibility, and effectiveness of using market-based approaches to relieve airline flight delays and congestion at busy airports as part of a comprehensive aviation strategy to improve

airport capacity management, enhance competition and promote the efficiency of the overall aviation system.

FAA has defined market-based approaches to include all market pricing regimes that could encourage air carriers to use limited capacity in a more efficient manner, potentially bringing into balance current supply (airport capacity) and demand (number of flight operations) while longer-term capacity expansion is pursued.

Such market-based approaches could include:

- Auctions, which would allocate a fixed number of operations for some particular period of time
- Congestion pricing, which contemplates charging air carriers not only for the costs they impose on an airport, but also the delay costs they impose on other airport users
- Peak period pricing, which contemplates imposing fees based on the higher costs an airport incurs to accommodate demand during peak hours or the cost an airport does not incur because flights are shifted from busy periods of the day to less busy periods
- Flat fees, which would restructure existing weight-based landing fees so that total airfield costs are recovered through a higher average fee, thereby affecting the mix of aircraft that operate at an airport

IATA's Views

In order to relieve airport congestion and delay, the primary objective should be to increase the availability of capacity and improve the utilisation of existing capacity,

rather than ration demand through market-based approaches that have not proved to be effective. In regards to the specific measures under consideration, IATA has the following comments:

Auctions

Auctions, which would allocate a fixed number of operations for some particular period of time, would result in significantly higher costs for airlines and would not be practicable in an international context, due to issues relating to reciprocity. The current process of allocating limited capacity is done by way of slot allocation programs in place at certain congested airports. The processes to deal with congestion problems at airports need to be fair and equitable for all air operators. Therefore, the current process of applying for and assigning international slots is being done on similar terms at all airports. Slot applications are typically assigned as requested. Auctions, on the other hand, entail a degree of uncertainty as to whether or not a slot will become available, aside from the inflated price that will have to be paid. However, neither a system of auctions or a slot allocation program would do anything to reduce congestion, unless the number of operations are effectively capped.

Congestion pricing

Congestion pricing, which contemplates charging air carriers not only for the costs they impose on an airport, but also the delay costs they impose on other airport users, relies on the correct and accurate identification of externalities. These are difficult if not impossible to assess with any degree of accuracy or implement based

on general agreement among stakeholders. It would be difficult to demonstrate that congestion prices are cost-based, a fundamental principle any airport charging scheme should adhere to (*refer to ICAO Doc 9082/6*). Further, what this concept appears to assume is that air carriers do not incur delay costs. The fact is that air carriers incur significant delay costs, including the cost of extra fuel burn, catering, hotel accommodation for inconvenienced passengers, etc.

Peak period pricing

Peak period pricing, which contemplates imposing fees based on the higher costs an airport incurs to accommodate peak hour demand and lower fees based on the cost an airport does not incur during less busy periods. Such a charging scheme should inherently be revenue-neutral, however, this has not been demonstrated where such schemes have been in place – airports have not been able to identify with any accuracy what their costs are at different times of the day.

More importantly, such supposed “demand-altering” pricing schemes could only have an effect if operators have full control over their demand patterns. This is not the case. Airline demand is derived demand; an airline’s scheduling and fleet allocation decisions are based in large part on the demand for air travel at particular times of the day. An airline has therefore limited ability to adjust, in an efficient way, to a system of peak/off-peak charging due to the complex task of scheduling its operations. Scheduling is one of the most difficult tasks an airline has - trying to optimise aircraft utilisation within the constraints of airport curfews, increasing environmental restrictions, crew availability, and many other factors.

Peak charges have therefore only increased the cost for those air carriers operating during the peak periods and raises concerns of equity and discrimination.

Furthermore, at most (congested) airports it has become impossible to differentiate between peak and off-peak hours of the day – peak hours would constitute the entire operating day making it impossible to implement a peak period pricing scheme. Experience has shown that where peak/off-peak charges have existed, it has not had a significant effect on the distribution of traffic from peak periods to off-peak periods. The result has been that, while a few airports around the world have introduced peak/off-peak charging schemes, others have abandoned them. ICAO¹ has similarly concluded, on the basis of a survey it conducted (*working paper 11 to the Conference on the Economics of Airports and Air Navigation Services – ANSConf 2000*), that “[p]eak pricing has proved to be of limited effectiveness for capacity management.” It is for these reasons that IATA has strongly opposed any such system of peak/off-peak charging.

It is clear that the three previous market-based approaches will have the effect of increasing air carrier operating costs. Since air carrier demand for airport capacity is in fact derived demand, the question is whether air carriers operating in an extremely competitive market can effectively pass on the increased operating cost to the ultimate consumer of air transportation services, and thus, influence his/her behaviour. While the demand profile of a business passenger is relatively inelastic to that of a leisure passenger, the air travel market has also demonstrated that it

has a voracious appetite for cheaper fares. This has been the basis for success of the low cost carrier and any attempt by certain carriers to raise fares is not met with similar fare increases by other carriers. It is a known fact that airfares reflect what an individual passenger is willing to pay and not a certain margin over an airline's costs – effective market segmentation and the law of supply and demand dictates airfares. Thus, what these market-based approaches would accomplish is an increase in airline operating cost, with little opportunity of recovering this cost through the fare structure. This, the airline industry can not afford.

Flat fees

A flat fee that would recover total airfield costs through a higher average fee, or alternatively, a high minimum charge, has proven to be more effective in moving aircraft of a certain lower weight-class from congested airports to secondary, reliever airports. This was confirmed as a result of the same ICAO survey noted above. However, such a pricing scheme obviously results in limiting airport access to a certain group of users and raises concerns of equal access.

Concluding remarks

Current airport charging schemes are based on basic ICAO principles that prescribe that charges are to be levied to recover solely the cost incurred to build, maintain and operate airport facilities; airport charges should be cost-related and non-discriminatory. This has invariably resulted in an average cost pricing regime whereby the charge is set by calculating a unit price that is based on the cost for

¹ ICAO – the International Civil Aviation Organisation, based in Montreal, Canada, to which the United

the provision of specific facilities and services, divided by the expected number of traffic-units. Accordingly, all air carriers at an airport tend to pay the same unit price for the same type of service.

Attempts to alter current charging scheme with the introduction of market-based approaches should consider ~~that~~ capacity costs as joint costs to all airport users. All airport users benefit jointly from the availability of an airport - it has not been developed for any single user. All users contribute to their fair share of the joint costs. An average cost pricing regime, as employed in general practice, is therefore considered to be the most fair, transparent and equitable charging regime. The market-based approaches being considered by FAA and any other demand-management mechanisms will distort the equity principle, inevitably treating airport users differently, while not really addressing what is essentially a supply-side capacity problem.