

Winter 2020 season

European Union impact
assessment: slot waiver

Executive summary

The aviation industry is living through the worst crisis in its history. Even with the epidemiological situation returning to relative stability in Europe, **airlines are facing extremely weak demand.**

The 80-20 slot usage requirement in normal circumstances helps ensure optimal use of scarce capacity. However, in the current situation, with **little predictability** of demand, uncertain travel restrictions and a global economic recession airlines need this rule to be waived now, **so airlines can remain agile, focus on building a schedule that reflects a smaller industry** for the upcoming season, **best matches demand to ensure sustainability of operations for both airlines and airports**, allowing the industry to preserve cash and survive the winter.

We have modelled the potential consequences of applying the 80-20 rule in the current situation vs. waiving it. The **main implications of enforcing the rule are:**

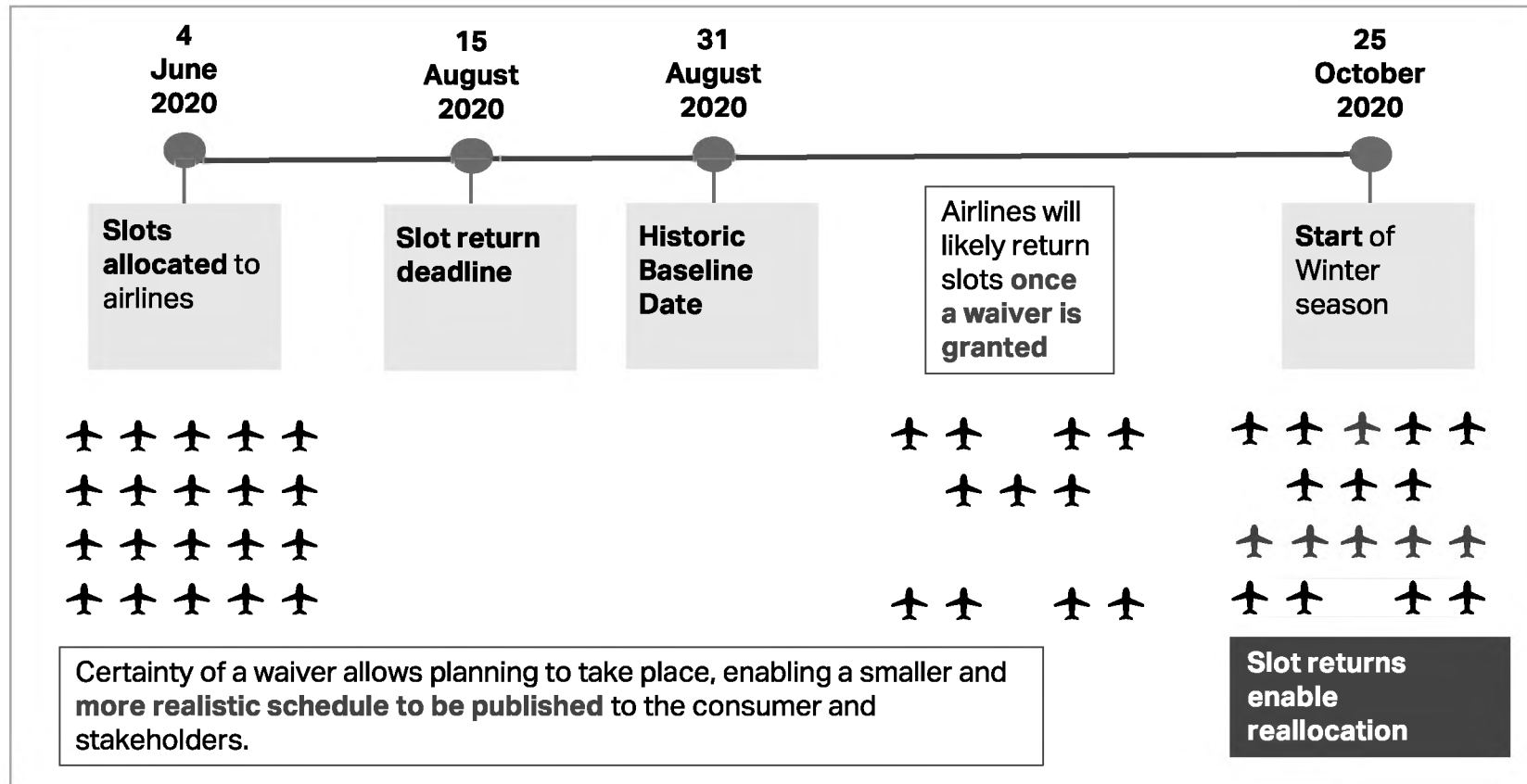
- 1. Airlines are forced to fly cc. half a million flights to outside-EU destinations that are currently on the EU's travel restriction list.**
- 2. Airlines are incentivized to shift their capacity towards congested hub airports and away from small regional airports to protect the ability to build back their networks in 2021.** Connectivity of at least 13 Member States could be harmed as they do not have a slot coordinated airport.

The application of the rule would **encourage airlines to operate flights even when there is not enough demand.** This would result in airlines being exposed to high costs with low revenue and unnecessary fuel burn.

We are asking the Commission to waive the 80-20 rule without any further delay, to ensure that airlines plan their schedules based on actual passenger demand rather than **a rule that is unfit for such exceptional and unpredictable times.**

A delay in granting the waiver paralyses EU aviation: airlines cannot make returns until they have clarity

- Airlines cannot return slots until they have **certainty of a waiver**
- Returning slots enables **airports to plan their infrastructure** and resources accordingly
- Only when slots have been returned can they be **reallocated to other airlines**
- Airlines will have **less time before the start of the season** to organize fleet, crew and sell flights with a delayed waiver
- The longer the EU waiver is delayed, **the more costs the industry assumes and less likely a slot can be reused**



What are we asking for?

WHAT

- We request that the Commission **formally waive the 80/20 ('use-it-or-lose-it') rule** for the **full Winter 2020 season**

WHEN

- We need the Commission to act **urgently**
- This is because the slot process finalizes on 31 August (Historic Baseline Date) and **airlines will be unlikely to return slots until they have certainty of the waiver**

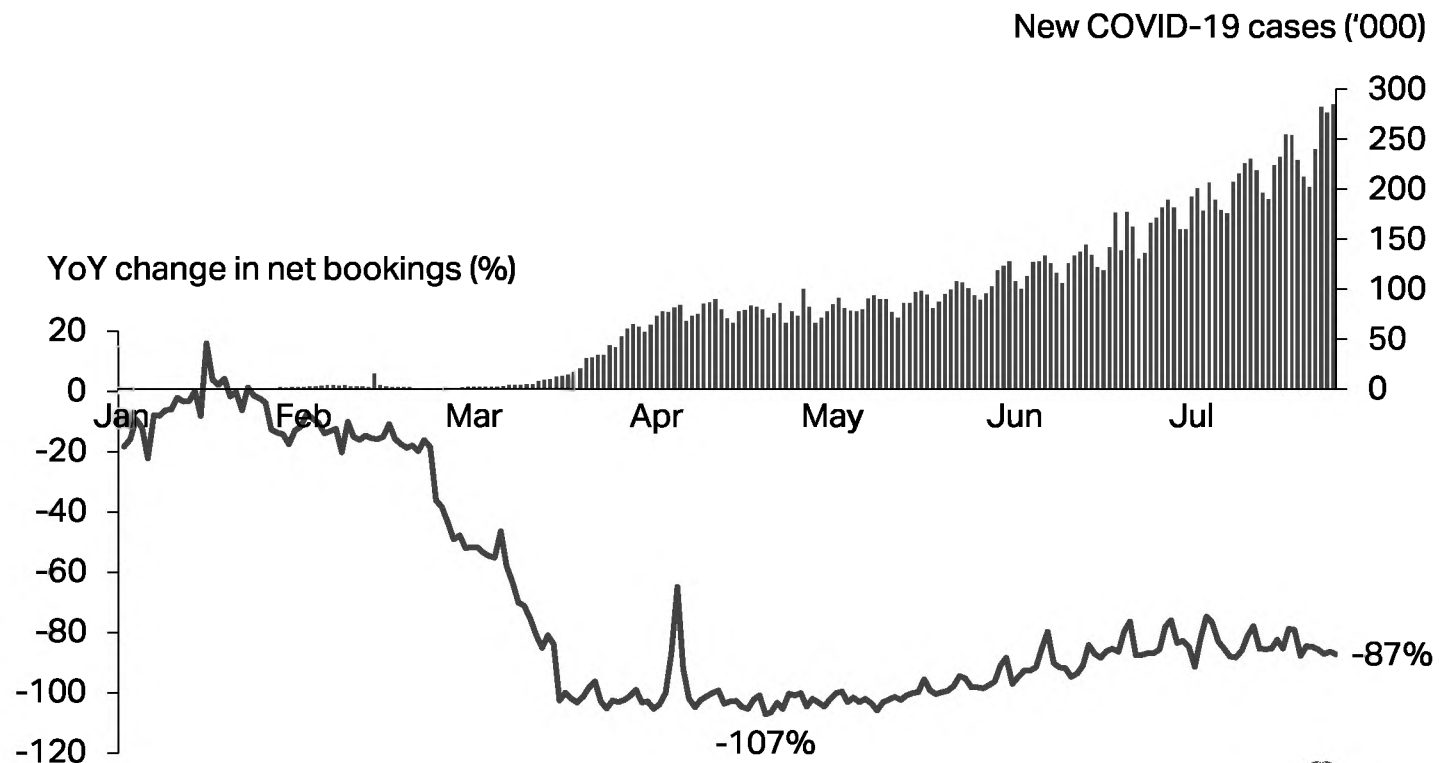
WHY

- To provide **certainty of the EU waiver for EU and international airlines, EU coordinators and airports**
- To allow airlines to **plan their reduced schedules** for the whole season
 - Informing passenger schedule publication
 - Underpinning airport planning
 - Promoting full season slot handback
 - **Reducing unnecessary costs to the aviation industry**

Market context: Airlines are struggling to survive

- The outbreak of COVID-19 resulted in a **massive decline** in air passenger **demand**
- Daily bookings are around **200,000** – compared to around **1.5 million** during the same period last year
- Airlines are expected to run net post-tax **losses of 15-30%** this year and remain **loss-making in 2021**
- The industry has **added over USD 120bn of debt**
- Airlines are doing all they can to **cut costs and preserve cash**
- Airlines' **appetite for risk is low**, they are **struggling to survive**

Number of daily new COVID-19 cases worldwide vs. YoY changes in net airline bookings (sales minus refunds) to/from the EU



We have considered 2 scenarios: with and without the waiver of the 80-20 rule



With waiver

Airlines can adapt their schedules flexibly to respond to volatility of virus and market

Network planning is guided by evolution of public health situation, travel restrictions and demand



Without waiver

Airlines are punished if they respond to fast changing health and market conditions

Network planning is guided by how congested origin/destination airports were

With the waiver, airlines will focus on matching demand; without waiver, they will focus on keeping their slots

Model assumptions

	With waiver	Without waiver
Intra-EU routes	<ul style="list-style-type: none">▪ Reduce flight frequencies based on reduction in demand▪ Reduction in frequencies more or less uniform across routes	<ul style="list-style-type: none">▪ Focus operations on congested Level 3 airports to protect slots▪ Reduce operations to less congested, Level 1 and 2 airports
EU – 3 rd country routes	<ul style="list-style-type: none">▪ Reduce flight frequencies based on EU inbound travel restrictions and demand	<ul style="list-style-type: none">▪ Continue operations to Level 3 airports in countries from which inbound travel is restricted

Note: A waiver conditional on returning slots up to 3 weeks before operation was not separately modelled. Under such scenario, we expect airlines to plan similarly to the Waiver scenario but with much less certainty of demand since bookings are now predominantly made shortly before flights.

Intra-EU: the 80-20 rule would shift airline networks towards congested hub airports and away from small regional airports

Airlines would operate more flights to congested Level 3 airports...

- Current demand does not justify the operation of full schedules
- However, airlines would be incentivized to operate 80% to keep slots at Level 3 hubs



... and fewer flights to less congested Level 1 and 2 airports

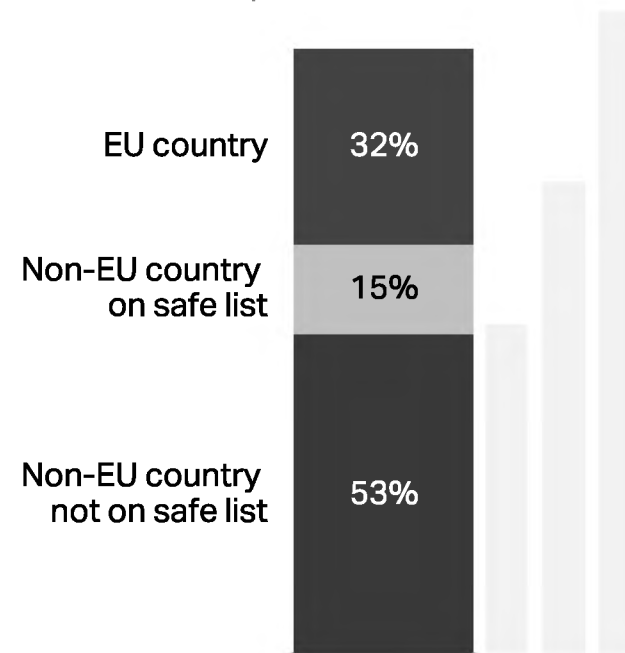
- Airlines would reduce flights to airports with sufficient capacity
- Airlines could abandon some of these airports

- With the current level of demand, **airlines must focus on survival** in Winter 2020
- **Without a waiver**, they will streamline their network to **airports** they consider **essential after recovery**

EU-3rd countries: the 80-20 rule would force airlines to fly to countries that the EU restricts travel from

- **53% of capacity** from congested Level 3 airports is to **countries the EU restricts travel from**
- Without the waiver, airlines would need to fly **cc. half a million flights to/from these destinations** to keep slots
- Forcing airlines to fly to these destinations is **inconsistent with the EU's public health policy**

Scheduled capacity (ASKs) from EU slot coordinated airports by destination, Winter 2018



Not waiving the rule would adversely affect consumers, cargo shippers, airlines and the environment

Negative implications of the 80-20 rule in the current crisis situation

1

Mismatch of demand and supply

Airlines would plan networks based on slot usage requirements rather than demand

2

Connectivity & competition

Some regions could be underserved by airlines, resulting in a loss of connectivity and higher prices for passengers and shippers

3

Airline financials

Airlines would burn more cash operating flights that demand and revenues would not justify, exacerbating their financial difficulties

4

Environment

Airlines would burn more fuel and emit more CO₂ for the carriage of the same amount of passengers and cargo ('ghost flights')

1 The 80-20 rule would prevent airlines from flexibly responding to volatility of demand

Epidemiological situation

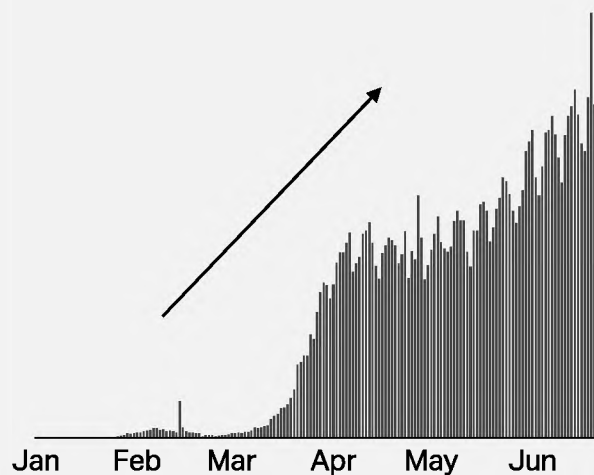


Air travel demand

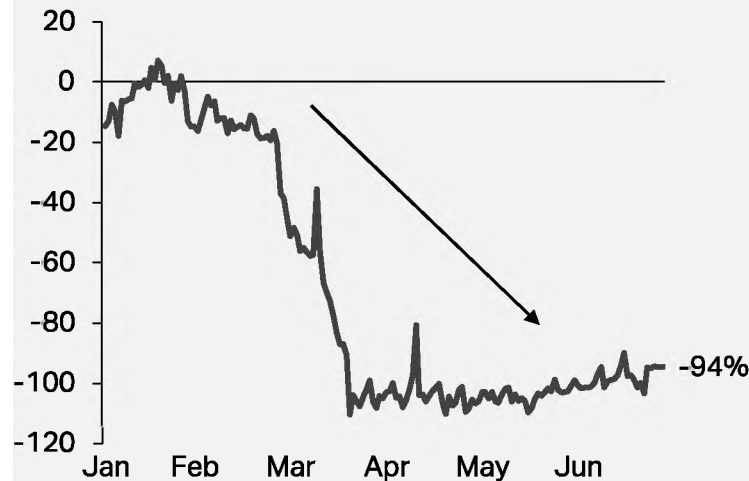


Airline capacity

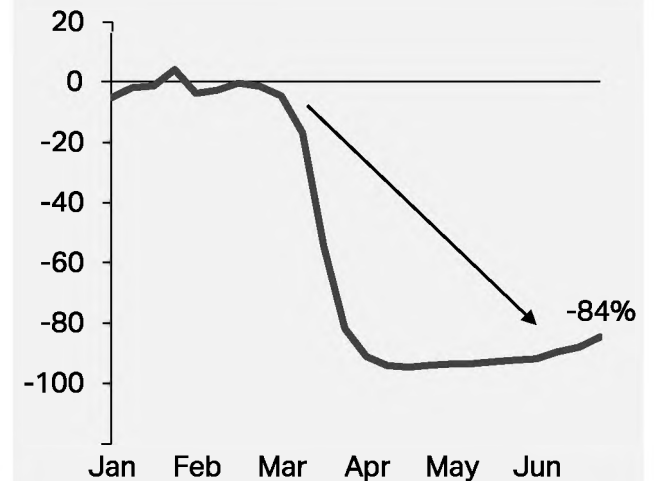
New COVID-19 cases globally



YoY change in ticket sales, EU to 3rd countries (%)



YoY change in flights departing Europe, %
















- Demand responds to the COVID-19 situation and **airlines must respond to demand instantaneously**
- **Travel restrictions change at short notice, e.g. EU updates list of countries every 14 days**

2

The risk is that airlines will underserve airports that are not congested, however these could have demand

- Without the waiver, airlines will fly less to airports where they expect to have ample capacity after the crisis, i.e. less congested Level 1 and 2 airports
- 13 EU Member States have no Level 3 airport in the Winter season*:

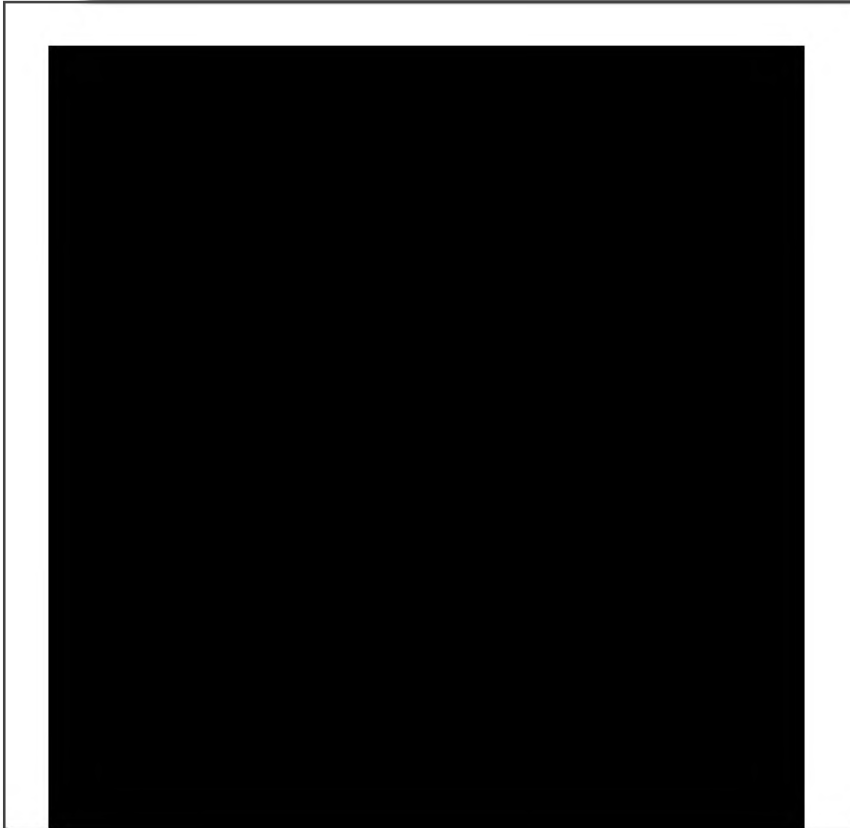
 Bulgaria	 Hungary	 Romania
 Croatia	 Latvia	 Slovakia
 Cyprus	 Lithuania	 Slovenia
 Estonia	 Luxembourg	
 Greece	 Malta	

- Without the waiver, these countries might have fewer flights than there would be demand

Slot coordinated (Level 3) airports in the EU



2



2

These regions' connectivity with 3rd countries would also be adversely affected

STYLISTED

Normal situation



With waiver



Without waiver



- If network airlines abandon some intra-EU routes, **the affected regions will also lose connectivity with non-EU countries**
- On **long-haul routes**, passengers and cargo typically **transit through** large hub airports in **Western Europe or the Middle East**
- Even if LCCs might still provide point-to-point connectivity within Europe, **these long-haul connections could disappear**

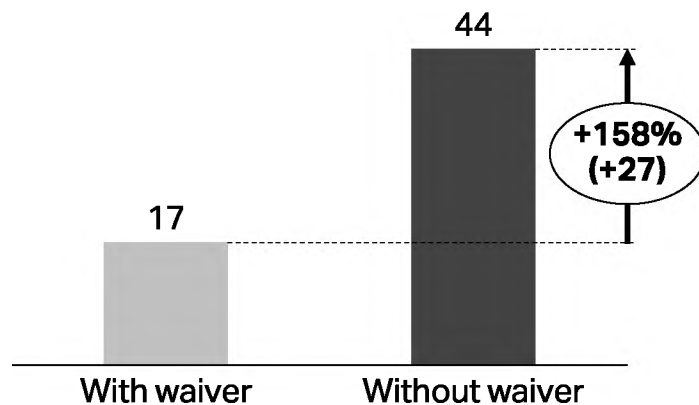
3

4

Without the waiver, airlines could emit more CO₂ than necessary

Without the waiver, airlines could emit about 27 million tonnes more CO₂ ...

Estimated CO₂ emissions under Waiver and No-waiver scenarios, million tonnes



... which is equivalent to...



21.4 million cars
driven for a year



11.4 million
homes' energy
use for a year



1.6 billion trees'
CO₂ abatement
for 10 years

- With **predominance of long-haul routes**, airlines could emit **~158% more CO₂** without waiver
- As airlines could not expect to carry more passengers, the **per-passenger carbon footprint would increase by a similar proportion**

Thank you

Member and External Relations

slots@iata.org

