



Heathrow Airport: An introduction to Secondary Slot Trading

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Heathrow: world's busiest international airport

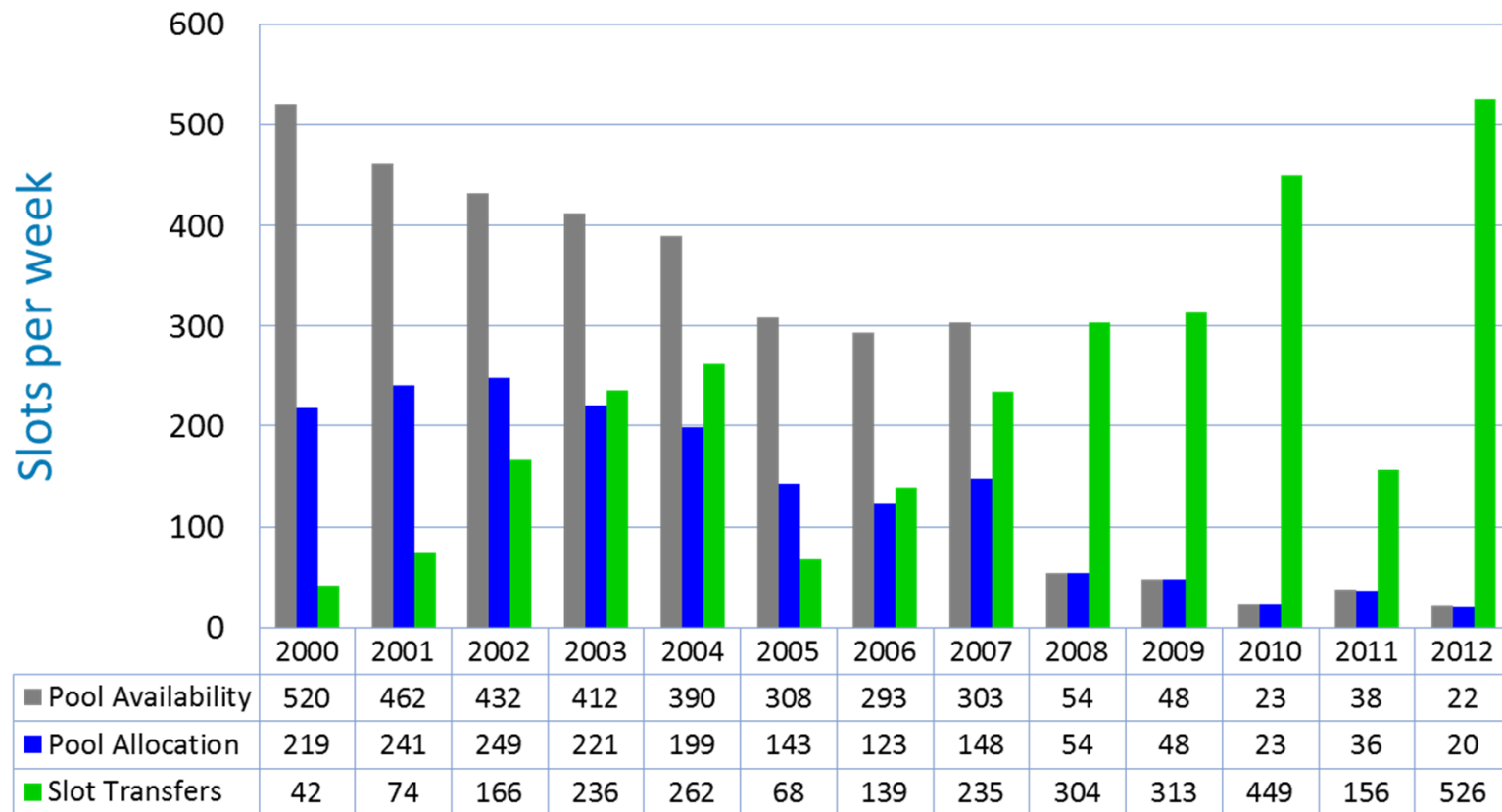
- ATM cap of 480,000 flights p.a. off two runways
 - Operate at 99% of capacity
- Level 3 coordinated airport
 - Coordination performed by ACL
- Optimisation of runway capacity is the sole means of growth
 - Delivers high yields & high loads

Heathrow's Strategy

- Become the UK's direct connection to the world and Europe's hub of choice by making every journey better
 - Network strategy identifies key routes & connecting flows



Heathrow slot trading



- As demand exceeds supply, slot trading is now the principle means of entry and growth

What is slot trading?

- Slots are permissions to use a runway and airport infrastructure
- Once a slot has grandfather rights, the airline can trade the slot to another airline
 - 2 years for new entrant slots
- Operates on principle of willing buyers & willing sellers
- The Coordinator must confirm feasibility
- Transactions are public but price disclosure is not required

Traded Components

- Runway slots
 - These can be retimed if the runway slots are available
 - Any retime must also fit the terminal and stand capacity
- Terminal and Stand Capacity
 - The Buyer purchases the Historic Terminal and Stand Capacity and can operate from the Historic terminal
 - e.g. code D aircraft with 150 seats in T3
 - A change of terminal can be requested and would be assessed against declared capacity for that terminal
 - An upgrade of aircraft size can be requested and would be assessed against declared capacity for the terminal
 - A new entrant would be assessed against all terminals and allocated to the terminal with the most suitable capacity

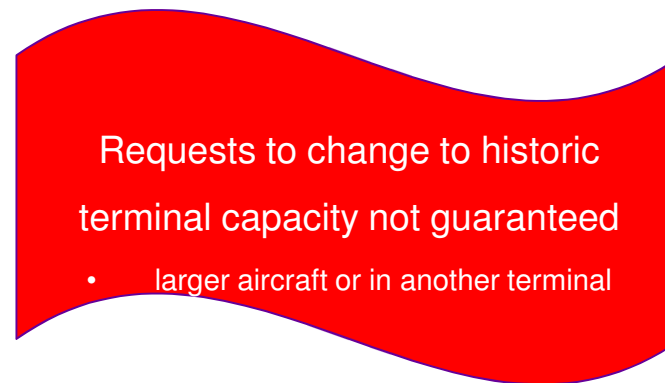
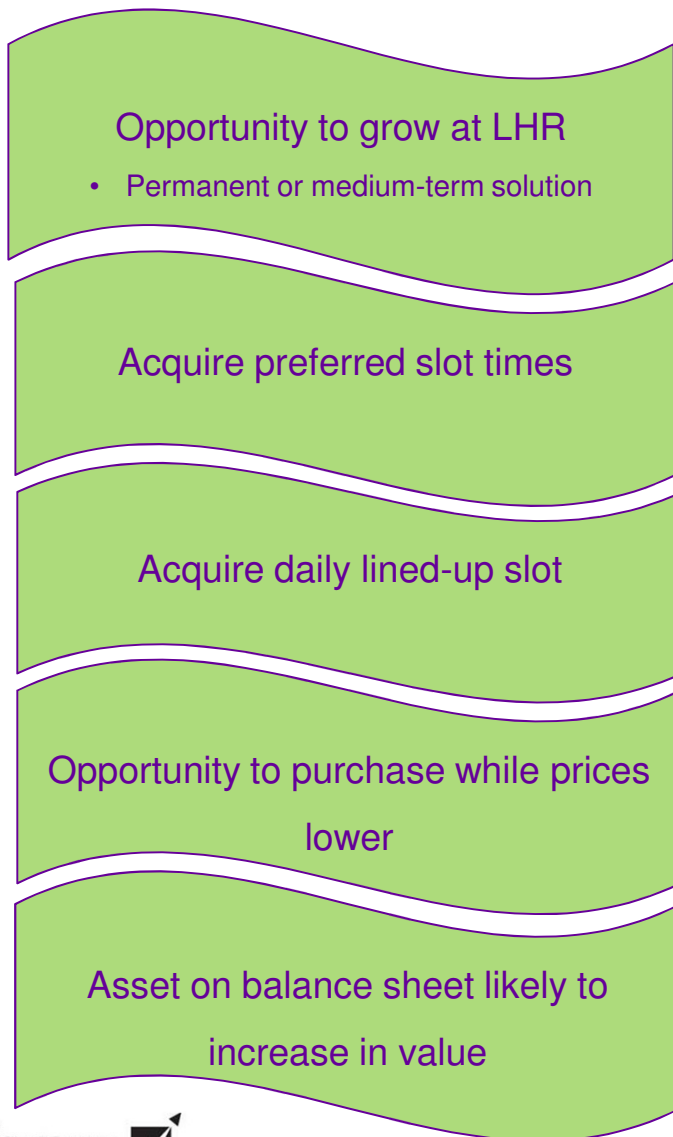
In 2008, the European Commission clarified the legality of secondary slot trading

“However, the Commission recognises that exchanges of slots for monetary and other consideration, more commonly referred to as secondary trading, are taking place at a number of congested Community airports. This has had certain advantages, notably in allowing the creation of additional services on specific routes.

The text of the current Regulation is silent on the question of exchanges with monetary and other consideration to reflect differences in value between slots at different times of day and other factors. Given that there is no clear and explicit prohibition of such exchanges, the Commission does not intend to pursue infringement proceedings against Member States where such exchanges take place in a transparent manner, respecting all the other administrative requirements for the allocation of slots set out in the applicable legislation.

If it becomes apparent that for competition or other reasons revision of the existing legislation is required, the Commission will make an appropriate proposal.”

Benefits & risks: airlines acquiring slots



Remember, the attraction is in the ATMs, slots can be retimed subject to availability

Benefits & risks: airlines selling slots

Realise financial value of asset

- support corporate strategy

Consolidate operations at an airport
which can facilitate better slot times

Price likely to be higher if ever want
to replace slot

Benefits & risks: airlines leasing slots out

Cover short-term strategic/financial concern

Historic terminal capacity may be lost

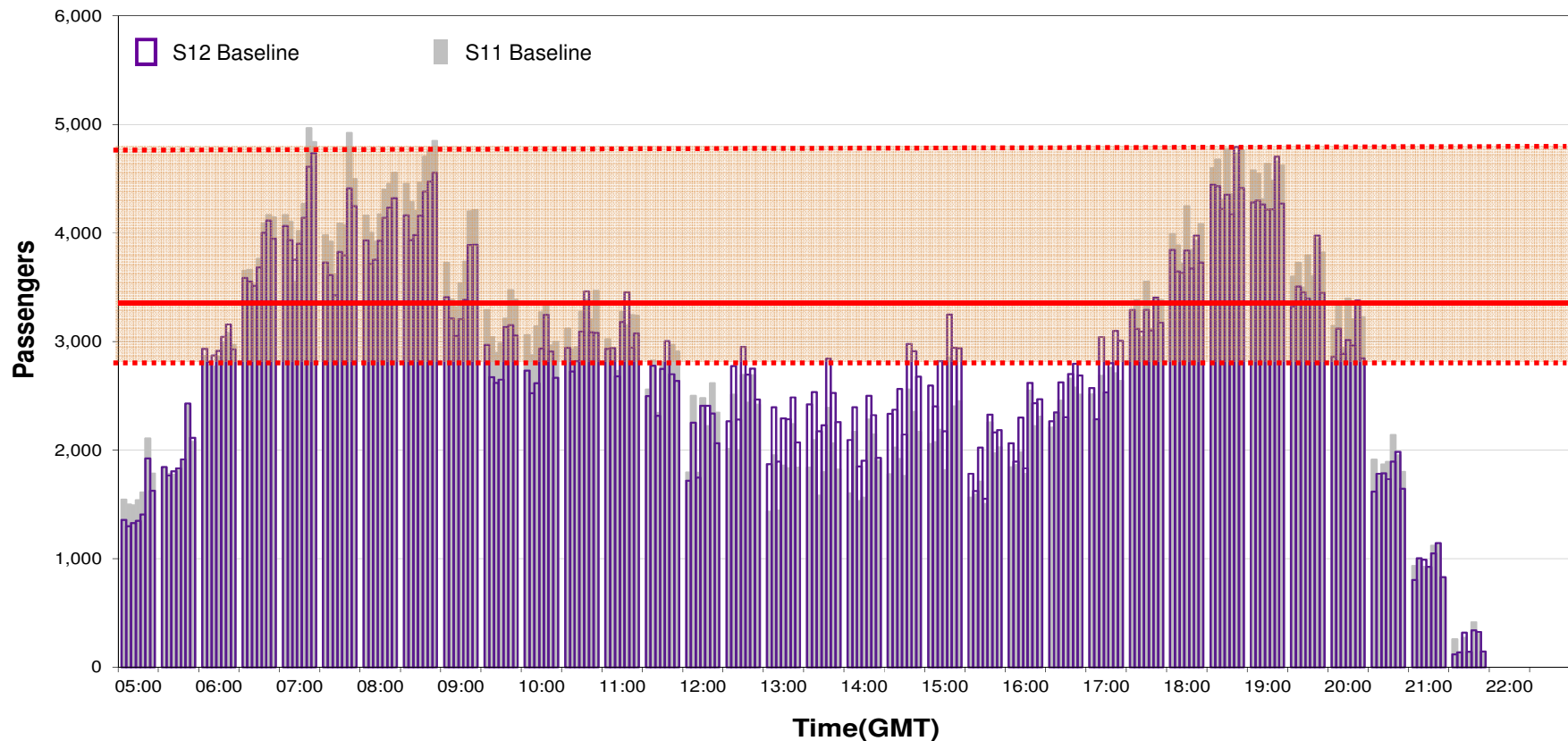
- smaller aircraft or in another terminal

'Babysits' may be free of charge or at cost to the incumbent

Bear in mind....

- the longer the lease, the more attractive it is!
- Leases can often be extended
- Equally , break clauses can protect the incumbent

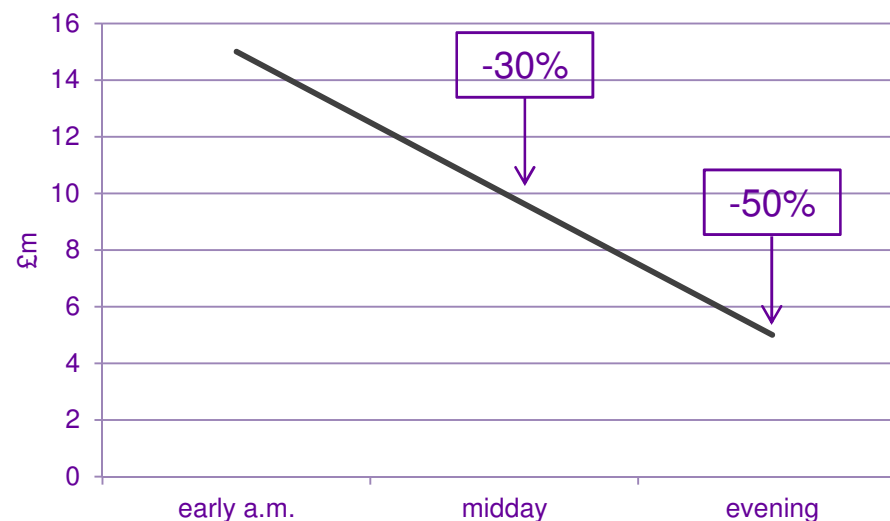
Any requested change to terminal and/or aircraft size must fit within declared terminal capacity & stand limits



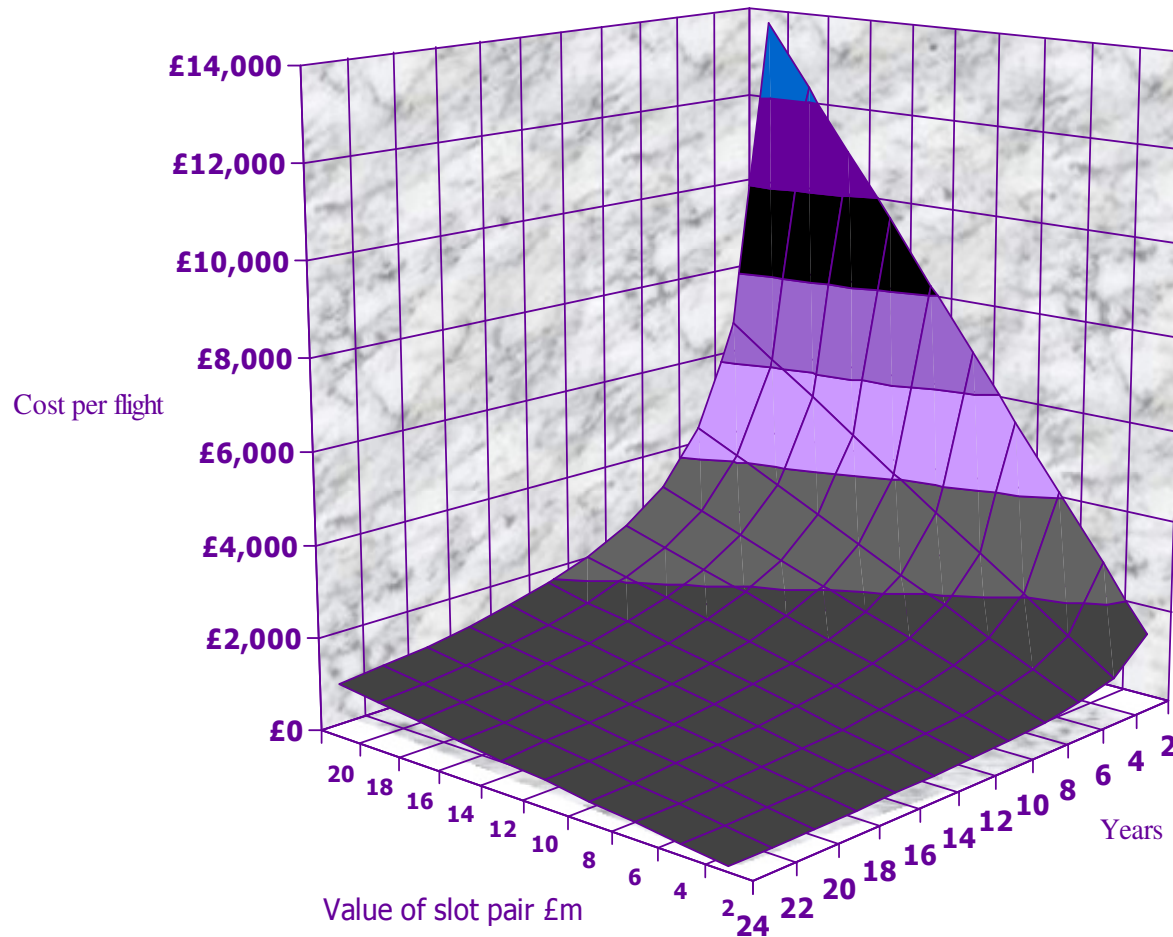
- Due to limited terminal capacity at some times of the day, please consult Heathrow prior to any slot trade for a detailed terminal capacity assessment

Prices

- Supply & Demand
 - Economic cycle
 - Highest published prices at height of economic cycle: \$207m for four daily pairs
 - Time of day
- Estimated current prices
 - Chart shows average price for daily pair but inevitably supply/demand means a range of prices
 - Non-daily slot pairs worth up to £0.5m for a single day
 - Very limited insight into lease prices
- Commercial terms do not necessarily need to be purely monetary
 - e.g. JV, swap slots at other airports
- Asset on balance sheet



Spreading the cost of secondary trading over time



- Average priced slot would increase ticket price by £4 per passenger over 10 years

How to trade a slot

- Find partner
- Heathrow can provide preliminary view of any terminal capacity implications
 - Avoid progressing deal which cannot be completed
- Negotiate terms
- Incumbent airline requests change from ACL
- ACL check terminal constraints not broken
- ACL process trade from seller to buyer

Assistance

- Alliance partners
 - Most flexible source of slot trades
- Heathrow
 - Suggest airlines to approach for trading
 - Conduct preliminary terminal impact assessment
- ACL
 - Attempt to retime slots to enable better turn-around
 - e.g. to enable short-haul to long-haul trade
- www.slottrade.aero
 - Advertises slots for sale/lease
 - Standard contract available to save legal costs

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Heathrow 

Making every journey better