

## **CONFERENCE ON THE ECONOMICS OF AIRPORTS AND AIR NAVIGATION SERVICES**

(Montreal, 19 - 28 June 2000)

### **Agenda Item 2: Organizational issues**

#### **SERVICE LEVEL AGREEMENTS**

(Presented by the International Air Transport Association)

##### **SUMMARY**

This paper describes how service level agreements are essential to ensure that agreed levels of service are delivered by airports and air traffic control service providers to their airline customers, and the travelling public. The aim is to promote a robust service partnership by clarifying the key operational targets and sharpening accountabilities within the airports' and the air navigation services' operations. The output is a high quality of service to customers and the promotion of continuous improvement.

### **1. Introduction**

1.1 It has been increasingly recognised that key aspects of the service provided by airport and ATC providers should meet performance standards. The performance of airports and ATC providers, as the airlines' major service partners, is critical to airlines' own service standards. The passenger's travel experience will likely influence his/her opinion of the joint airport/ATC/airline product.

1.2 In the case of airports, it is clear that the standard for operational performance needs to be coordinated between airlines and airports, and should be subject to agreed, measurable minimum standards. The more an airport adopts commercialised business practices, the more relevant it becomes for the airport to engage in service level agreements. In the case of privatised airports that are subject to economic regulation, service level agreements are essential for the regulatory process to function properly. The same holds true for ATC providers, where ATC delays will leave a significant negative impression on the travel experience.

1.3 Airport and ATC charges generally have no service standards attached to them and airlines cannot therefore form a clear understanding of what they can reasonably expect from the provider in exchange for the charges they pay. Further, where charges are unregulated and conditions of competition do not exist, there is no incentive for the airport or ATC provider to deliver a higher quality product or service and promote

continuous improvement. In cases where charges are regulated, the airport or ATC provider may in fact reduce quality in order to improve financial performance.

1.4 Service Level Agreement (SLA) can take a variety of forms:

- Non contractual SLAs based on performance targets.
- Partially incentivised, contractual SLAs which pay penalties for below normal performance.
- Fully incentivised contractual SLAs with a Performance Related Compensation Mechanism (PRCM), i.e. penalties and bonuses for below and above normal performance.

## 2. Principles governing service level agreements

2.1 The following list represents some of the ‘principles’ that airlines would like to see adopted at airports:

- Airports should move towards fully incentivised, contractually binding SLAs in areas where an airline has sole use of a facility.
- Airports should move towards partially incentivised, contractually binding SLAs in multi-user areas.
- Airlines should be prepared to pay more for above normal performance where it adds value.
- Airports should provide all Management Information Systems for performance monitoring and report to airlines on a daily and monthly basis.
- Financial capping and collars should apply to incentives to limit financial exposure of both companies.
- Airlines are seeking performance improvements, NOT attempting to make or save money.

## 3. The Key Performance Standards

3.1 Operational Performance measurement for airports should cover at least the following aspects of the operation:

- Baggage systems
- Queuing standards for e.g. security and immigration processing
- Aircraft stand availability
- Aircraft aero-bridge serviceability
- People mover systems serviceability
- Transfers standards

3.2 Performance standards for ATS providers are more difficult to measure, but the following are some suggestions:

- Capacity management – delays and service predictability
- Access – airspace availability
- ATM availability
- Flexibility in departure time or planned route, or to exchange slots
- Flight efficiency, i.e. preferred route vs. optimal route, actual route vs. planned route

4. **Action by the Conference**

4.1 The Conference is invited to recognise the need for airports and ATS providers to adopt service level agreements, especially in light of the airport and ATS commercialisation/privatisation trends.

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