



Simplified Pricing Schemes and the Role of ZI at German Airports: the Case of DUS and TXL Airports

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- **Background**
 - Airport charges
 - Regulation
 - Liberalization and deregulation
 - Ground Handling
 - Central Infrastructure (CI)
- **Case study: DUS and TXL**
 - Change in the structure and taking out CI
 - Change in variability
 - Effects
- **Conclusions**

Background



- **Aviation Revenues = Revenues from charging airlines**
- Airport charges the main source of revenue for airports

- Airports became more business oriented
- Non-aviation services gained importance –
- But aviation revenues are still very important, especially for regional airports

- How are airport charges set?
 - Regulation
 - Airport/Airline relationship in private framework agreements
 - Liberalization of some services ,like GHS



- Regulated and Non-Regulated charges
 - § 43 LuftVZO - Air Traffic Licensing Regulations
 - § 6 BADV - German Ground Handling Directive
- Regulation
 - Hühnermann Paper 1980 (legal framework)
 - » Cost coverage
 - » Reasonable charges
 - » Differentiation in transport policy
 - In practice
 - » Cost-based (rate of return)
 - » Price-cap (implemented in the form of PFA)R
- Deregulation of GHS leads to Re-regulation:
How to charge for CI needed for GHS?

Deregulation of GHS



- The Council Directive 96/97/EC of 15th October 1996 says that airports have to open their GHS,
- but did not deregulate CI as it is an essential facility
- As CI has to be provided by the airport (either directly or rented out to 3rd party handlers) airports determine the price of the CI and thereby can increase indirectly charges to the airlines that are not regulated
- → PROBLEM of asymmetric regulation and of access to downstream services:

Ground Handling Services



- Common understanding: (barely noticed) services between flights and very important for the airlines' performance.
 1. Ground Administration and Supervision
 2. Passenger Handling
 3. Baggage Handling
 4. Freight and Mail Handling
 5. Ramp Handling
 6. Aircraft Services
 7. Fuel and Oil Handling
 8. Aircraft Maintenance
 9. Flight operations and Crew Administration
 10. Surface Transport
 11. Catering Services

But what are CI Charges?



- The general understanding is that CI is just a part of GHS, like conveyer belt, parking for GHS vehicles
- But which parts are CI?!
 - Who is providing CI?
 - (airlines, 3rd parties, airports)
 - What is included in CI?
 - (is the airport free to decide)
 - Does it appear in the charges manuals?
 - (always, sometimes, not necessarily)

But what are CI Charges?



- CI = infrastructure that exists and is owned and provided at/by the airport (counter, bridges, luggage hall.....)

→ OUR CASE

- CI as input for ground handling,
 - ground handling fees now unregulated
 - more competition required in GHS
- (only 2 players allowed at airports above 2 mill pax)

But what are ZI Charges?



- Also criticized in **AEA** (Association of European Airlines) **POLICY PAPER ON GROUND HANDLING** (*June 2007*)
- ***5. Unclear definition of centralised infrastructure and restriction the selection procedure for GHS distort competition:***
- The definition of centralised infrastructure should be more restrictive. One of the most obvious shortcomings of the present Directive is a bias in favour of airportshandlers.
- The airport is allowed to retain a monopoly on a number of services, thereby restricting access to market for independent ground handling companies.

Deregulation of GHS



- GHS within the EU must comply with a Directive adopted by the 15 Member States in 1996.
- **Objective:** encourage the competitive provision of ground handling services at European airports, in order to reduce airline costs, improve quality of service and provide airlines with a choice of handling agent.
- But if it is only a Directive rather than Regulation, each Member State was required to pass its own legislation to bring the Directive into force
- In Germany this came in 1999, only 1 entry allowed in competition to airport services
- In Germany however it remains concentrated (2-3 main players in addition to airports)



- DUS

- Partially privatised
- Congested
- Price Cap – Private Framework Agreement (2005)

- TXL

- Public
- Congested
- Rate-of-return regulation
 - » Tried also PFA but no agreement

What happened?



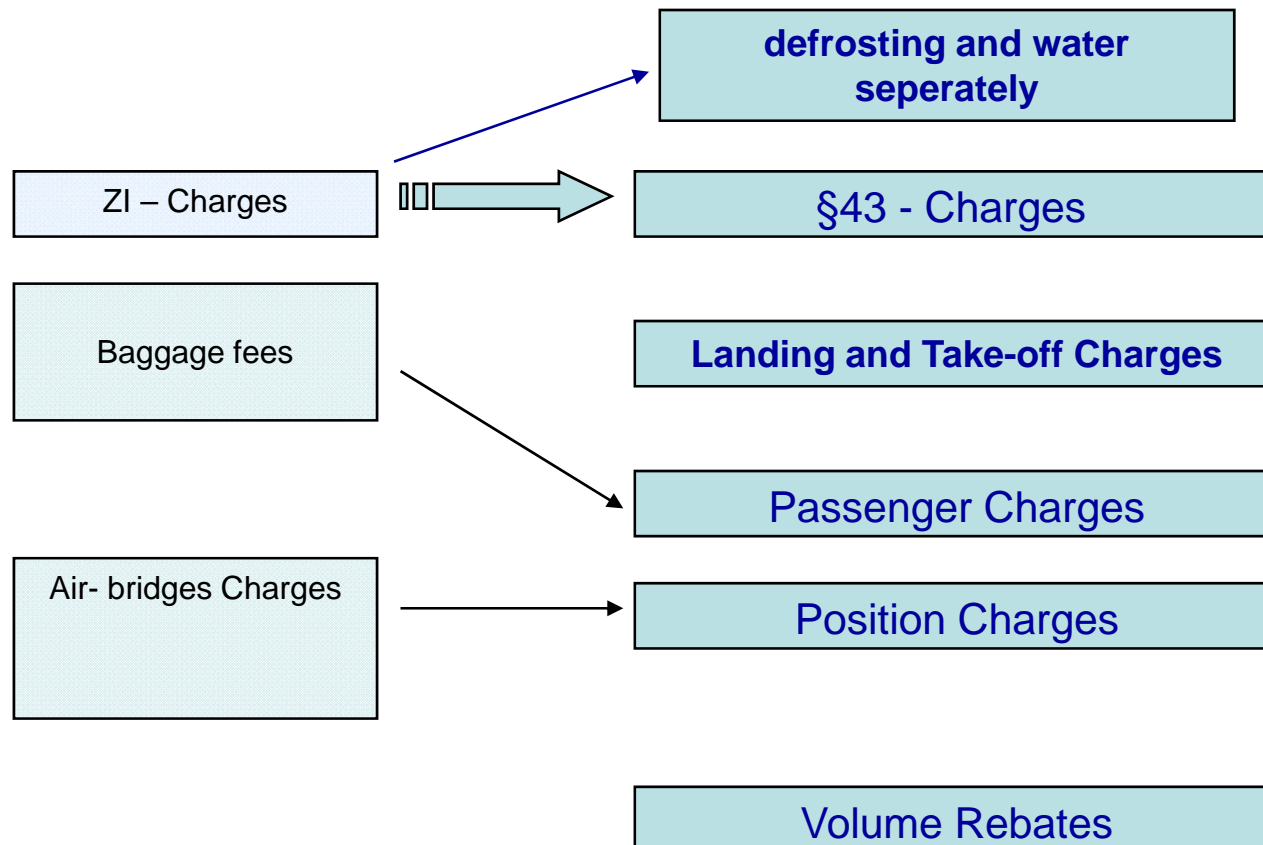
Airports increased charges significantly

(TXL: , 2003/04 → 2005: + 14,46%
DUS: 2000: +8%)

- Airlines refused to pay
- Discrepancy was cited before the court
(TXL was still negotiating in 2007; DUS lost in 2004)
- Both airports had to find a solution to satisfy airlines,
→ so they simplified charges, restructured CI and
offered rebates to settle these cases



Integration of CI in §43-Charges in TXL



Changes in Charges Structure II



TXL Example A320:

TXL	2003/2004	→ CHANGE	TXL	2005
Start-/ Landenentg.	514,30 €		Start-/ Landenentg.	148,00 €
Passagierentg.	1.090,68 €		Lärmentgelt	105,00 €
Abstellentg.	0,00 €		Passagierentg.	1.689,70 €
Positionsentg.	266,40 €		Sicherheitsentg.	0,00 €
ZI (Enteisung; Wasser)	31,12 €		PRM-Entg.	0,00 €
Grundentgelt ZI	65,00 €		Abstellentg.	0,00 €
Gepäckvorhaltung	45,00 €		Positionsentg.	692,64 €
Brückennutzung	317,20 €		ZI (Enteisung; Wasser)	31,12 €
Ergebnis	2.329,70 €		Lärmschutz	0,00 €
			Ergebnis	2.666,46 €

Price increase and restructuring of airport charges:

2002/03 → 2003/04: + 5,9%
2003/04 → 2005: + 14,46%
 2005 → 2006: + 3,34%
 2006 → 2007: + 0,49%
 2007 → 2008: + 0,62%

Changes in Charges Structure III



TXL Example A320: net effects on level of charges

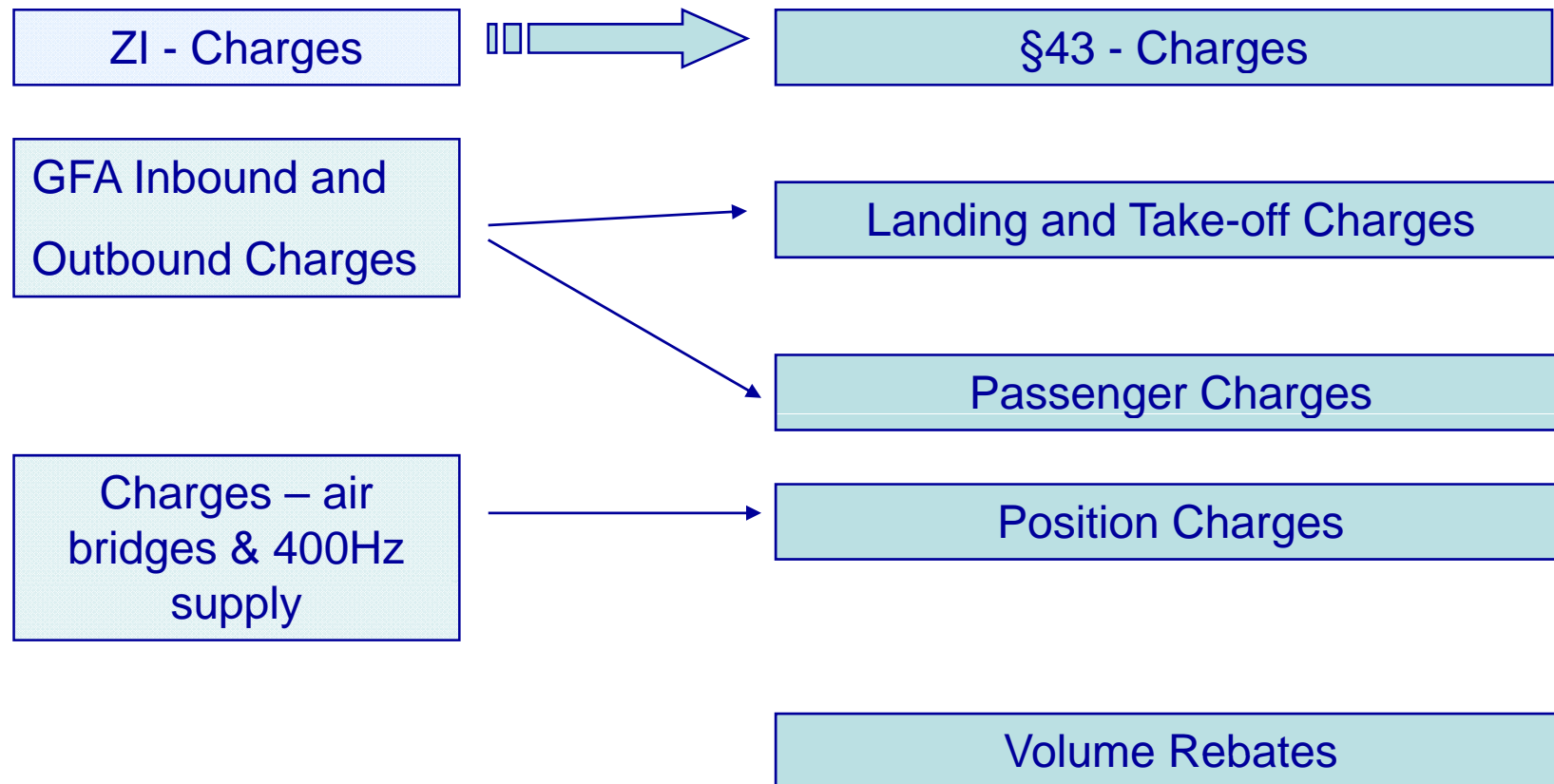
Price increase:

2002/03 → 2003/04: + 5,9%
2003/04 → 2005: + 14,46%
2005 → 2006: + 3,34%
2006 → 2007: + 0,49%
2007 → 2008: + 0,62%

- Airlines hardly feel the price increase because of volume rebates
- overall price increase 1999-2008: 1-2%
- net effects on structure of charges: increased variabilization (ratio of Pax to fixed takeoff charges)



Integration of CI in §43-Charges in DUS



Changes in Charges Structure V

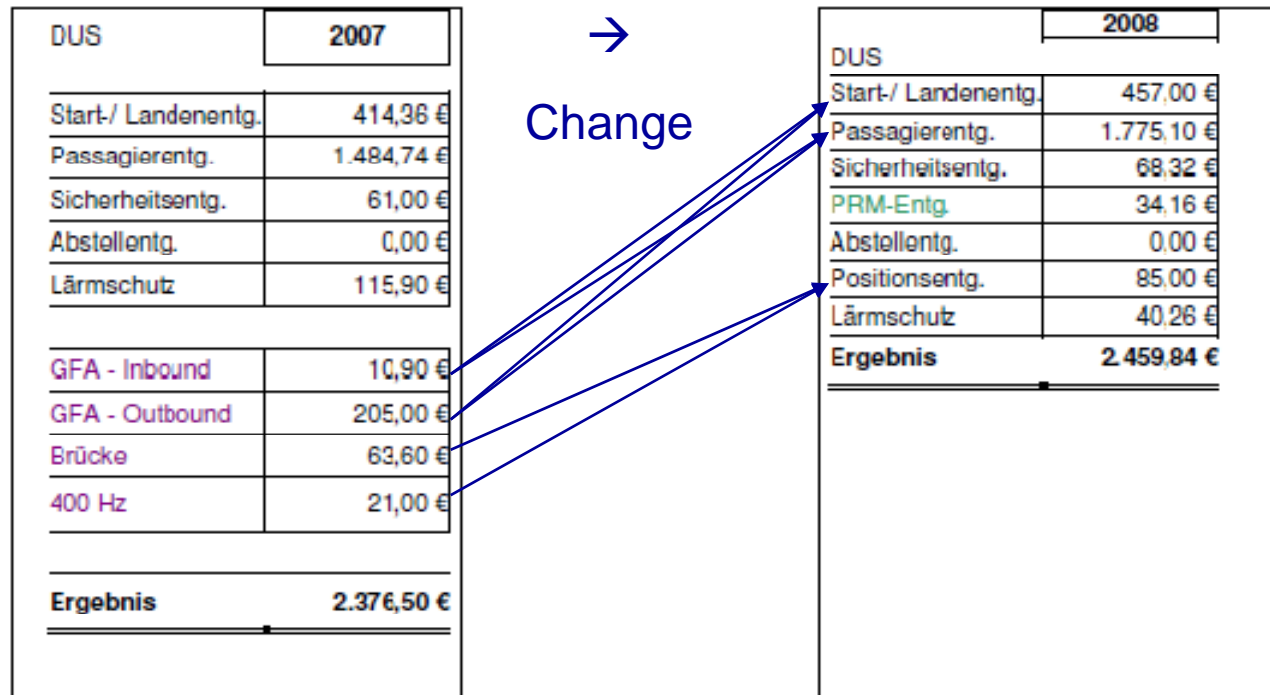


DUS Example A320:

→
Change

DUS	2007
Start-/ Landenentg.	414,36 €
Passagierentg.	1.484,74 €
Sicherheitsentg.	61,00 €
Abstellentg.	0,00 €
Lärmschutz	115,90 €
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GFA - Inbound	10,90 €
GFA - Outbound	205,00 €
Brücke	63,60 €
400 Hz	21,00 €
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Ergebnis	2.376,50 €

DUS	2008
Start-/ Landenentg.	457,00 €
Passagierentg.	1.775,10 €
Sicherheitsentg.	68,32 €
PRM-Entg.	34,16 €
Abstellentg.	0,00 €
Positionsentg.	85,00 €
Lärmschutz	40,26 €
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Ergebnis	2.459,84 €



- Because of binding price-cap contract, they could not change before 2008
- Price increase only 3.5 %

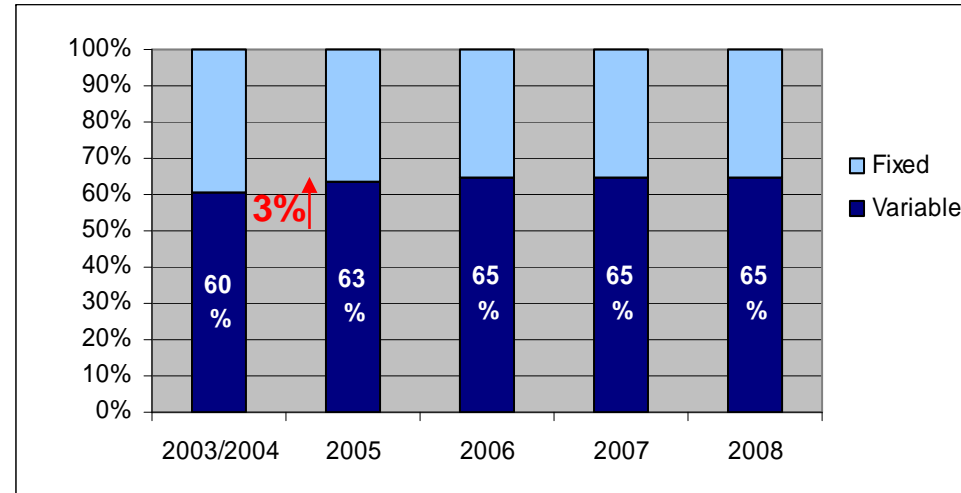
Changes in Variability



TXL

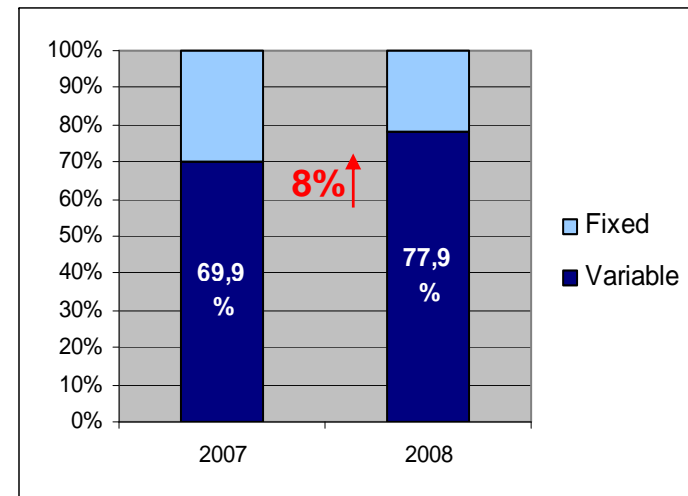
- Followed a **more gradual** increase in variability

Airbus A320



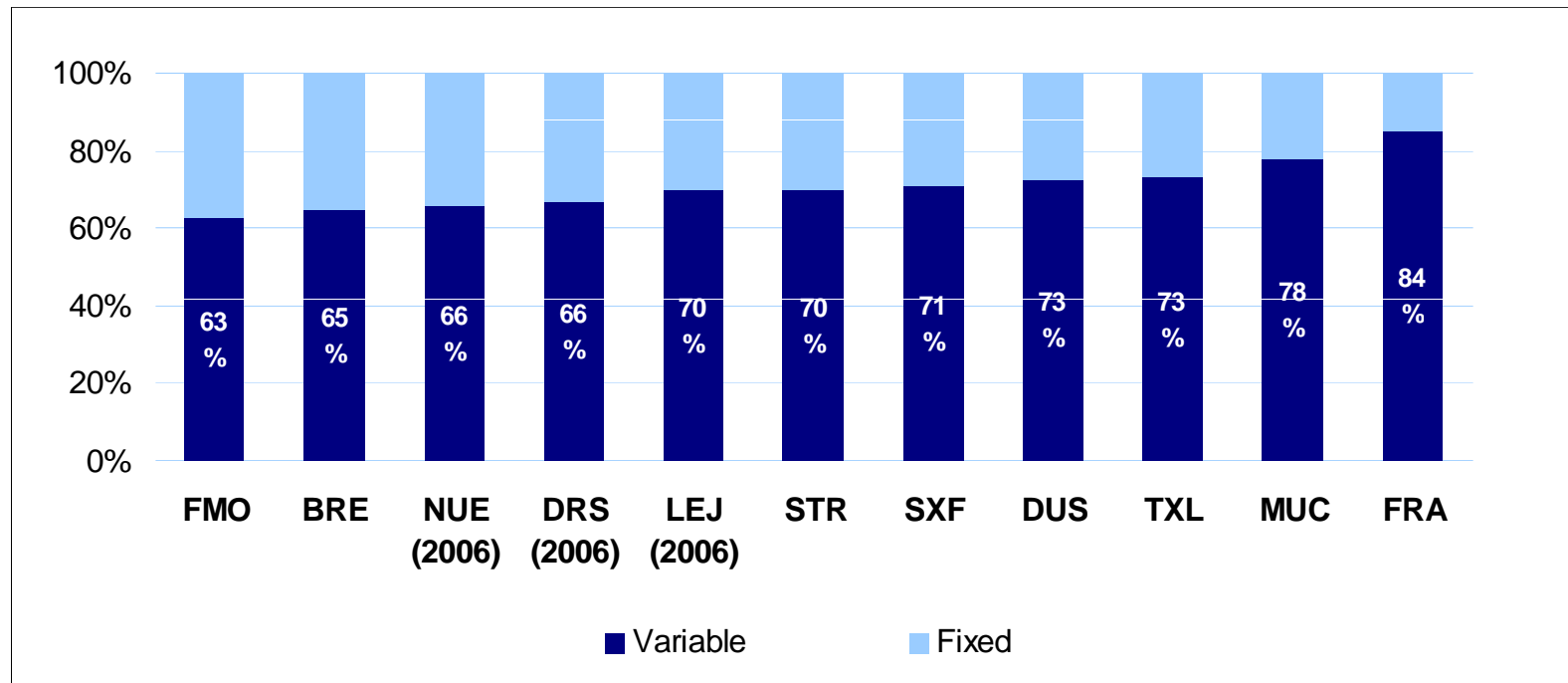
DUS

- A **radical** increase in variability of 8% from 2007 to 2008
But not supported by data



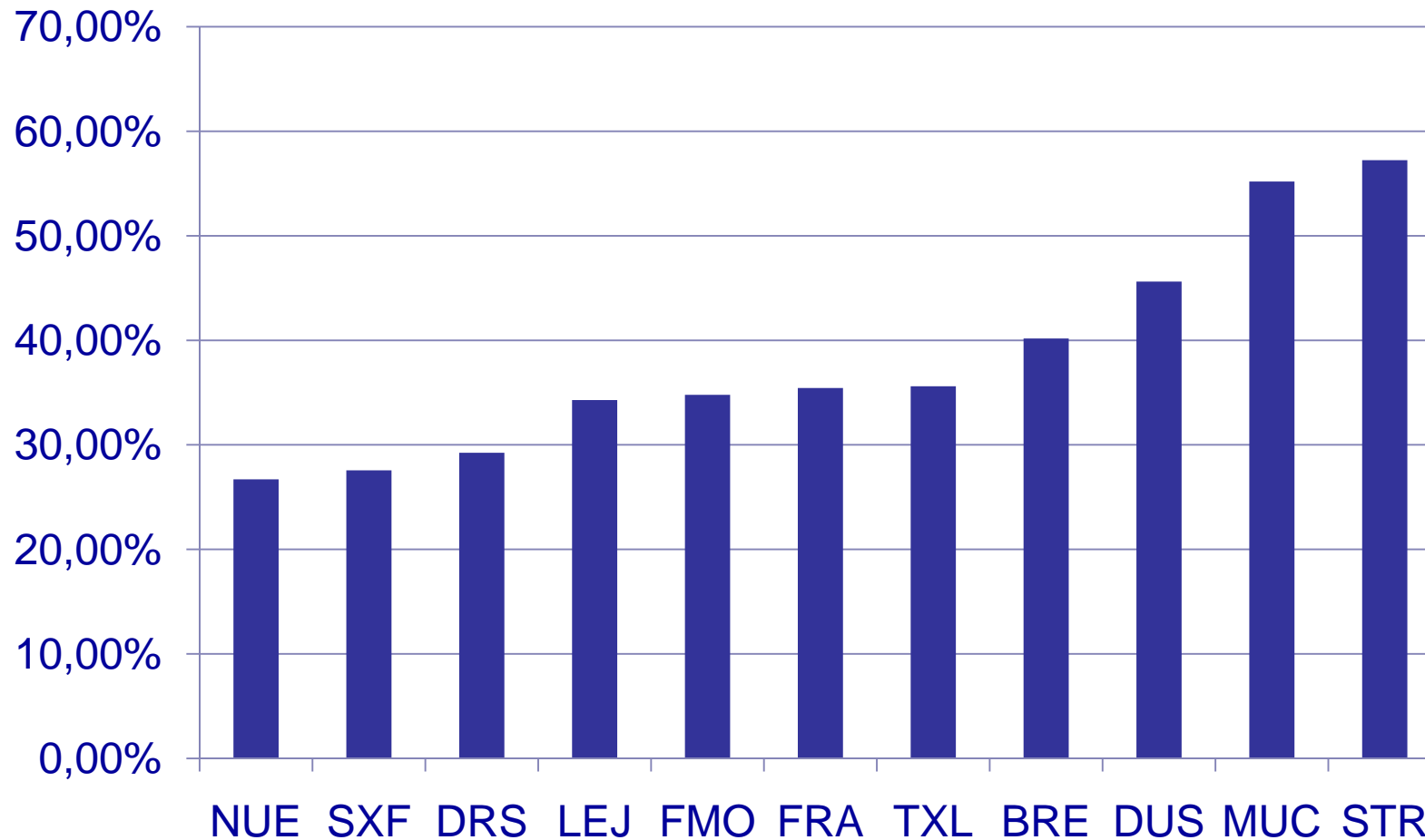
Results – Variability, Levels

2007



- Although it varies among different airports, the share of passenger related charges has reached already high levels, for all airports

German Airports, 2007 compared to 1997





Variabilization in order to satisfy airlines :

- lower risk, if Seat-Load factor low
- easier justification of ticket price charges
- plus **volume rebates**
 - Thus, nearly no price increase for dominant carriers

These two are actually reinforcing each other

These two compensate for the actual increase of charges



Benefits for the airports :

- **justification of charges as part of the law**
 - acceptance of charges through text-box effect (Airlines pay)
 - predictable earnings
 - incentive for LLC airlines with high load factors
(e.g. many more low cost carriers in SFX)
 - Benefit of traffic increases are passed on to airlines for
higher SLF
 - , no price reduction from rebates for passengers?

Conclusions



→ charges are getting more variable and regulated

- For the effected airlines the variabilization is very important
- For these 2 airports, re-regulation of CI charges, combined with simplified charges structure, is seen as beneficial
- Now non-regulated CI charges nearly do not exist anymore
in DUS and TXL airports

(→ reduced transaction/ negociation costs)

- Price increases only possible within the regulatory framework and authorities' approval.

Further research

- Is this Re-Regulation a trend or just a particular case, only for DUS and TXL?

Seems to be a trend, since MUC ?? followed already, FMO will do it. Also signs in HAM??

- Should other airports implement the change?

What are the main benefits from the re-regulation of CI?

Why shall it be so attractive to airports?

Some airports argue that simplified charges make tariff adjustments for other objectives, like noise or clean air more difficult.



Further research

- How does this fit into to the general trend towards greater variabilization of airport charges?

Thank you !

- This paper arose from the research project “German Airport Performance” (GAP) at the Berlin School of Economics and Law (HWR Berlin) that is supported by the German Federal Ministry of Research and Technology.
- See www.gap-berlin.de