

Position Paper

June 2011

AEA POSITION PAPER ON GROUND HANDLING

INTRODUCTION

Ground handling is one of the only parts of an airport's activity which can be liberalized. Council Directive 96/67/EC, was adopted in October 1996 to gradually open up access to this market and is now due to be revised as part of the European Commission's Airport Package to be published in the autumn of 2011.

AEA believes that it is essential that the Directive is reviewed in its entirety in order to allow for free access to the ground handling market at European airports. As European airlines are faced with unnecessary ground handling restrictions globally, it is important that Europe sets an example in putting an end to these costly and monopolistic practices by ground handlers and airports.

In accordance with the Commission's objectives to increase the competitiveness of Europe, a harmonised and integrated EU framework on ground handling would create a level-playing field and ensure efficient functioning of the airport market.

INITIAL STATEMENT

The European aviation industry is in need of a new Directive on ground handling that harmonizes and further liberalises the market, deals with the imbalance in the value chain, is more cost efficient and strengthens the role of users.

KEY ELEMENTS OF THE AEA POSITION ON GROUND HANDLING

The AEA position is based on the following key elements that should serve as a foundation for a revision of the Directive:

1. **A further liberalisation of the ground handling market.**

- Liberalisation of the ground handling market will lead to a wider choice of third-party handlers at airports as more handlers will be admitted.
- Ground handling services are key cost elements in a fully liberalised airline industry, and AEA supports the principle that there should be no artificial limit on the number of self- and third-party handlers at European airports.

2. **Strengthening the role of users**

- Where a selection procedure and / or tender is required, the AEA insists that users must play a key role at all stages of the selection process.
- In order to maintain a fair balance of power between all airlines, voting powers could adequately reflect the market share of each airline, and could be subject to special provisions in cases where an airline which also acts as a third party provider is involved in the selection of competitors at an airport.

3. **A cost-efficient system without concession and access fees**

- One of the objectives of the present directive is to help reduce the operating costs of airline companies and improve the quality of service provided to airport users. Therefore, AEA insists on the removal of all so-called concession and access fees.
- Any fees levied for the use of general or centralised infrastructure must comply with this decision and be included in the airport's aviation revenues, as these infrastructures are an integral part of the functioning of the airport. Possibilities for airports and public authorities to introduce rules and legislation which could act as a barrier to the ground handling market should be strictly limited.
- Any standards or minimum requirements should only be put in place with the agreement of the users, so as to make sure that no favours for the incumbent airport service providers exist.

4. **Space constraints**

- AEA is opposed to auctioning of airport premises. If a ground handler pays a higher price for the location, in a restricted market these higher prices will be directly passed on to the airlines. At existing airport facilities, the airport and the airline community should decide jointly on such matters based on transparent and objective criteria.

- If potential traffic development demands additional capacity then the airport, with input from the airline community, should take action to provide such additional capacity based on a solid business case. In such cases the airports and the airlines should jointly determine the number of handling service providers that can reasonably operate at the airport. The airport should be required to justify any deviation from this process to the airlines.
- Airports should determine the maximum possible number of ground handlers, in consultation with the airlines, so that any restriction will be based on a common understanding and will take into account the competitive situation and available space at the airport, and be based on transparent and objective criteria.
- On very rare occasions, and only on a temporary basis, the lack of physical space may constitute an exceptional constraint which could limit the number of handlers. In such cases the Member States concerned, in consultation with the users, should evaluate this constraint at each airport based on objective and transparent criteria, although any decision on possible restrictions must be approved by the Commission.
- At present airports or Member States can set the number of handlers and some Member States limit the number of handlers allowed to operate at their airports. AEA believes that objective criteria should be established that Member States would have to respect when taking a decision to limit the number of handlers at an airport. However, these criteria should ensure that any limitation on the number of handlers is phased out within a reasonable period of time.

5. Threshold level for application

- AEA supports the application of the Directive to all airports irrespective of their traffic volume. However, if a threshold is to be applied then once an airport has reached that level of traffic, or the expected and forecasted contestable market at the airport reaches a certain level and the requirements of the Directive become applicable, that airport should remain a regulated airport until such time as it could be reasonably determined that any subsequent fall in traffic or change in the contestable market are of a long-term nature and not due to a short-term crisis as witnessed during periods of economic downturn. For this purpose, and to provide assurances to current and potential ground handling service providers and airlines, we recommend that a 3-year observation period be stipulated to determine the nature of the fall in traffic.
- In a fully liberalised market there would be no need for any additional threshold. However, in a market that is not fully liberalised a stepped threshold could apply, for instance to airports with annual traffic above 5 million passengers or 100,000 tonnes of cargo or more than 10 million passengers or 200,000 tonnes of freight annually, in order to allow a gradual increase in the number of handlers at an airport according to local objective conditions.

6. *Harmonisation of application*

- AEA supports the level of harmonization contained in the current Directive on Ground Handling. However, differences in the implementation and level of enforcement of the Directive are subject to political considerations and lead to market distortions and unfair competition. A real and effective harmonization should be achieved.
- AEA also submits that the establishment of charges for centralized infrastructure should be based on the provisions of the Airport Charges Directive (independent supervisory authority, transparency, cost efficiency, etc.).

7. *Licensing*

- AEA believes that the 7-year licence period, which is applied when the number of suppliers of ramp services is limited, should be a minimum unless very special circumstances prevail at an airport.
- This period could be extended, particularly when the service provider is required to invest in expensive infrastructure projects and/or equipment and provided proper exit clauses are in place to cancel or shorten the contract in cases of poor quality of service and/or excessive prices.
- A longer contract period in such cases would allow for better planning on the part of the service provider and the opportunity for lower unit costs. However, if the market is fully liberalised, this question becomes irrelevant, as the market would decide.
- Where a selection procedure and / or tender is required due to a limitation in the number of handlers, the AEA believes that users must play a key role at all stages of the selection process. This applies to both the definition of the selection criteria and decision-making.
- AEA believes that the criteria for assessing a fee for the use of airport installations should be based on the principles applied in the Airport Charges Directive, i.e. transparency, cost-efficiency, cost-relatedness and consultation with airport users and the setting up of an independent authority to monitor fees and charges for airport installations.

8. *Self handling and a level playing field*

- AEA supports the principle that there should be no artificial limit on the number of self- and third-party handlers at European airports, and an airport user should always have the alternative to self-handle.
- AEA is also in favour of the widest possible definition of self-handling, including for airlines' code-share partners, alliance partners and for franchise flights. Ground handling is an essential part of the overall product airlines offer to their passengers, and the possibility to integrate code-share partners and/or franchise operators shouldn't be limited to contracts with third party handlers. A wider definition would also promote economies of scale between alliance partners.

- Cargo operators should be allowed to handle the flights of all aircraft in their network, even those operated by subcontractors. This would solve the problem of handlers being unable to service flights that operate during the night, and would accommodate specific demands.

9. Unclear definition of centralised infrastructure distorts 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 airport handlers. The airport is allowed to retain a monopoly on a number of services, thereby restricting access to the relevant market, especially for independent ground handling companies. There is no justification for favouring airports by allowing them to provide ground handling services without being subject to the same selection procedure as other service suppliers.
- In order to ensure fairer and more transparent access users must have more input on the definition of what constitutes centralised infrastructure. In this context the tendering of central infrastructure operations would be a viable option. For contracts of a limited duration, airports should be submitted to the same selection procedure and contract limits as other handlers.
- AEA believes that any fee for the use of centralized infrastructure should be subject to a set of minimum criteria.

10. Separation of airport accounts is necessary

- AEA fully supports the suggestion that airports should establish separate legal entities to carry out ground handling activities. These legal entities should also be subject to the selection procedure and should be treated in the same way as other handlers. Where there are legal obstacles to setting up these entities in some Member States, the AEA proposes a transitional step, in order to strengthen the separation of accounts through enhanced transparency. Also, more stringent rules are needed to ensure a proper separation between ground handling and other activities.
- The creation of separate legal entities is not necessary if detailed transparency, breakdown of charges, etc. is ensured through the separation of accounts. With a view to ensuring, in particular, that the charges levied on an air carrier are commensurate with the services provided, and that these charges do not serve to finance activities of the managing body other than those relating to the provision of such assistance, the charges should be adopted and applied in full transparency. An external auditor should be used to verify compliance.

- Adria Airways
- Aegean Airlines
- AeroSvit
- airBaltic
- airberlin
- Air France
- Air Malta
- Alitalia
- Austrian
- British Airways
- British Midland International
- brussels airlines
- Cargolux
- Croatia Airlines
- Cyprus Airways
- Czech Airlines
- DHL
- Finnair
- Iberia
- Icelandair
- Jat Airways
- KLM
- LOT
- Lufthansa
- Luxair
- Malev
- Montenegro Airlines
- Olympic Air
- SAS Scandinavian Airlines
- SWISS
- TAP Portugal
- TAROM
- TNT Airways
- Turkish Airlines
- Ukraine International Airlines
- Virgin Atlantic Airways

11. Subcontracting governing rules

- AEA believes that no unreasonable restrictions should be placed on ground handlers who wish to subcontract, provided that any subcontractor is subject to the same general conditions as the main contractor and no subsequent distortions to competition occur, especially with regard to the subcontracting of self handling services.
- AEA also recognises that subcontracting must not be abused or lead to a deterioration in quality or safety standards. Furthermore, the main contractor shall remain fully liable for all actions of the subcontractor. If access to security sensitive areas (e.g. airside or transit area) is needed, the airport must be informed about the sub-contracting, for security reasons.
- Where sub-contracting takes place, airlines should be subject to the same quality audits as other handlers. In addition, AEA does not believe that special provisions for so-called integrators are justified; all users should have the same rights and obligations.

12. Quality and training

- AEA does not believe that the EU or Member States should be involved in setting standards for quality and training. These should be defined as part of the contract between the two parties. In addition, IATA's ISAGO Programme, which requires ground handlers to demonstrate conformity with 300+ agreed standards, promotes safety, efficiency, good training and personnel management practices, and environmental compliance, is already being used for training purposes.
- In cases where ISAGO is not yet completely operational (e.g. cleaning companies, catering companies) operating on the airport apron, States could specify that such service providers should have implemented Quality, Safety and Security Management Systems, capable of being demonstrated via other certification programmes such as ISO.

13. Working conditions and staff transfer

- In general, AEA believes that this issue is already adequately regulated. With respect to transfer of staff there is currently ample legislation in place, both within the Member States as at EU level. We do not see the need for any additional EU legislation in this field, nor do we support inclusion at EU level of provisions derived from the Spanish or French cases.
- Moreover, in the EU the legislation already caters for the needs of the staff, working conditions, minimum pay scales etc. in a way that there should not be a need for any additional protection at airports and certainly no particular commitment to take over staff.

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