

Deregulation of Ground Handling on six European Airports

***GARS, June 2005
Cornelia Templin***

Deregulation of ground handling on european airports

Ground handling – what is it good for?

Ground handling is the (barely noticed) service between flights and very important for the airlines' performance.

Deregulation – why now?

Liberalisation of the airline industry lead to far-reaching changes in their market structure with strong impact on ground handling business.

Directive 96/67/EC – what is it about?

Introduction of competition to a formerly mostly monopolistic market to lower prices, increase quality and give airlines the possibility to choose.

Living the Directive – what is the market like?

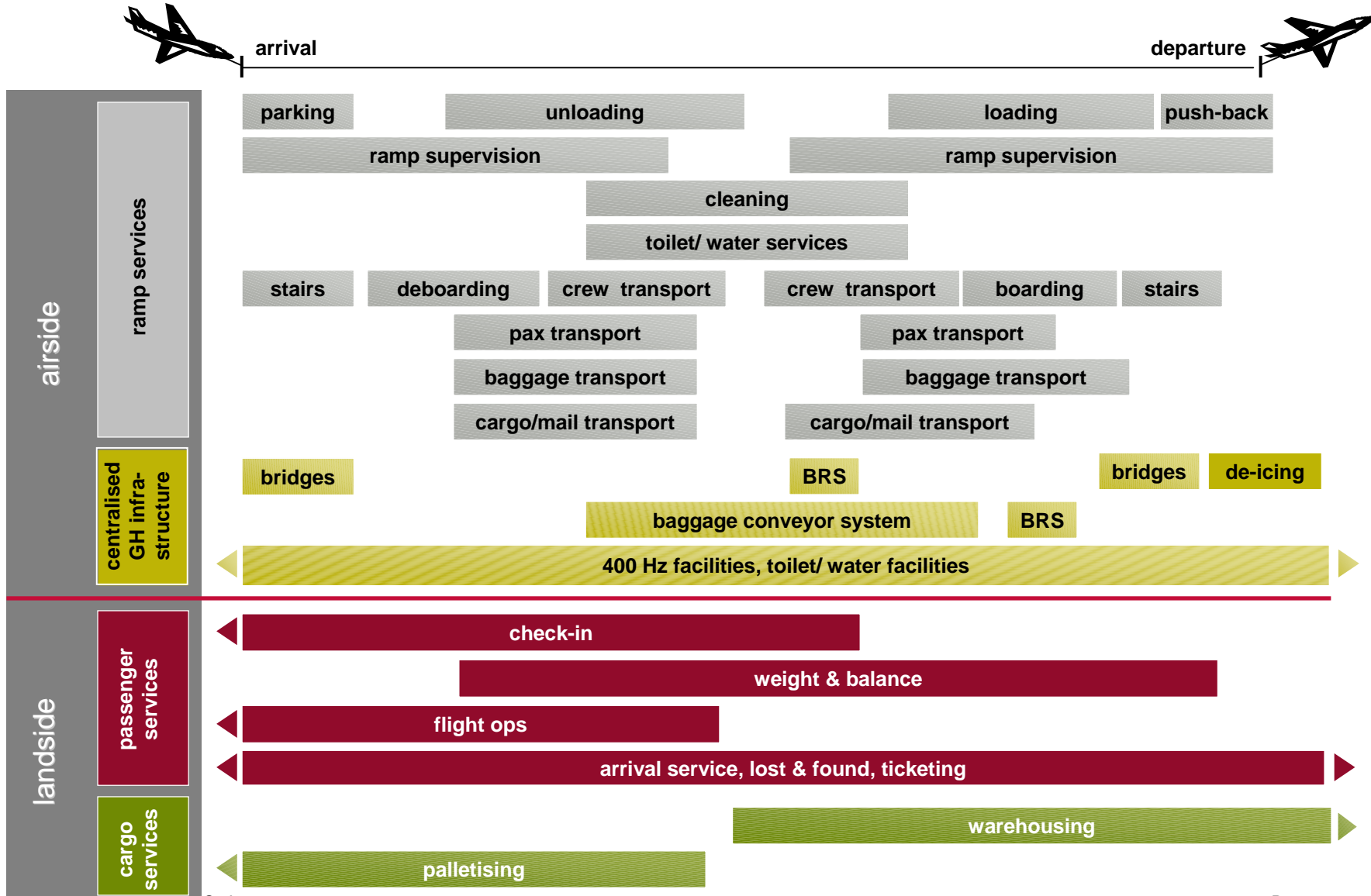
Empirical Analysis of six major european airports: similarities and differences.

My thesis – what is it about?

Scope of my research and open questions

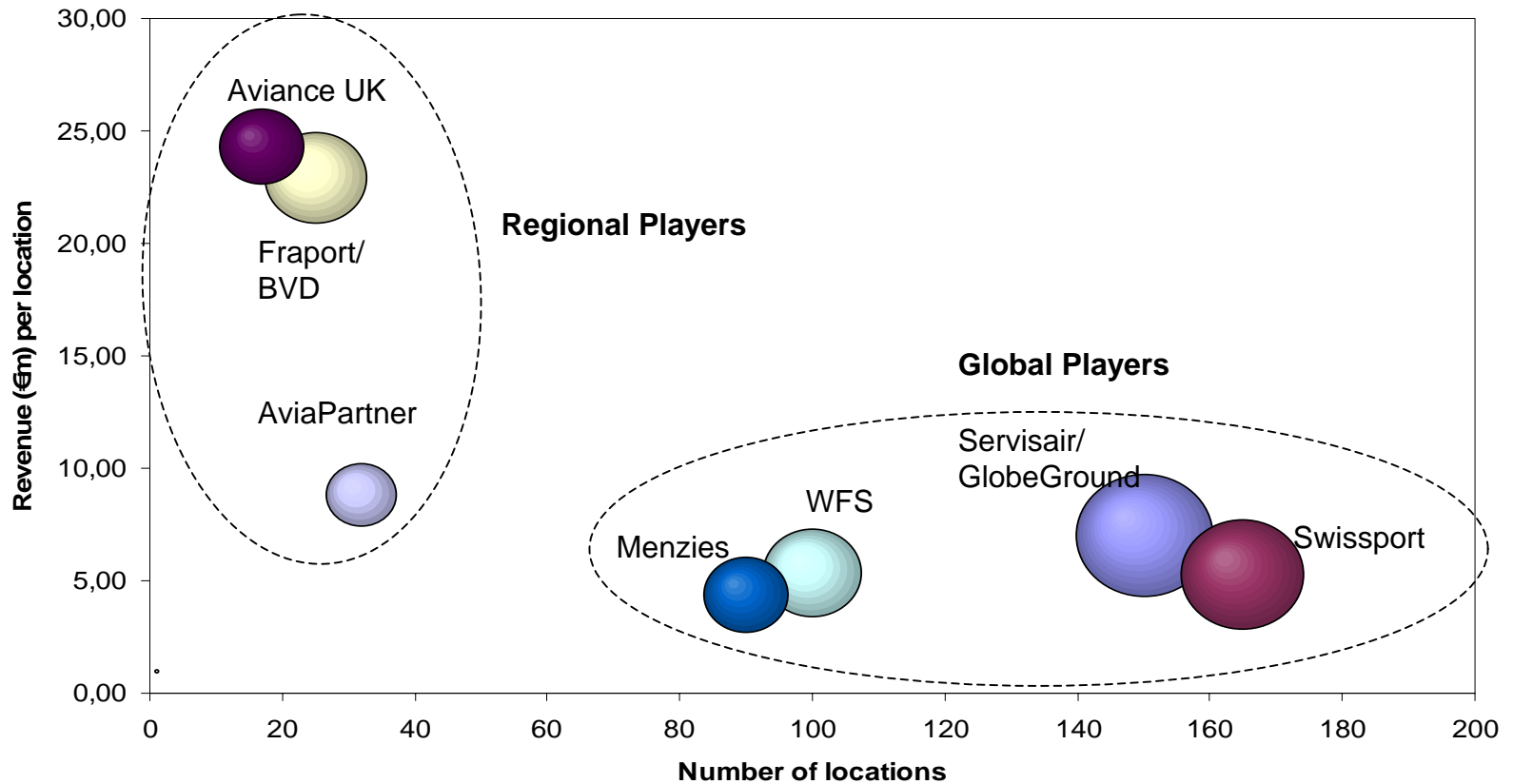
Ground handling – what is it good for?

Turnaround Processes



Ground handling – what is it good for?

Major european independent Players



Bubble size indicates revenues

Airline Business January 2005

Deregulation – why now?

Changes in the industry

Demand is changing



Supply structures have to change too

Airline Industry

- Competition
- Financial Situation of Airlines
- Airlines Alliances
- Low Cost Carrier
- Hub and spoke vs. depeaking
- Crisis-Management
- Safety and Security



Ground Handling Industry

- Quality is mandatory
- Pressure on cost structures
- Demand for multi station contracting
- Adaptability of Processes
- Is connectivity still important?
- Need for flexibility to adjust
- Upcoming field of interest

Directive 96/67/EC – what is it about?

Goals and Contents

Goals of the Directive:

- ⇒ introduce/reinforce competition between ground handlers
- ⇒ continue the liberalisation of the aviation industry in general

Main Contents of the Directive:

- Number of competitors restricted for ramp and baggage handling
- Choice of competitors (licencing) role of user committee, neutral decision
- Exemptions for central infrastructure can be maintained as a monopoly

Living the Directive – what is the market like?

Changes up to now

Results of Deregulation - so far

- Prices fell significantly 5-50%
- development of quality-levels differ
- problems nominating new competitors
- new airlines doing self handling not used widely
- readiness of airlines to change the supplier grows

Source SH&E

Directive 96/67/EC – what is it about?

Revision of the Directive

Time frame

- ⇒ official proposal will be published in fall 2005
- ⇒ implementation on an national level is planned for 2008

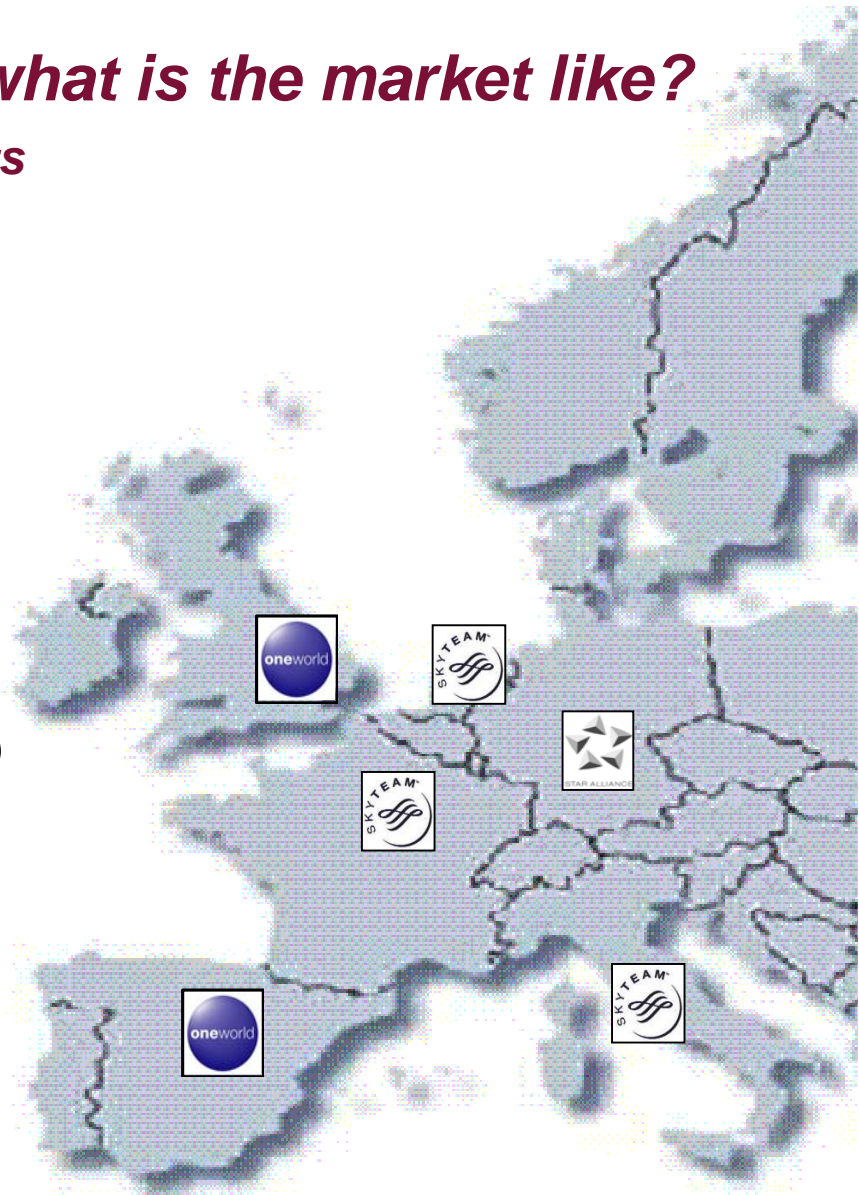
Possible contents

- more competitors
- wider definition of selfhandling
- legal unbundling
- more influence for airlines when choosing handlers
- minimum quality standards
- longer duration of licences

Living the Directive – what is the market like?

Focus on six european airports

London Heathrow	LHR
Frankfurt	FRA
Paris Roissy	CDG
Amsterdam	AMS
Madrid Barajas	MAD
Rome Fiumicino	FCO



Living the Directive – what is the market like?

Market structure

Passengers 2004

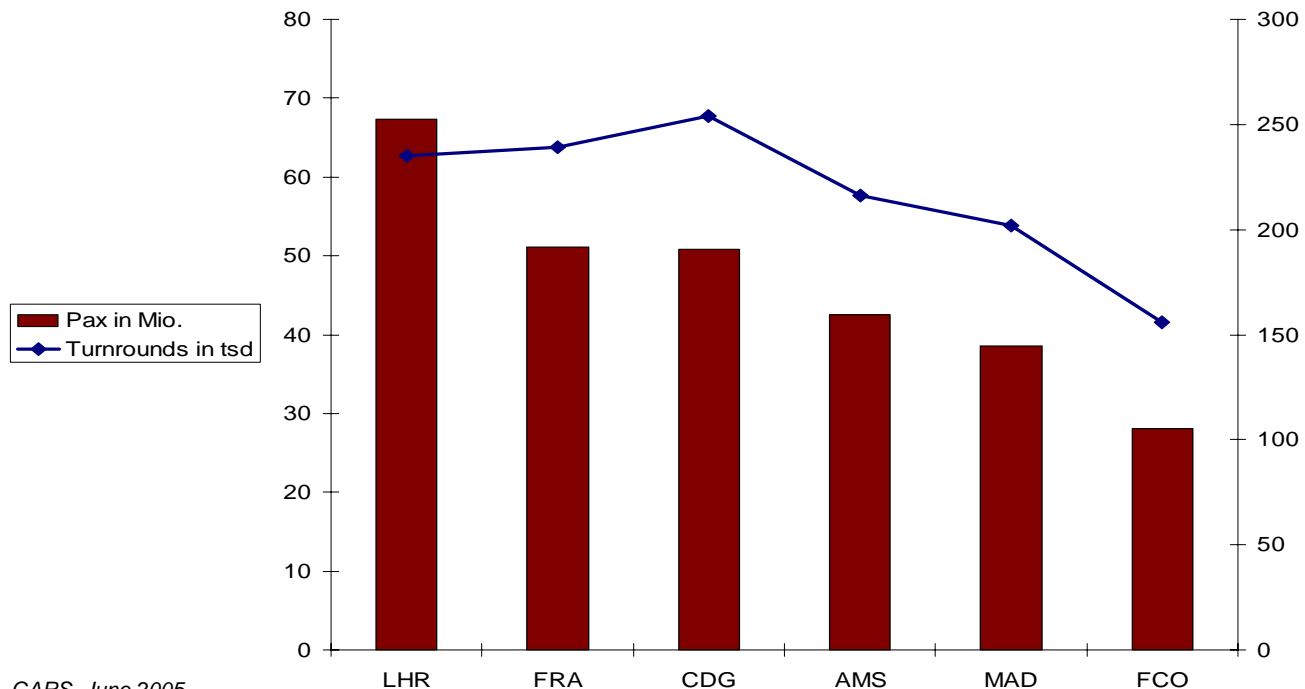
Turnrounds 2004

Alliance Hub

open market

deregulated before 1998

	LHR	FRA	CDG	AMS	MAD	FCO
Passengers 2004	67,3 Mio.	51,1 Mio.	50,9 Mio.	42,5 Mio.	38,5 Mio.	28,1 Mio.
Turnrounds 2004	233.849	238.738	253.650	215.728	201.881	156.433
Alliance Hub	One World	Star	SkyTeam	SkyTeam	One World	SkyTeam
open market	X			X		
deregulated before 1998	X			X	X	



Living the Directive – what is the market like?

The players

	LHR	FRA	CDG	AMS	MAD	FCO
Total of Handlers	11	2	5	5	5	3
Airport as Handler		X	X			X
3rd party Handlers	11	2	5	4	2	3
Airline only selfhandling				1	3	



Living the Directive – what is the market like?

Companies participating in the survey

	Airport	Airlines	Independent GH	represented market share
LHR	BAA	British Airways KLM	Aviance UK	71 %
FRA	Fraport		Acciona	100 %
CDG	ADP	Air France	Swissport Servisair / GG	90 %
AMS	Schiphol	KLM	Menzies Servisair / GG	90 %
MAD	AENA	Iberia	Ineuropa	80 %
FCO	<i>ADRH*</i>	<i>Alitalia Airports*</i>		



Offers GH-Sevices
Offers no GH-Sevices

**Interviews in Rome coming up soon*

Living the Directive – what is the market like?

Questions asked

Experience

Ground handling basics

- company structures
- production structures

Situation at specific Airport

- market entry barriers
- contestability
- competition
- sustainability



Effects of Deregulation

- for incumbents
- for entrants
- for airport
- check with goals of EU

Opinion

Needs for fair competition

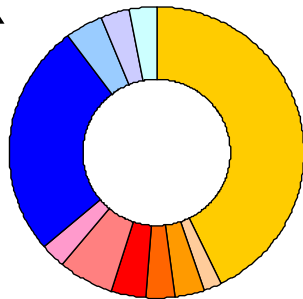
Future development and impact on Ground Handlers

Strategies of Ground Handlers

Living the Directive – what is the market like?

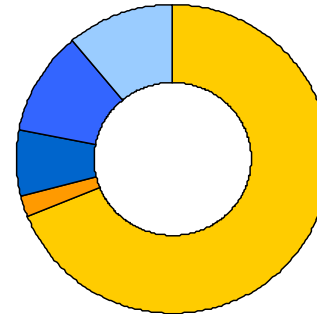
Size and Distribution of Handlers

LHR



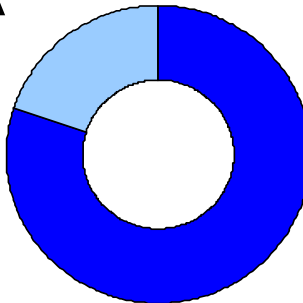
- BA
- AC
- AA
- UA
- AF
- AZ
- KL
- Aviance UK
- Plane-Handling
- SGG
- Menzies

AMS



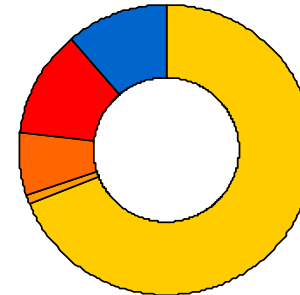
- KLM
- Martinair
- AviaPartn
- SGG
- Menzies

FRA



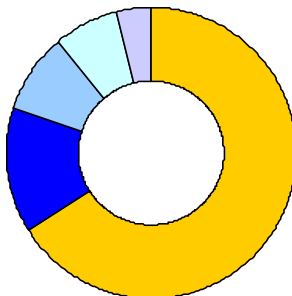
- Fraport
- Acciona

MAD



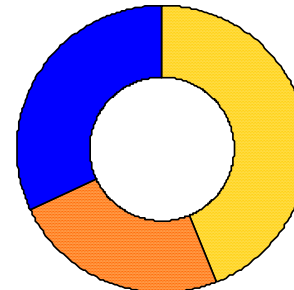
- Iberia
- American Airlines
- Air Europa
- Spanair
- Ineuropa

CDG



- Air France
- Aéroports de Paris
- Serviceair/ Globe Ground
- Groupe Europe Handling
- Swissport

FCO

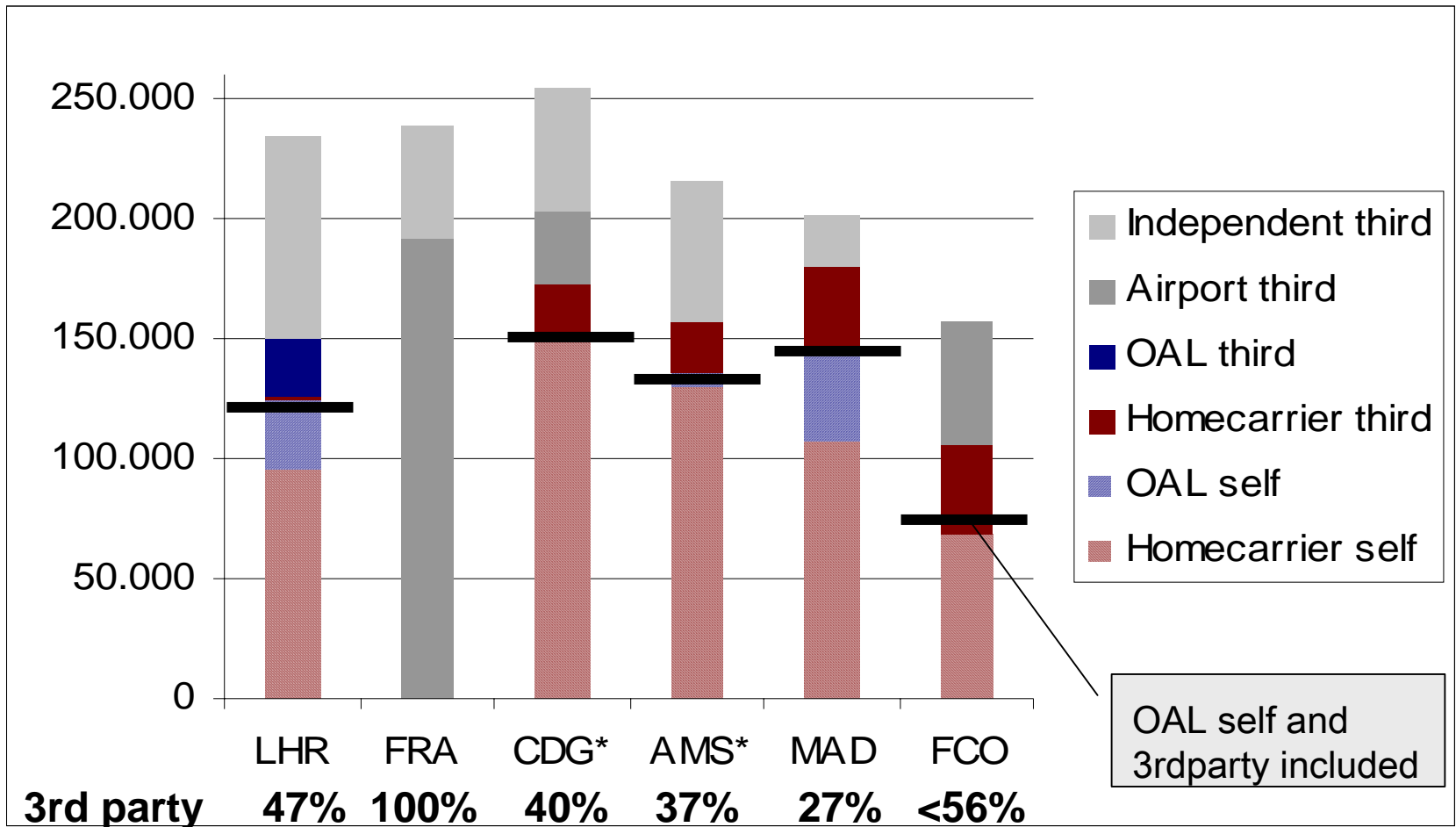


- Alitalia Self
- Alitalia 3rd & EAS self, &
- ADRH

Living the Directive – what is the market like?

Competition

Market split between self and third party handling



Living the Directive – what is the market like?

Number of competitors

Factors that might influence the ideal number of competitors

Market

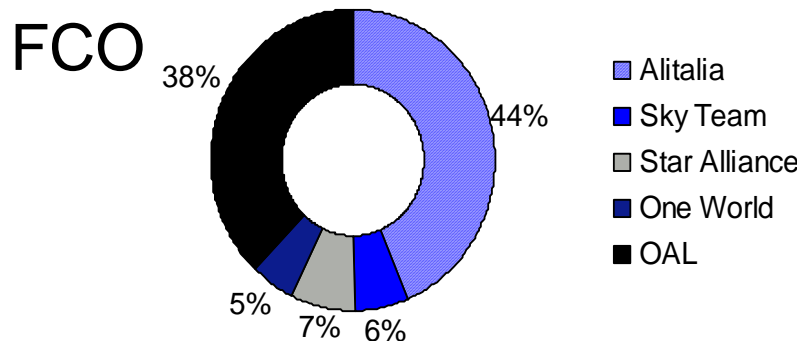
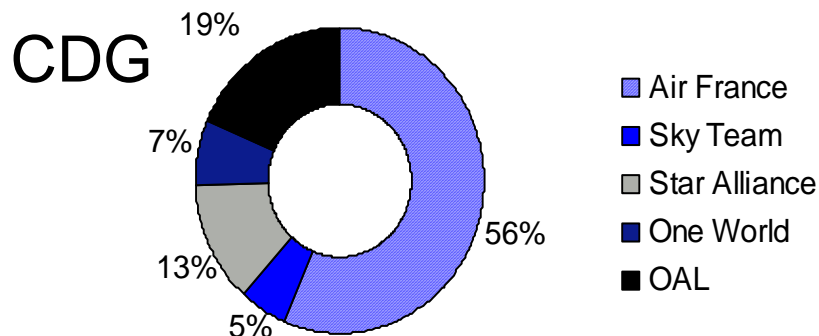
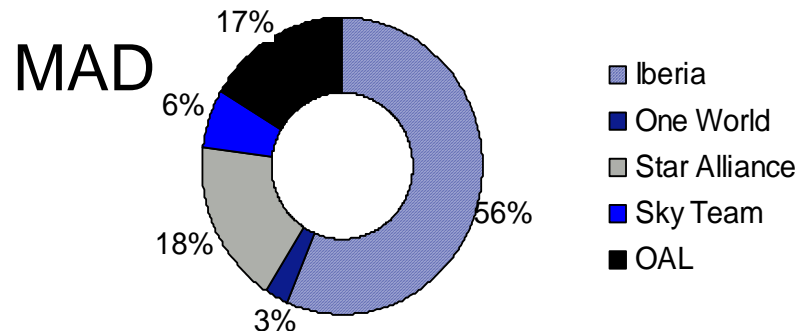
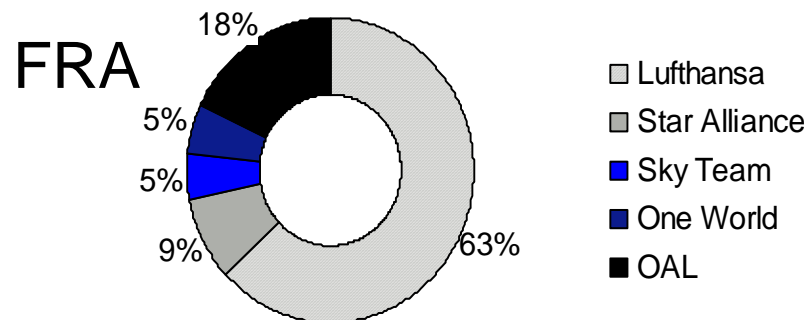
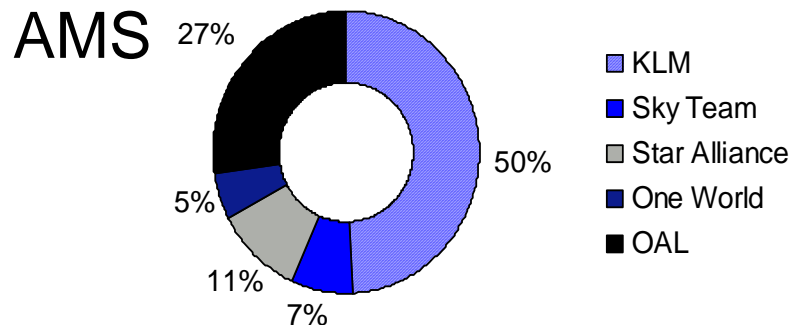
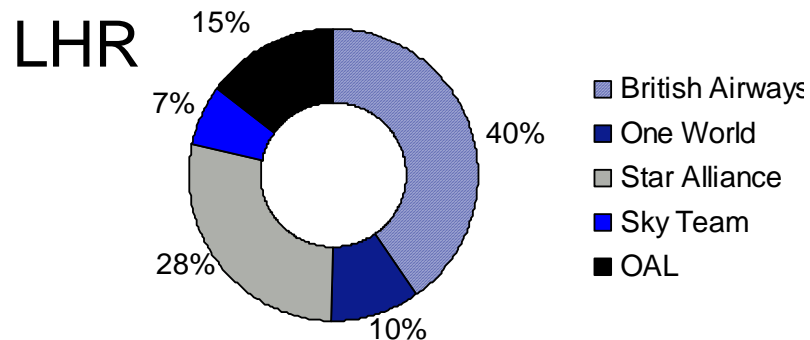
- **Passengers** market volume, current basis for thresholds in Directive
- **Turnrounds** relevant entity for selling and buying GH
- **Customer size** home carrier has big volume; actual (or potential) selfhandler
- **Selfhandler** restrict the possibilities of third party handlers
at least on a short term basis
- **Alliances** joint handling reduces the market open to third party handlers

Production

- **Size of GH** to start 5-10.000 turnrounds p.a., longterm 20.000 necessary
- **Space** too many handlers might influence safety and security
- **Quality** interfaces influence the transfer product of the airport
- **Terminals** might require split operations

Living the Directive – what is the market like?

Alliances at Airports



Living the Directive – what is the market like?

Sustainability of the market

In a sustainable market, no additional supplier wants to enter the market - it is balanced.

LHR market is fully open

- market exit in 2004 lead to new handler

FRA restricted to 2 licences

- interesting for further 3rd party suppliers

- no selfhandlers interested so far

CDG restricted to 3 licences

- market only attractive if allowed

per terminal

to handle everywhere

AMS market is fully open

- one market exit after two years

- no market entries since AviaPartner

MAD restricted to 2 licences

- market probably too small for further

3rd party as long as selfhandlers continue

FCO restricted to 3 licences

- market still has to be analysed

Thank you for your attention