



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

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Outline



- Background
 - Airport charges
 - Regulation
 - Deregulation
- Case study: DUS and TXL
 - Change in the structure
 - Change in variability
 - Effects
- Conclusions

Background



- Aviation revenues still very (or the most) important source of revenue for airports
- Aviation Revenues = Revenues from charging airlines
- How are airport charges set (factors)?
 - Regulation and Competition
 - Liberalization and Deregulation
 - Airport/Airline relationship



- **Price Regulation**

- Legal basis is thin
- Principles - Hühnermann Paper 1980
 - » Cost coverage
 - » Reasonable charges
 - » Transport policy (public interest)
- In practice
 - » Decentralized system
 - » Responsibility of individual federal states
- Forms
 - » Cost-based (rate of return)
 - » Price-cap (implemented in the form of PFA)



- **Regulated and Non-Regulated charges**

- § 43 LuftVZO - Air Traffic Licensing Regulations
- § 6 BADV - German Ground Handling Directive

- **What does GHS mean?**

- No definititon but,
- Common understanding: (barely noticed) handling services between flights, which are 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

Deregulation of GHS



- Airlines competition intensified
Demand changed – supply structures had to change, too
- **Cornerstone:** EU Directive on GHS, adopted by the 15 Member States in 1996.
- **Objective of Directive:** encourage the competitive provision of ground handling services at European airports
- Because just a Directive, each Member State required to pass its own legislation to bring the Directive into force
- In Germany this came in 1999
Once GHS deregulated things started to diverge

What about CI?



- The general understanding is that CI just a part of GHS
- But which one?!
 - Who is providing ZI?
 - (airlines, 3rd parties, airports)
 - What is included in ZI?
 - (is the airport free to decide)
 - Does it appear in the charges manuals?
 - (always, sometimes, not necessarily)
- Deregulation – Divergence – Definition Difficulties

The Re-Regulation



Recently, a new process...

**...ZI (previously deregulated) incorporated
now in Regulated charges**

Re-Regulation driven by market forces

- Re-regulation, GHS included in Regulated charges
 - Relation between airlines and airports, market driven
- Why? How?**



- **DUS**

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

- **TXL**

- Public
- Some congestion (less than Dusseldorf)
- Rate-of-return regulation
 - » Tried also PFA but no agreement

What happened?



Airports increased charges

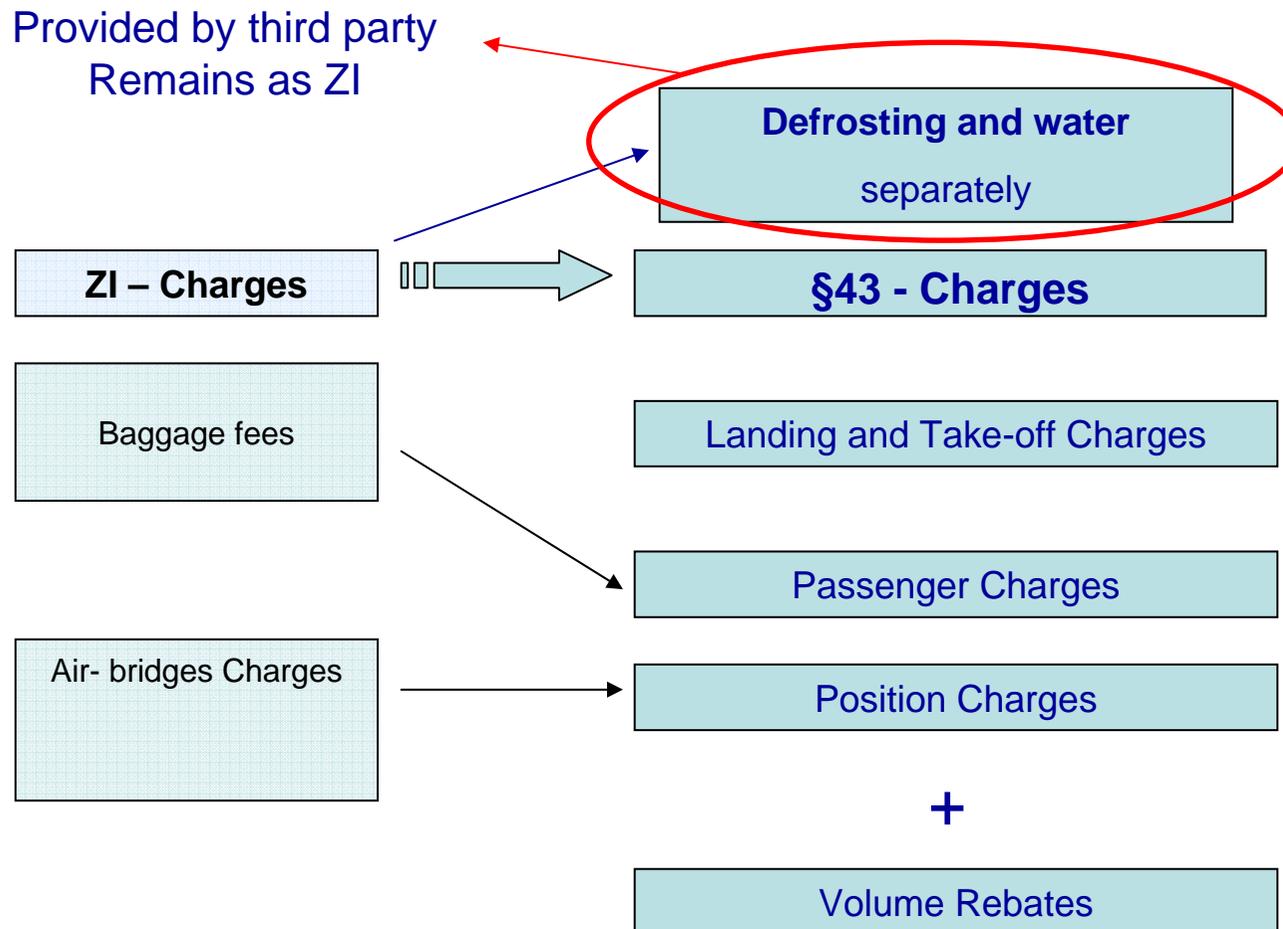
(TXL: 2003, DUS: 2000)

- Airlines refused to pay
- Discrepancy was cited before the court
 - TXL still negotiating; DUS lost in 2004
- Airports had to find a solution to satisfy airlines

Structure change - First, TXL



Integration of CI in §43-Charges in TXL



Structure change, TXL



Airbus A320 family

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:

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

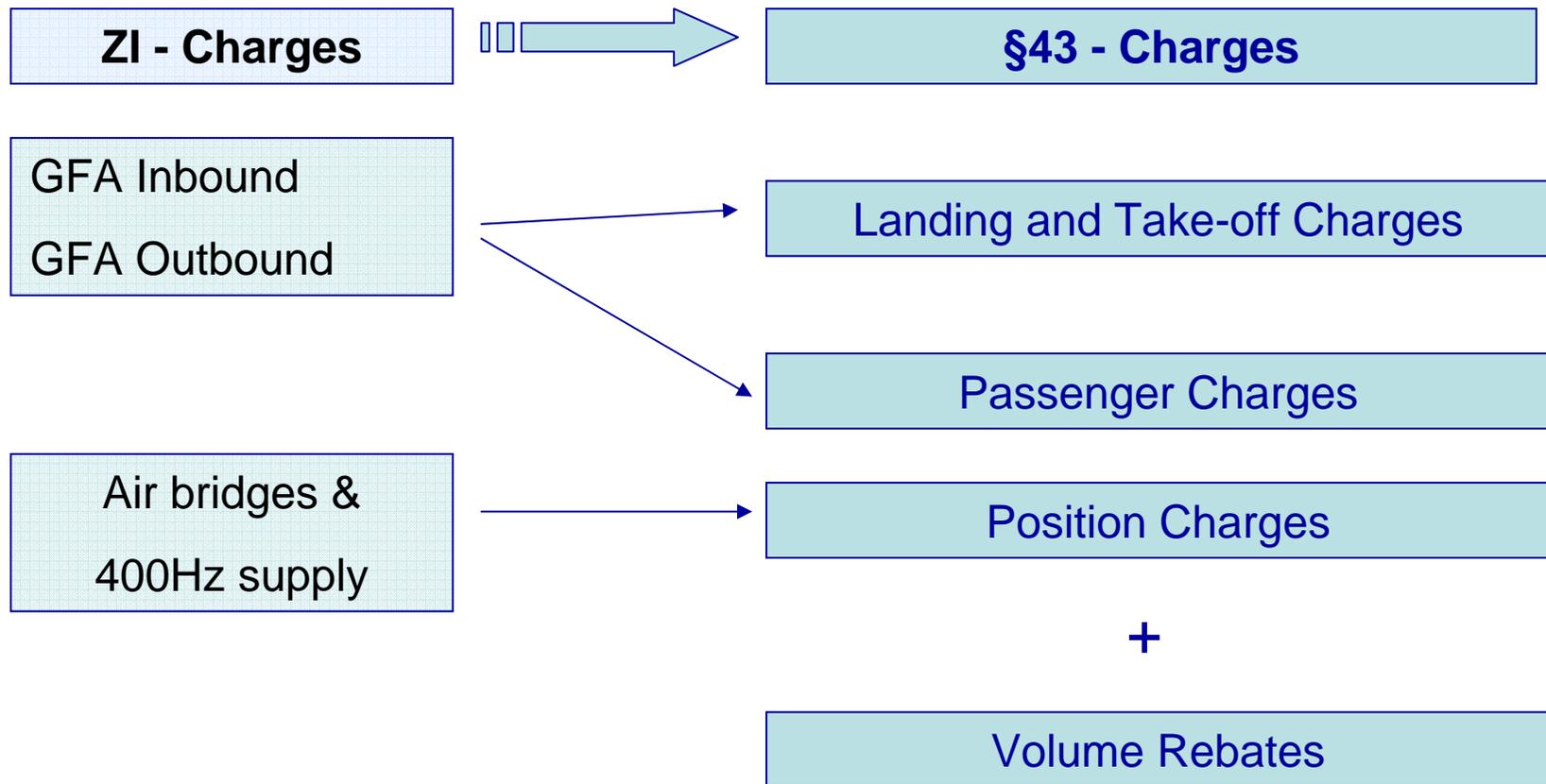
But airlines hardly feel any price increase because of **Volume rebates**

Over-all price increase 1998–2008: **1-2 %**

Structure change - Then, DUS



Integration of CI in §43-Charges in DUS



Structure change, DUS



Airbus A320 family

→
Change

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

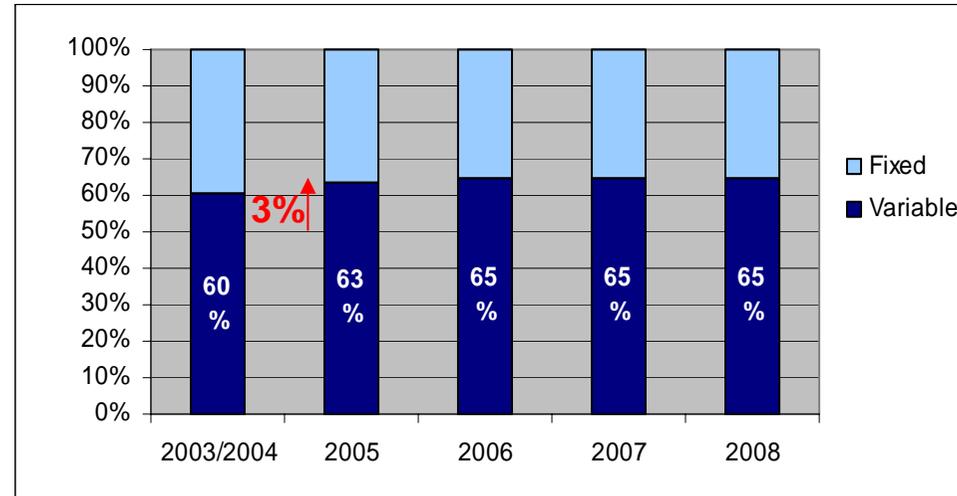
DUS	2008
Start-/ Landentg.	457,00 €
Passagierentg.	1.775,10 €
Sicherheitsentg.	68,32 €
PRM-Entg.	34,16 €
Abstellentg.	0,00 €
Positionsentg.	85,00 €
Lärmschutz	40,26 €
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Ergebnis	2.459,84 €

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

Changes in Variability



Airbus A320 family

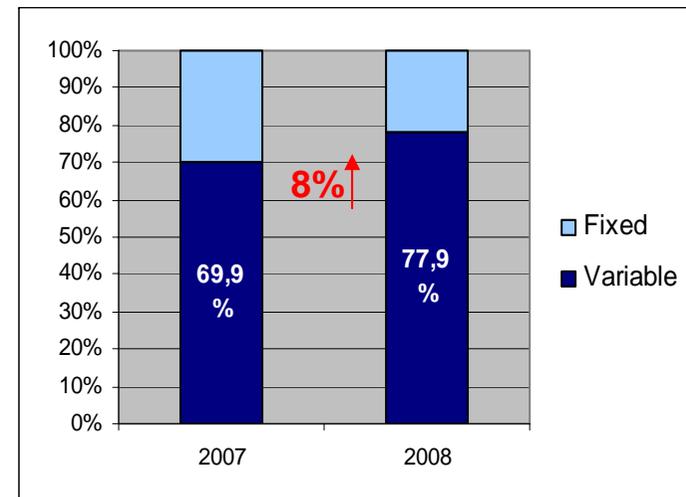


TXL

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

DUS

- A **radical** increase in variability of 8% from 2007 to 2008



Volume rebates, DUS



From 01.01.2008

Passengers		Rebate
From	To	
500.000	1.000.000	2,0%
1.000.001	2.000.000	3,0%
2.000.001	3.000.000	3,5%
3.000.001	4.000.000	4,0%
4.000.001	5.000.000	4,5%
5.000.001	6.000.000	5,0%
6.000.001		5,5%

Dec'06 – Nov'07: Passenger numbers

Air Berlin 6.473.685

TUIfly 1.140.929

Lufthansa 4.419.008

Condor 788.805

- **Big, home, carriers seem to profit the most**



For the airlines:

- **„tax-box effect“**
 - lower risk, if Seat-Load factor low
 - easier justification of ticket price
- **volume rebates**
 - Thus, nearly no price increase

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 because tax-box effect (Airlines pay)
- predictable earnings
- incentive for airlines (e.g. low cost carriers in SFX)
- Benefit of traffic increases, and compensate for higher SLF

Benefits for passengers:

- no effect on the ticket price
- probably if they exist (routes, ...), harder to quantify

Conclusions



- For airlines the tax-box effect (variabilization) is very important
- Not only levels, but also structure of charges important
- In DUS and TXL, price increases only possible within the regulatory bindings and after authorities' approval. Peak pricing hard to achieve

Further research

- Is this Re-Regulation a trend or just a particular case, only for DUS and TXL?
- Questionnaire, for both airlines and airports.

Questions



- Will other German airports follow DUS and TXL example?
- Is an increased tax-box effect an incentive for airlines to choose an airport?
- What are the clear characteristics of ZI in your understanding?

Thank you for your attention

**GERMAN AIRPORT
PERFORMANCE**

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Comments and Feedback (1)



- It matters less if charges require approval or not. Other reasons behind ZI disappearance. Airlines can refuse to pay in either cases.
- It is important that there are no multiple boxes (about the tax-box effect). With the existence of ZI, the possibility of multiple boxes exists.
- Re-Regulation is a trend. MUC followed already, FMO will do it. Also signs in HAM
- ZI, could help an airport which has price-cap and it is in a defavorable position: cross-subsidization. But this is forbidden by law

Comments and Feedback (2)



- The existence of ZI was badly designed from the beginning. According the Art.43, the ZI should be in regulated charges (except probably de-icing)
- The existence of ZI contradicts deregulation of GHS
- Germany is (was) an exception in Europe with ZI let aside of the regulated charges. In most other countries they are fully integrated.
- What are the allocative effects of volume rebates?
- Need to look at the development of ZI over time, to see how much cross-subsidization existed