

# GROUND HANDLING IN EUROPE: IMPACT OF THE EU DIRECTIVE

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## INTRODUCTION

This article briefly reviews some of the many issues related to the establishment of a competitive environment in the provision of airport ground handling services, based on experiences in the European Union (EU).

## BACKGROUND

Ground handling activities within the EU must comply with a Directive adopted by the 15 Member States in 1996. As the legislation is in the form of a Directive rather than a Regulation, each Member State was required to pass its own legislation to bring the requirements of the Directive into force within its own territories. The use of a Directive also allowed each Member State to introduce additional provisions into national law, provided that such provisions were not contrary to the clauses of the Directive.

The Directive itself also placed an obligation on the European Commission to report back to the European Parliament by 31 December 2001 on the progress and success of the Directive and if necessary to suggest revisions to it. SH&E was appointed in late 2001 by the Commission to gather the factual data on which it would base its report: policy conclusions were beyond the scope of our remit and remained the responsibility of the Commission. In view of the many tensions in the ground handling area between the different stakeholders, this was a limitation of scope that we were happy to accept!

Our report was submitted on schedule in October 2002, and is available on SH&E's website, [www.sh-e.com](http://www.sh-e.com). Conference presentations based on this work may also be found there.

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## THE DIRECTIVE

The objective of the Directive is to 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. In a number of Member States, ground handling services had historically been provided on a monopoly basis, either by the major base airline (e.g. Iberia, Olympic) or by the airport operator itself, a model common in Austria, Germany and Italy.

To ease the difficulties that changing from these positions might create, the Directive included transitional arrangements which allowed for a gradual liberalisation of the market. By the commencement of SH&E's assignment, the third party handling aspects of the Directive applied to all airports which handled more than 2 million passengers or 50,000 tonnes of freight per annum; for the self handling aspects, the thresholds were 1 million passengers or 25,000 tonnes of freight per annum. With the exception of four categories of ground handling, the Directive required that any organisation be allowed to provide ground handling services (subject to licensing for safety and financial fitness etc.), including airlines wishing to self-handle. However, for baggage, ramp, and freight and mail handling, and for fuelling, a Member State could limit the number of handlers, but to no less than two organisations. A further requirement was that at least one of the handlers had to be independent of both the airport operator and any airline(s) responsible for carrying more than 25% of the airport's traffic.

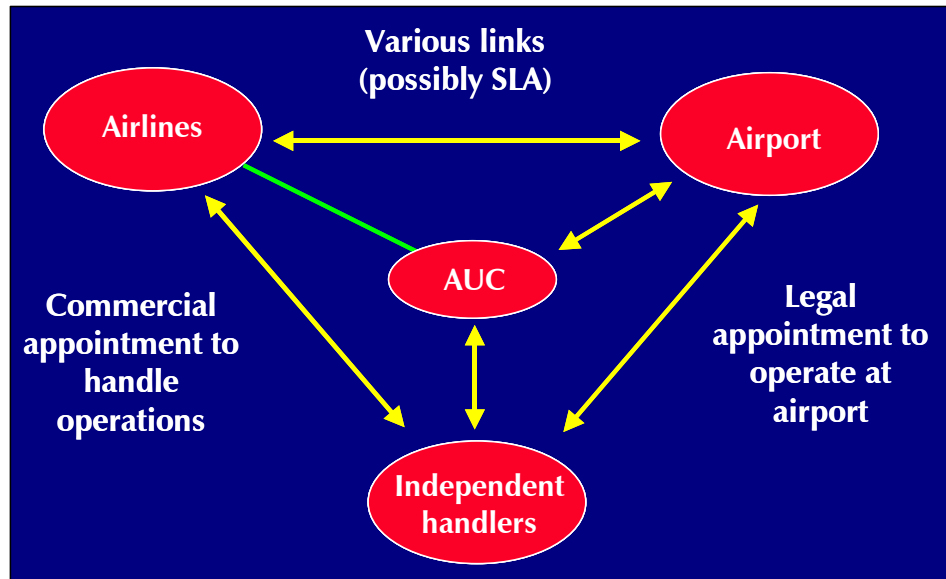
## THE ISSUES

Our work identified many problems arising from the new arrangements for ground handling, not least the patchy implementation of the Directive in some Member States and a variation of interpretation of its provisions. Some of the other issues are best illustrated by considering the relationships between the different stakeholders. Generically, there are three basic models for these relationships.

The most simple model and the one having the fewest difficulties is one in which neither airlines nor airports are involved in ground handling (Figure 1). The appointment of third party handlers is the responsibility of the airport operator, although it is expected to take into account the views of the airlines, speaking through the Airport Users Committee (AUC). However, the formal position of the AUC is purely advisory so the airport need not appoint ground handlers preferred by the airlines, even though it is the airlines that enter into commercial contracts with the handlers to provide services. This may perhaps be beneficial in some locations as the

AUC's views can be dominated by the largest airline, despite the fact that this airline may ultimately opt to self handle and not employ the handling agent it imposes upon its fellow airlines!

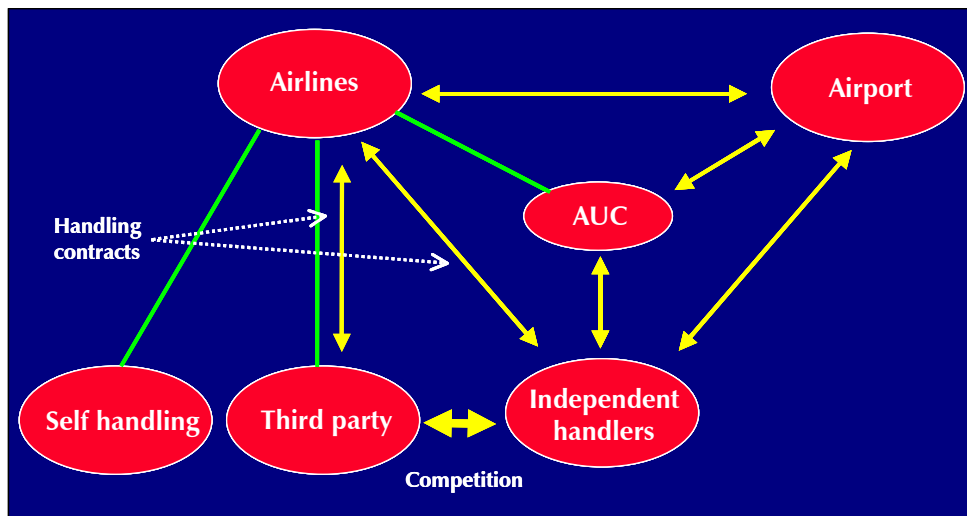
**Figure 1: The Simple Model**



The airport operator's role is not without difficulty since it must select handlers on the basis of relevant and objective criteria. The dominant criterion used by most airlines when appointing a handling agent is price (quality being assumed or defined by contract), but this criterion is not available for airport operators, who must find alternative yet relevant measures, a very difficult task. At some locations, airport operators have also found difficulty in imposing adequate quality standards on handlers.

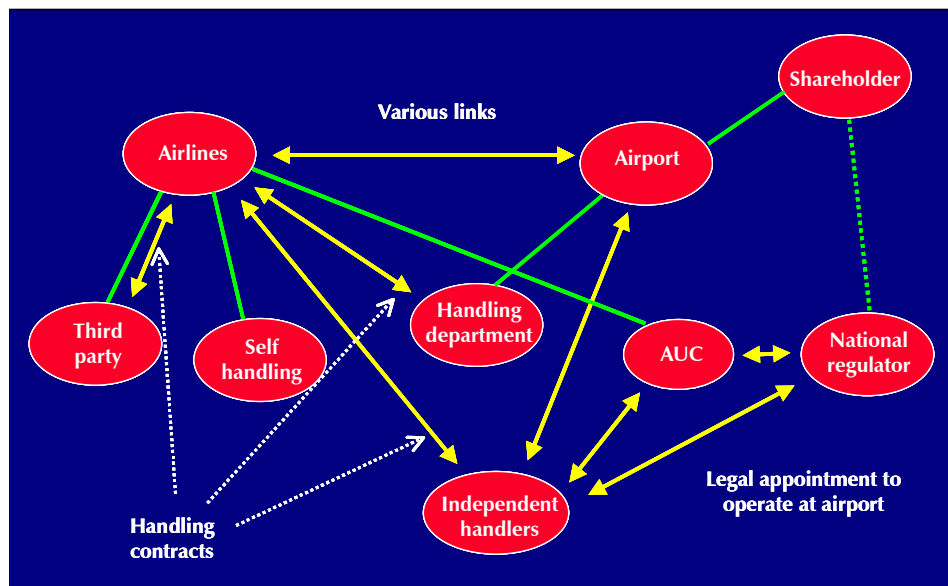
The second relationship model is one in which an airline is engaged in ground handling activities for its own services and often for other airlines (Figure 2). Such an involvement may call into question the neutrality of the AUC, certainly reduces the size of the market available for the independent handler(s), and can give rise to questions about the definition of 'self handling': is a franchise airline being self handled? The integrated carriers such as DHL, Fedex, TNT, and UPS face particular problems at their overnight hubs as a number of their flights are operated on a chartered basis by other airlines. The vexed issue of concession fees (referred to by the Commission as 'access fees') which traditionally have been a percentage of turnover also arises, and has led a number of airport operators to charge on an activity/volume basis (e.g. per passenger).

**Figure 2: A more complicated model, with airlines handling**



However, the third model in which the airport operator provides ground handling services gives rise to the most debate (Figure 3). In addition to the issues arising with the other models, responsibility for the selection of independent handlers passes to national or regional government regulators. However, in the Member States where there is a tradition of airport operator provision of ground handling services, governments are frequently shareholders in the airport, so creating the potential for a confusion of interests.

**Figure 3: A Complex Model With Airports Providing Handling Services**



Involvement of the airport operator in ground handling services creates suspicion in the minds of other handlers that they are disadvantaged in terms of access to facilities (e.g. airbridge served stands for their client airlines), the application of access fees and also the level of fees for Centralised Infrastructure (CI)<sup>2</sup> such as baggage handling systems.

Despite these many difficulties, our report identified that during the life of the Directive, airlines considered that prices of ground handling services had fallen, although most did not attribute this totally to the existence of the Directive.

It is clear that ground handlers are now enduring more competition in the provision of services. This has resulted in decrease in prices, which has seen them attempt to reduce costs as much as possible. Of the costs under their control (access fees and charges for CI are not), the area of greatest focus has been labour costs. Downward pressure on salaries and upward pressure on productivity must place strains on staff. As many jobs have a relatively low skill requirement, ever lower salaries means in some locations the quality of staff is reducing with consequent implications for standards of safety and security. This should be a major concern for the air transport industry.

Despite these cost reductions, the profitability of many independent handlers is poor. In several airports with more than three ground handlers, financial losses have been almost endemic leading to withdrawals from the market. Excessive competition may not be good.

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<sup>2</sup> The Directive gave all airport operators the right to charge fees for any infrastructure that could only sensibly be provided on a monopoly basis.