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Lead: EU Presidency

## Single European Sky more effective than Emissions Trading

### Privatisation of DFS is necessary

So far, the Single European Sky exists on paper and urgently needs further improvement. But additional delays loom from Germany. The legal framework was to be created with the Air Navigation Services Act. The resulting privatisation of German Air Navigation Services (DFS) would have been an important sign across Europe for greater efficiency in air space. A model is the United Kingdom, where players from the aviation industry are shareholders in UK NATS (National Air Traffic Services). Germany's President has not been able to approve the Air Traffic Control Act due to constitutional concerns. Now, the goal must be to develop a solution at the parliamentary level.

Europe is growing closer together, as evidenced by the Single Market, the Schengen Agreement and the euro. However, this is not yet true of the skies over Europe. Here, the borders between member states remain firmly in place. An absurdity: aviation of all areas is forced into a straightjacket of national responsibilities. There are 58 air traffic control centres using 22 different operating systems. The annoying result is kerosene wasted by flight detours and unnecessary holding patterns, all due to the egoistic attitudes of Member States.

### Single airspace helps avoid emissions

Lufthansa's Chairman of the Executive Board, Wolfgang Mayrhuber, succinctly summarized the situation: "Realising the Single European Sky is the EU's largest climate protection project." Implementing this project would mean avoiding 8–12 percent of CO<sub>2</sub> emissions. But instead of driving this concrete project forward with determination, the option of including aviation in an Emission Trading System (ETS) is considered at the European level. Notwithstanding all problems and incalculable aspects of this scheme, even its supporters anticipate less reduction in emissions which could be achieved in the short-term by a Single European Sky.

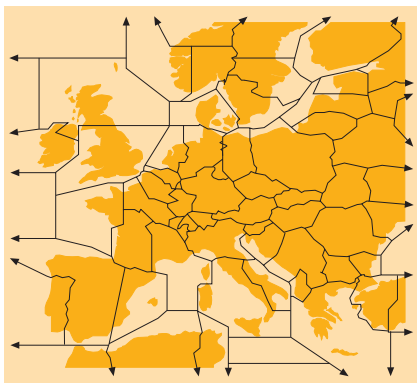
### Distortions in competition must be avoided

One thing is clear: An ETS would need to be global to avoid distortion of competition. By contrast, an "EU island solution" would contradict the principles of the Lisbon Agenda: aiming at less government regulation and improving the competitiveness of European industry. In international competition, such an "island solution" would result in massive disadvantages for European carriers. For example:

- European air transport would become unilaterally more expensive, making Europe less attractive as a location for hubs in global competition.
- Resources and capital would be tied up by bureaucracy – important investments in environmentally friendly technologies would have to be postponed.

Germany's EU Presidency, which begins in January 2007, must give priority to addressing the issue of trading emissions rights in a global context – in particular as the US government has already signalled its resistance to an EU Emissions Trading Scheme. It is therefore even more important to drive the Single European Sky programme forward with determination. Its implementation is many years overdue – further delays would be a scandal for the EU's environmental policies.

### The patchwork of European air space



A comparison shows:  
There is a different way ...

	Europe	USA
Air space (million square km)	10.5	9.8
Air navigation service providers (civil and military)	47	1
Control centres	58	21
Operating systems	22	1
Programming languages	30	1
Flights (in millions)	9	18
Cost of traffic control per flight* (in euros)	742	386

Source: Eurocontrol  
\* as of 2004

Lead: EU Presidency

## Moving Europe ahead

Germany's EU Presidency has important opportunities for shaping the EU's direction – including areas of civil aviation. Leaders in politics and business will need to work together to take advantage of the period between January and June 2007 to further improve basic rules at the international level. By adopting the Lisbon Strategy, the EU has set itself the goal of becoming the world's most dynamic economic area – and aviation's enormous growth potentials can make significant contributions to this goal. With this in mind, the following subjects should be included in the agenda of Germany's EU Presidency:

### Ambitious: The Lisbon Strategy

The EU has set itself the goal of becoming the world's most competitive and dynamic economic region by 2010 – a decisive condition for important goals in foreign, social, environmental and foreign aid policies.

The strategy, originally agreed in Lisbon by heads of state and government, defines core projects and assigns responsibilities for specific tasks. In general, growth and employment are to be strengthened.

For this purpose:

- Existing laws are to be checked for their effects on economic policies
- Research support for key technologies will be prioritised
- The Single Market will be further strengthened

### ● Set competitive airport charges

The EU Commission has announced that it will present a package of initiatives for the aviation industry in January 2007. In the area of airport charges in particular, considerable efforts are necessary to ensure a competitive level of costs in Europe. Monopolistic pricing, set by airports to the detriment of airlines, must become a thing of the past. Effective regulation is urgently required. What is more, the liberalisation of groundhandling services – which has been postponed yet again – needs to be put on the agenda as soon as possible.

### ● Reduce bureaucracy

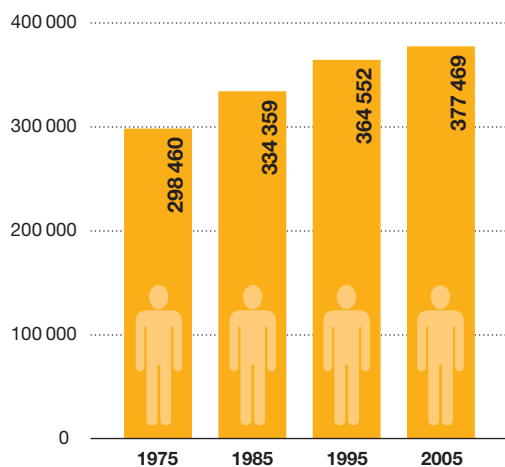
Bureaucratic red tape and regulatory excesses will also need to be cut back at the EU level. Two important steps towards improving competitiveness are, firstly, the withdrawing of the redundant directives presented in a list by Industry Commissioner Verheugen, and secondly, that EU member states abstain from tightening EU directives.

### ● Realise Open Aviation Area

Market liberalisations create affluence and jobs – a good incentive for finally realising the joint aviation market between the USA and the EU. Foreign investments in US airlines should be allowed and are a key element of the overall negotiations' objective to create a free and fair transatlantic aviation market. Unfortunately this cornerstone has recently been withdrawn by the US government. It is therefore up to the US to develop solutions to come out of this impasse. The EU Commission has received a mandate from the Transportation Council to find ways to rebalance the agreement.

These measures would help implement the Lisbon Strategy and would thus set the stage for more economic growth and jobs. What is needed is a constructive dialogue between policy makers and the aviation industry. In April 2007, the European Aviation Summit – initiated by Germany's Minister of Transport – will clearly point the way in this area and resume work on the basis of the agreed principles reached at the Salzburg Conference 2006.

European airlines – reliable job engines in the EU



Number of employees

Source: Association of European Airlines (AEA)

Analyses

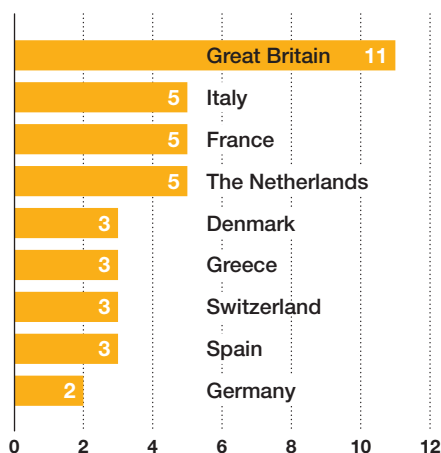
## Groundhandling at EU airports: Anachronistic setbacks

### Opening up the airports' monopolies

This much is clear: Only when all system partners – flight security, airlines and airports – are able to guarantee the highest levels of efficiency, will European aviation be able to remain successful in the face of global competition. It is time the airports' monopolies familiarise themselves with the rules of the market – long the norm for airlines.

Disappointment within the European airline sector: An unfortunate alliance of airports, labour unions and certain Member States has succeeded in preventing the next step towards greater liberalisation in the aviation value chain. The Transport Directorate of the European Commission has decided against modernising an outdated directive on groundhandling services. This directive was formerly intended to be a key element of the "Airport Package", which aims at bringing about a new regulatory basis for airline-airport relationships. The objectives are: Further liberalisation in groundhandling, EU-wide airport charging principles and improved infrastructure capacity planning – all essential pillars of the Package, all of vital importance to the sector and all crucial for the competitiveness of European airlines.

### Red light for Germany



Number of groundhandling services, including airport operators, at major European airports.

Source: SH&E Study from the European Commission (2002), and Lufthansa Census (2006)

The former groundhandling directive stems from 1996; its revision was originally scheduled for December 2001 and has now apparently come to an abrupt end. Whereas the airline market has been fully liberalised for some years and encounter strong global competition, the groundhandling sector continues to seek shelter in monopolistic structures. The costs are paid by airlines and their customers.

For quality and competitive reasons, urgent action is required from Brussels:

1. The opening of the market: The number of competitors at Europe's most important airports is artificially constrained. This is especially true in Germany, where airports are able to preserve their quasi-monopolistic position.
2. The strengthening of users' rights: Currently, airlines do not have a real say in the tender selection process. As examples in Germany and France demonstrate, the selection is frequently made against the airlines' vote. As airlines are paying for the groundhandling services, this is particularly unreasonable. The party that pays must have an influence in the selection process of groundhandling providers.

## Overview: Data exchange and hand luggage regulations

### Background

Following intensive negotiations, the EU and the USA concluded a new passenger data agreement in early October. This transition regulation will be valid until July 2007. This was required after the decision of the Court of Justice of the European Communities in May 2006 to repeal the preceding agreement, in force since 2004, for formal reasons. It is essential that a long-term agreement is negotiated as soon as possible to avoid legal uncertainties for airlines and their customers.

The rules for hand luggage have also changed. Following the thwarted attacks in London, the EU Commission passed new regulations concerning liquids carried as carry-on baggage, which came into effect on November 6. New regulations regarding the size of carry-on baggage are expected to come into effect in early May 2007. The new security measures enacted by the USA in a parallel move are in accord with the EU regulations. This marks an important step towards "One-Stop-Security" – travel without cumbersome double controls in transatlantic aviation.

### Passenger data – which data are transmitted?

US authorities have access to a maximum of 34 data items recorded by airlines during reservations. In practice, however, only some of this information is called up in each individual case. This may include:

- Names
- Contact data
- Date of reservation
- Type of payment
- Details regarding travel agencies
- Special dietary requirements
- Hotel or rental car reservation
- Changes in seat assignment

Additionally, in the context of the Advanced Passenger Information System (APIS), the following data are transmitted to the USA after a passenger's departure: passport details, address in America, country of origin, destination airport, reservation code and document type.

### Liquids in carry-on luggage – what is allowed?

For EU flights, restrictions now apply to liquids in carry-on luggage:



- Liquids or gels must not exceed 100 millilitres per container
- These containers must be packed in a transparent and resealable plastic bag with a maximum volume of 1 litre
- Each passenger may take only one plastic bag on board
- Exceptions apply to personal prescriptions for medications required during the flight, liquids for diabetics and baby food for children accompanying a passenger
- Beverages and cosmetics purchased after the security check can be taken on board without restrictions



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## Any questions?

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We will be very pleased to hear your suggestions and ideas.

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