Lufthansa Group

In Germany

21%

of all aviation workers are
employees of the Lufthansa Group

Policy Brief 2/2017

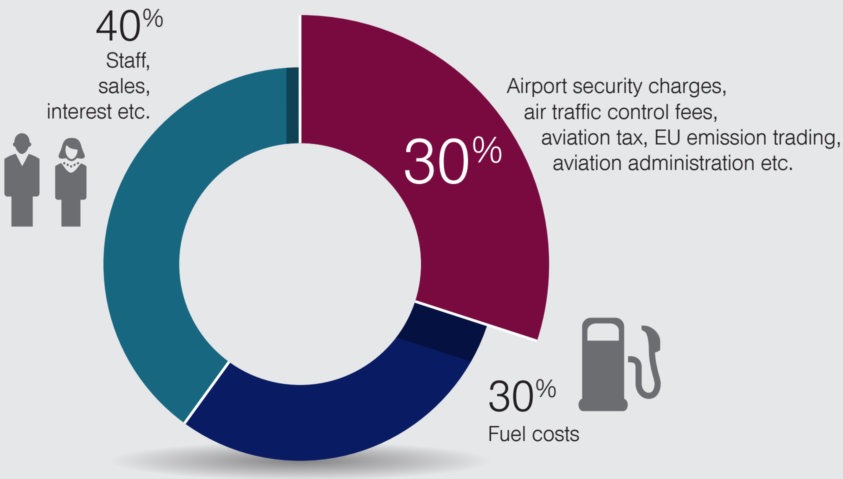
For decision makers in politics, media and business

Lufthansa Group
Policy Brief 2/2017 | June

Aviation concept:
A high benchmark for the incoming federal government

German Federal Transport Minister Dobrindt has now released the aviation concept, following years of discussion. The Lufthansa Group, with its 128,500 employees and around 110 million passengers in 2016, believes this is a blueprint for sustainable aviation made in Germany – and therefore a high strategic benchmark for the incoming federal government.

Cost structure of German airlines
Regulatory and fiscal costs and fees make up one third of airline costs.



Source: Federal government's aviation concept

Political tailwind

– **Alexander Dobrindt**, Federal Transport Minister: "Aviator nations are wealthy nations. Aviation guarantees mobility, growth and employment." 3/5/2017
– **Volker Kauder**, leader of the CDU/CSU group in the Bundestag: "The aviation tax is due for a change." 31/3/2017
– **Hubertus Heil**, Secretary-General of the SPD: "The fight for fair playing rules in international aviation is key to the future of local aviation." 31/3/2017

Expert report shows state-induced distortions of competition

The concept is based on a comprehensive study of the market and competition environment. Research institutes hired by the federal government confirm clear distortions of competition, resulting from special national restrictions which run contrary to any increases in efficiency at local companies: "The fiscal and regulative component of the operating costs borne by a German-based airline is relatively high, and has in recent years risen more sharply than general inflation in Germany".

The Federal Ministry has now drawn the right conclusions: "The aviation companies playing the greatest part in serving Germany's infrastructure must be strengthened. They are essential for strengthening and securing Germany as an aviation hub."

The Lufthansa Group considers the top six issues to be:

Aviation tax

With a volume of around one billion euros per year since 2012, the unique position adopted in relation to the aviation tax weighs heavily on the competitiveness of German airlines, which, bearing almost two thirds, are particularly affected by it. The conditions under which the aviation tax was introduced have changed significantly. According to the aviation plan, "Germany is doing well economically, yet our aviation companies are fighting to remain competitive." This apt summary of the situation can be further expanded on by looking further afield: Ireland, the Netherlands and Austria have long abolished or halved this growth halter. Germany must now finally follow suit.

Air security costs

In 2016 alone, air security costs in Germany totalled 656 million euros, paid exclusively by the airlines. The aviation plan has laid down a crushing verdict: The air security checks are "services aimed at maintaining security and order. (…) But it is not justifiable for only one industry to be bearing the costs incurred from preventing hazards for the good of the entire community." The German government must start fulfilling its responsibility, just as it does in the rail industry, where it finances 80 percent of security costs.

Airport charges

irlines pay over 2.7 billion euros a year in airport fees in Germany. The aviation plan addresses the relationship between airlines and airports, stating that "it is possible that some airports may monopolise the aviation companies when it comes to certain services." The federal states, as approval authorities, are being called on to fulfil their responsibility for appropriate charges and encourage greater involvement by aviation companies in the process. Lufthansa finds it unacceptable that airports are increasingly retreating from aviation self-financing, and that all costs are borne onto the airlines alone. Airport fees have increased significantly in recent years, despite rising passenger numbers and declining capital costs. Additional capacity should only be created if the demand can be expected to be financed – both at present and ongoing.

EU emission trading

According to UN aviation organisation ICAO, growth in international aviation is to occur with minimal impact on climate from 2020 onwards. This is based on the CORSIA CO_2 compensation system. The Lufthansa Group has been supporting this approach for years. What still remains unclear is how the EU emissions trading scheme will proceed for aviation. The aviation plan rightly insists on "avoiding double regulation of CO_2 emissions in international aviation."

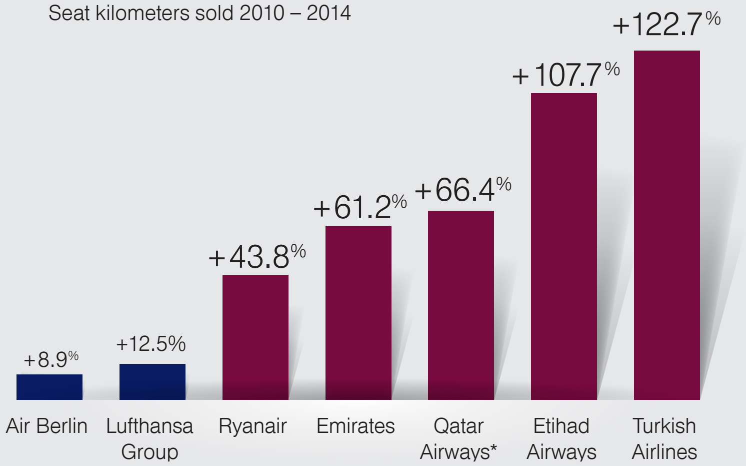
Airport operating hours

The aviation plan addresses the issue of operating hours in detail. For airports of nationwide importance, "further restrictions on the already very limited operating hours at German airports compared to the rest of Europe and the world (including night-flight bans) would lead to considerable competitive disadvantages for the entire aviation industry and Germany as an economic hub." Furthermore, "in the case of pre-existing night-flight restrictions, the strict regulations must be rendered more flexible so that airport users are not charged for processing delays beyond their control." Unlike the hubs of many competitors in Europe and the Middle East, Lufthansa hub Frankfurt has been completely closed between 11 p.m. and 5 a.m. since 2011.

Deregulation

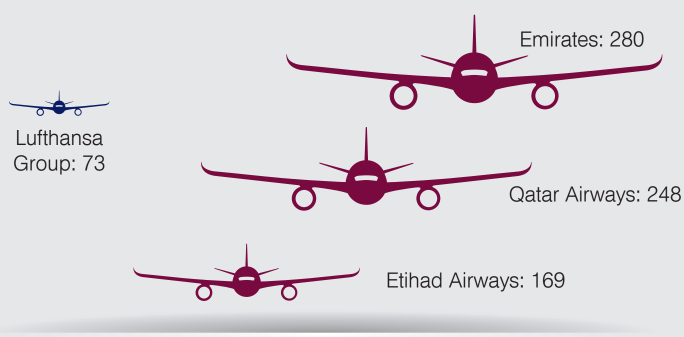
Germany already offers foreign airlines extremely liberal market access. "Based on the experience gained in recent years, further deregulation of the aviation market should go hand in hand with ensuring fair and comparable competitive and framework conditions. This is the only way to guarantee non-discriminatory competition. Deregulation must similarly not result in security, social and environmental standards being abandoned or lowered." The Lufthansa Group has always shared this view.

Below-average growth for German airlines
Seat kilometers sold 2010 – 2014



Source: DIW Econ, expert report determining the bases of the aviation plan*
Qatar does not publish any figures on traffic capacity; basis: quotation history (SKO), source: OAG

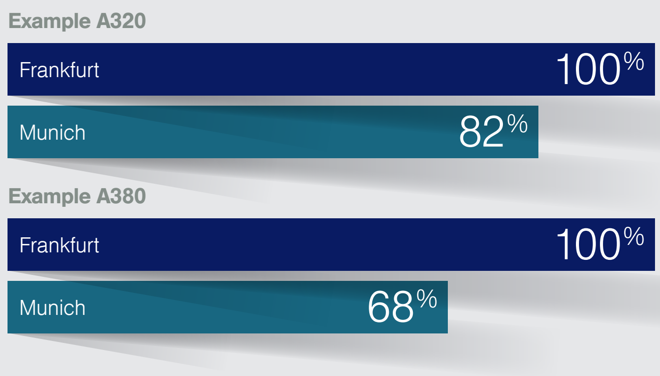
Gulf airlines continue large-scale expansion of long-haul fleets
Fixed orders for wide-body aircraft, status 2014



Frankfurt:
Working together to restore the hub's leading position

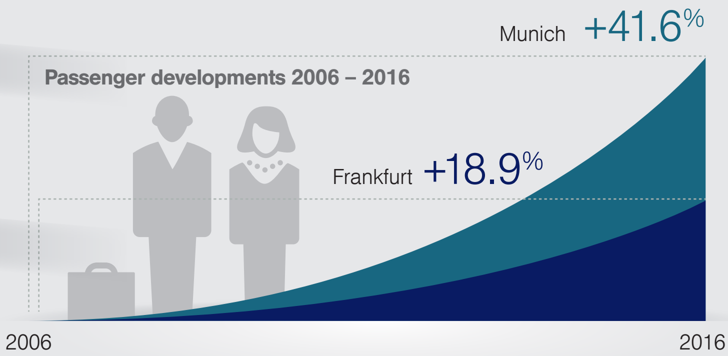
Frankfurt Airport has been experiencing below-average growth for years. There are two main reasons for this: Growth-inhibiting framework conditions and a lacking joint strategy between the Lufthansa Group, as main customer, and airport operator Fraport. The much heralded system partnership must be revived with new ideas and clear commitment from all parties involved.

Location quality is also a matter of cost
Standard benchmark for airport charges* per passenger



* Landing, parking and environmental charges, central infrastructure charges, passenger fees plus air security fees

Munich Airport grows at double the rate of Frankfurt
The number of departing passengers in Munich rose by 3.5 percent per year to 21.1 million between 2006 and 2016. In Frankfurt, growth was recorded at 1.7 percent. 30.2 million travellers took off from FRA in 2016.



Source: German Federal Statistical Office

Integrated co-operation a success factor
All around the world, we are seeing major network airlines co-operating more and more intensively with their home hubs: Atlanta and Delta Airlines, Istanbul and Turkish Airlines, as well as Amsterdam, Paris and Air France/KLM. Germany also has its own positive example with Munich and the Lufthansa Group. The partners have worked together to develop Terminal 2, which processes all customers of Lufthansa and Star Alliance partners, as a transit terminal, finance it, and operate it for 14 years. In 2016, the terminal was expanded to include a new building with a capacity of eleven million passengers, costing around 700 million euros. Both companies have a 60 percent (FMG) and 40 percent (LH) share in T2 GmbH respectively, making them true system partners.

The aim of airlines and airport operators is to jointly recognize passenger wishes. Terminal 2 lives off this, and is tailored precisely to guest needs and expectations. Munich boasts short distances, both to gates and the numerous Lufthansa lounges. And transit time is an outstanding 40 minutes. Guests can use the saved time wisely: it's all about "visitor attractiveness". So it is no coincidence that Terminal 2 was named the world's best terminal at the Skytrax World Airport Awards – the "Oscars" for airports – in March. And the airport overall as number one in Europe.

Developing joint business models
Munich has shown that a lot can be achieved when working together. What's on the agenda for a real system partnership in Frankfurt now?

- **Joint sources of revenue:** Leases and rentals at the airport are playing an increasingly important role in financing aviation. Lufthansa wants to contribute its know-how to increase income – for the benefit of the airport and the airline.

- **Joint growth strategy:** Lufthansa wants to keep growing in Frankfurt. But that can only be done in co-operation with Fraport – jeopardizing transit quality by making dumping offers to competitors is counterproductive.

- **Joint quality standards:** Travellers departing from Germany have access to numerous hubs, enabling them to fly all over the world. Airport quality is a key criterion – Lufthansa and Fraport must increasingly tackle the future together here.

Lufthansa:
Good jobs for Germany

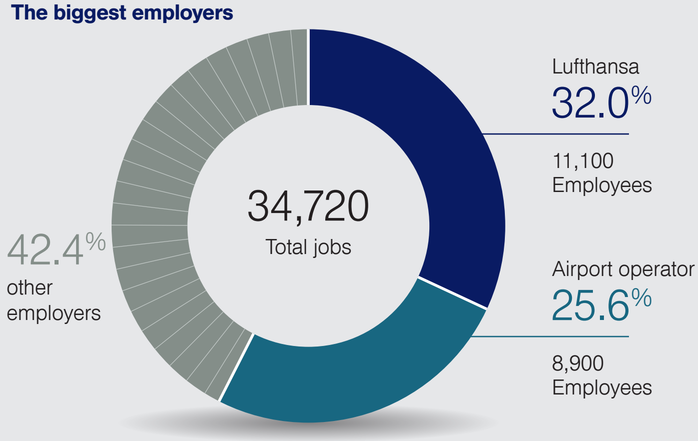
Issues of social responsibility are on every political agenda around the world. As such, the EU Commission presented its pillars of social law at the end of April. These focus on equal opportunity, fair working conditions and social protection – issues which also characterize the social market economy. The Lufthansa Group, which this year has welcomed over 3,000 new employees, has always engaged in this debate, and takes social responsibility – something which is not a given in global aviation.

The Munich example

Germany's hubs provide as many jobs as entire industrial estates do elsewhere. Figures for Munich Airport

Airport employees

The biggest employers



Source: Munich Airport, 2015 employee survey

The Lufthansa Group as a strong employer

Germany's airline industry has for years been under significant competitive pressure. Nevertheless, the Lufthansa Group invests in good jobs out of conviction. In 2006, the Group employed 95,000 staff worldwide. Today, this is more than 128,500, around 68,000 of whom are in Germany. Key cornerstones of the staffing policy:

- **Collective bargaining partnership:** Collective bargaining coverage in Germany has dropped to less than 50 percent of employees across all industries. The Lufthansa Group, on the other hand, believes collective bargaining partnerships are the right approach for a fair balancing of interests. While the viewpoints of employers and employees at some European airlines seem to be irreconcilable, Lufthansa and the Vereinigung Cockpit trade union managed to agree on significantly reducing cockpit unit costs in March. And a long-term peace agreement between bargaining parties was concluded with the cabin crew union (UFO) as early as summer 2016 with the help of mediators Platzeck and Wowereit.

- **Old-age pension:** The policy rightly attributes considerable importance to company old-age pension schemes. 57 percent of employees across Germany receive relevant entitlements. This figure is much higher at Lufthansa.

- **Training:** The Lufthansa Group trains more than 1,000 young people in currently 34 professions. Coupled with this is pilot training and development. Lufthansa Aviation Training – with twelve training centres, including those at the Berlin, Bremen, Essen, Frankfurt, Munich, Cologne und Rostock facilities – runs one of the world's biggest simulator fleets, training pilots from more than 200 airlines.

- **Diversity:** The Lufthansa Group wants to employ more women in managerial roles. In some areas, the company is considered one of the pioneers, such as for the number of women on the supervisory board and executive board: According to the "Women-on-Boards Index", sponsored by the Federal Ministry for Family Affairs, Lufthansa is ranked seventh among the top 100 listed companies.

Lufthansa has also set itself ambitious targets. By the end of 2021, the number of women on the first management level below the executive board of Deutsche Lufthansa AG is to increase from a current 10.1 percent to 20 percent, and on the second management level from 25.5 percent to 30 percent.

Lufthansa is successfully embracing the social partnership. Passenger numbers are increasing, and the economic results are enabling further investment in digitisation and fleet upgrades. The company believes a partnership between employer and employee is key here.

Employee rights not a given, and often jeopardised

This perspective is not a given. Many airlines whose crews do not enjoy even vaguely comparable employee rights fly to Germany. See the national Gulf airlines, for example. For Emirates, Germany's social partnership is indeed a source of mockery. At the end of 2015, coinciding with the start of Lufthansa's massive strikes, the Gulf carrier launched full-page ads saying "You can always rely on us (…) 365 days a year." Dubai, the home Emirate of Emirates Airlines, does not have trade unions, workers' councils or the freedom to strike. Workers' rights have also been massively restricted in Turkey, which is building a 150-million-passenger airport in Istanbul (as a comparison: Frankfurt recorded around 60 million passengers in 2016).

Germany's social market economy rightly pursues a different course. And Lufthansa is sticking with it, even if this involves tremendous constraints in highly difficult situations. As such, the strikes between 2014 and 2016 cost the group around 400 million euros.

"At others' costs – not low costs"

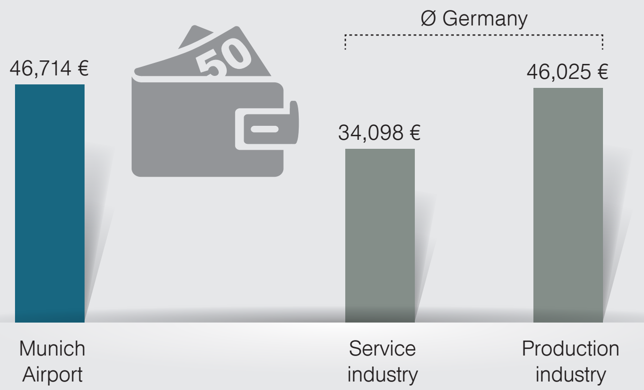
Fierce competitors also include those from other EU countries, who officially have to uphold employees' rights, but seek dubious constructs to evade obligations. As such, the practices of an Irish price-dumper are constantly triggering crackdowns and legal processes across Europe. It is accused of tax and social-security fraud, with pilots being hired as pseudo self-employed people. "At others' costs" is no doubt a better way to describe these airlines than "at low costs", particularly given they also pocket millions in subsidies as lures at numerous airports – and no longer just at small airports; lately this has also been happening at hubs. This would be unthinkable at Paris-Charles-de-Gaulle or London Heathrow.

Politics can support good jobs

Politics can significantly contribute towards supporting good jobs in aviation. Competition-distorting subsidies generated by fees at German airports – whether it be small airports or major hubs – to favour foreign dumping airlines are unacceptable. As the federal states are often the airports' main owners, they have considerable scope. Air-traffic laws are another important factor for non-EU airlines. As part of the Europeans for Fair Competition (E4FC) alliance, dozens of European trade unions are once again calling for fair, verifiable air-traffic agreements with third-party states to reduce dumping competition which disadvantages employees.

Above-average pay

34,720 people work at Munich Airport, and their pay is constantly rising: From 2006 to 2015, gross wages rose by 46 percent per employee, making their earnings above average.



Source: Munich Airport, 2015 employee survey

Lufthansa a popular employer

Reputable employer rankings regularly place Lufthansa among the leaders. According to the trendence Graduate Barometer, for example, the Lufthansa Group was among the six most popular employers for German economics graduates in 2016. Lufthansa received 110,000 applications last year.

Europe under pressure:
The aviation industry campaigns for a strong EU

"While the worst fears of nationalistic flare-ups did not come true in the recent Austrian, French and Dutch elections, the clear intensification of anti-EU populists in large parts of Europe and the world is alarming. European unification has also been jeopardized by political ruptures like Brexit. The Lufthansa Group, which operates 3,000 flights within Europe every day, and carries Europe in its heart with companies such as Eurowings, Swiss, Austrian, Brussels Airlines and Air Dolomiti, believes it is time to remind people of the peace and wealth-promoting effects of a unified Europe. As such, we are taking action with several leading companies as part of the Business Initiative for Europe. And are supporting the call from Europe's aviation associations to keep strengthening the EU – because, after the radical Brexit, we need Europe more than ever in the remaining 27 EU member states."

Thomas Kropp
Head of Group International Relations and Government Affairs

Europe's aviation industry: "It's time to stand up for the EU"
The EU project is facing unprecedented criticism and existential threats, which is why it is important to remind employers, employees and consumers of the achievements of the European Union and Common Market. Particularly in aviation.

The EU established the Single Aviation Market in the 1990s. This saw regulatory market restrictions removed, airlines privatized, and EU-wide rules agreed on. In doing so, the EU stimulated the significant growth in air links and wealth – resulting in decreasing ticket and air freight prices.

Nowadays, European aviation accounts for 4.1 percent of the GDP, and supports 8.97 million jobs. Given the major importance of the Single Aviation Market for the EU's social cohesion and economic development, representatives from the entire aviation industry are calling for people to stand up for the EU.

As businesses, and together with our employees, we cannot afford to lose the freedom, legal certainty, connectivity and prosperity enabled by the Single Aviation Market. These essential benefits are intrinsically linked to the wider political endeavours and dynamics of the EU, which is why we are calling on the EU Member States to preserve, reform and strengthen the EU.

Dubai:
Crowding out to continue

The mega growth recorded by certain state carriers from the Gulf and Turkey is currently slowing down. Emirates recently reduced its routes to the USA. But this is not a change in strategy; Dubai continues to unashamedly focus on crowding out.

In mid-May, the Dubai government provided three billion US dollars to further expand its two airports - Dubai International and Dubai World Central. The hubs are set to skyrocket from a current capacity of 90 million passengers to 146 million. Some plans even mention 240 million passengers as their target.

And yet there aren't even three million people living in the Emirate of Dubai. The enormous terminals are thus totally oversized for the local market. Their right to exist comes from the federal government's strategy to siphon transit passengers from other parts of the world – especially Europe – with all the financial resources of the crowd-out.

This conduct completely flies in the face of the existing aviation agreements between the UAE and Germany. And – contrary to official statements from Dubai and Qatar – it is anything but a geographic law of nature. Because while Emirates and Qatar, for example, have grown by an average of 18 percent per year (!) in services to Europe since 2002, airlines like Saudia, Oman Air, Gulf Air and Kuwait Airways in the same region are experiencing growth in keeping with the market. Their growth is around a fifth of those recorded for companies like Emirates and Qatar Airways.

Many European network airlines such as Air France/KLM also share these crowd-out concerns. And North American companies like the three major US network carriers – American Airlines, Delta and United Airlines – have for months been stirring the public into action to achieve fair competitive conditions vis-à-vis the Gulf carriers.

		Germany	UAE/Qatar
Airlines	Billions of subsidies	No	Yes*
	Market behaviour consistent with air services agreements	Yes	No
	Private-sector structure	Yes	No
Taxes	Air travel tax	Yes	No
	Tax on earnings	Yes	No
	Employee income taxes	Yes	No
Fees	Airport charges	High	Low
	Air traffic control charges	High	Low
	Aviation security charges	High	Low
Environment	Emissions trading	Yes	No
	Noise abatement	Yes	No
	Noise-based fees	Yes	No
	Bans on night flights	Yes	No
Labour market	40-hour workweek	Yes	No
	Job protection	Yes	No
	Unions	Yes	No
	Right to strike	Yes	No

*$ 42 billion in government advantages, aid, and capital infusions based on calculations by American Airlines, Delta, United Airlines

News

Aircraft sponsorship:

"The Hessen" as ambassador of Hesse Day

Over 300 Lufthansa aircraft are named after German cities, states or international metropolises. The "Hessen" – a Boeing 747-8 given the name in 2014 – has additionally been bearing the Hesse Day logo on its fuselage since the end of May. As such, its flights to Sao Paolo, Tokyo and New York will double as advertizing for the major event, which runs from 9 to 18 June 2017 and is expected to receive over a million guests. Lufthansa's involvement once again underlines its great identification with the region. This year, the company is seeking 1,500 new workers in Frankfurt.

Internet above the clouds:

Around 70short and medium-haul aircraft already equiped

Unlimited surfing and streaming in the skies above Europe has now become a reality on many Lufthansa and Austrian Airlines flights. Internet will also be available on Eurowings flights within a few weeks. 19 Lufthansa aircraft from the Airbus A320 fleet, 31 from Austrian Airlines and 29 from Eurowings have so far been equipped with the necessary WiFi technology and satellite antennas. And more are constantly being added.

Customers choose one of three service packages. At Lufthansa, these are FlyNet Message for three euros, FlyNet Surf for seven euros and FlyNet Stream for twelve euros per route.

Climate protection:

Reducing CO_2 emissions with big data

Lufthansa Cargo aircraft fly several thousand kilometers every day. And no two flights are the same. Traffic, sky routing and extreme weather events all influence fuel consumption and therefore CO_2 emissions.

Big data can help with this. Together with IT specialists Aviaso, Lufthansa and Lufthansa Cargo have developed the Ops Monitor and Efficiency Analyser (OMEGA), which enables systematic analysis of the fuel-consumption data collected during the flight, and an exact target-performance comparison of routes flown, resulting in optimised flight planning and execution. This in turn means greater efficiency and fewer CO_2 emissions. Lufthansa Cargo's target is an ambitious one: The company wants to achieve a 25 percent reduction in specific CO_2 emissions compared to 2005 by 2020. And OMEGA is significantly contributing to this, and attracting attention in the process. In mid-May, for instance, the project was given the "German Award for Excellence" from renowned audit and certification company DQS CFS in the "Environmental Responsibility" category.

Aircraft Noise Protection Act:

No changes needed

The end of April saw Charité present an extensive assessment of noise impact research, in which scientists examined 328 publications. The result: There have been no fundamentally new findings in relation to the human health risks caused by aircraft noise since the last amendment to the Aircraft Noise Protection Act in 2007.
The existing protection schemes and noise thresholds thus continue to apply.

Your contacts
at the Lufthansa Group

Andreas Bartels
Senior Vice President
Head of Communications
Lufthansa Group

+49 69 696-3659
andreas.bartels@dlh.de

Thomas Kropp
Senior Vice President
Head of Group International
Relations and Government Affairs
Lufthansa Group

+49 (0)30 8875 3030
thomas.kropp@dlh.de

Martin Leutke
Head of Media Relations
Lufthansa Group

+49 69 696-36867
martin.leutke@dlh.de

Tobias Heinrich
Head of Government Affairs Germany
Lufthansa Group

+49 30 8875-3050
tobias.heinrich@dlh.de

Wolfgang Weber
Media Spokesperson
Lufthansa Group

+49 30 8875-3300
wolfgang.weber@dlh.de

Jörg Meinke
Head of Brussels Office
Lufthansa Group

+32 2 627-4033
joerg.meinke@dlh.de

Explore more!

www.lufthansagroup.com/en/press/policy-brief

Write us!

lufthansa-policybrief@dlh.de

Imprint

Published by:

Andreas Bartels
Head of Communications
Lufthansa Group

Martin Leutke
Head of Media Relations
Lufthansa Group

Deutsche Lufthansa AG
FRA CI, Lufthansa Aviation Center
Airportring, D-60546 Frankfurt

Editor in Cief:
Tobias Heinrich, Wolfgang Weber

Editorial Staff:
Dr. Karsten Benz, Dr. Horst Bittlinger, Grit Engelbart, Thomas Erich, Dr. Karlheinz Haag, Alexander Holzrichter, Jan-Ole Jacobs, Kerstin Lau, Stefan Landes, Martin Lenz, Hannes Müller, Sonja Pacher, Wolfgang Reinert, Bettina Rittberger, Dr. Gerd Saueressig, Dr. Axel Schmidt, Peter Schnölzer, Abdullah Sert, Helmut Tolksdorf, Jörg Waber, Claudia Walther, Sebastian Zurfähr

Press Date:
7 June 2017

Agency partners:
Köster Kommunikation
GDE | Kommunikation gestalten