



# POLICY BRIEF

For decision-makers in politics, the media and business

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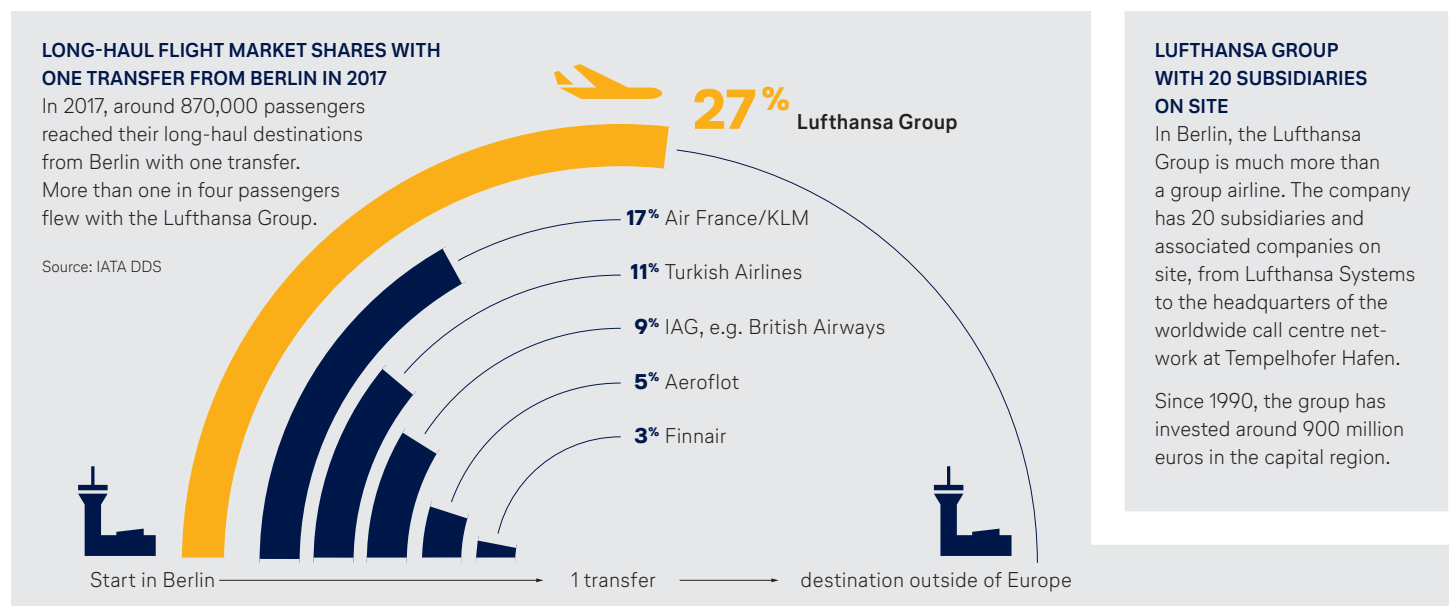


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## Berlin

LUFTHANSA GROUP  
EXPANDS FLIGHT SCHEDULE

Eurowings has expanded the number of flights during the summer flight schedule by around 50 per cent. Lufthansa, Swiss and Austrian Airlines have grown by 36 percent – and thus increased their long-haul options.



Every day, 60 Lufthansa Group aircraft fly to Frankfurt, Munich, Vienna, Zurich and Brussels. With just one transfer, you can fly to 120 destinations worldwide from Berlin. In 2017, 240,000 passengers benefited from this offer. No other airline has flown as many passengers from Berlin to destinations outside of Europe.

#### No market for direct long-haul flights

The Lufthansa Group has repeatedly tried to offer long-haul flights from Berlin. However, this is currently not profitable. There are many different reasons for this:

- **Not enough business travellers:** Business travellers often choose more expensive booking classes, making them indispensable for operating long-haul flights economically. No Dax-30 headquarters, few industrial companies – in Berlin this customer segment is too small.
- **No hub function:** Long-haul flights have to be filled to capacity. To achieve this, airlines take their passengers to their hubs, from which the long-haul aircraft set off. In Germany, this is the role of the airports in Frankfurt and Munich. Part of the reason why Berlin is not one of the major hubs historical: Lufthansa was not allowed to fly to the divided city until Germany was reunited in 1990.

- **Profitability is essential:** The Lufthansa Group does not operate routes for reasons of prestige. It owes this to its staff and shareholders. Cross-subsidisation of unprofitable long-haul connections is not an option.

#### Gulf airlines: Berlin is not among the top 4 destinations in Germany

The timetables of non-European airlines also prove that Berlin is difficult for long-haul flights. Emirates and Etihad are allowed to fly to four German destinations – but the capital is not one of them. There are also no direct flights from major aviation markets such as Japan, India, South Africa or Brazil, even though the route licenses are in place.

#### Challenge for Berlin

The Lufthansa Group is proud to be on a course for growth in its home city of Berlin. The company, like other airlines, is struggling with significant capacity bottlenecks in Tegel. For years, airport and airlines staff have been doing an extraordinary job in dealing with congestion at the check-in counters, gates and baggage conveyor systems. It is now vital to carry out the approved conversion work quickly and complete the new BER airport by October 2020.

German domestic air traffic

# LOW PRICES DOMINATE

The level of competition in air transport is high. This is a priority for policy-makers and the Lufthansa Group believes this is right, as long as the competition is fair. In the long term, further consolidation is absolutely necessary – and acceptable from a consumer point of view.

**Capacity record and falling prices**

Many people doubted it: only a few months after the insolvency of Air Berlin, the capacity gap in domestic air traffic in Germany was completely closed. In October 2018, compared with the previous year – the last operating month of Air Berlin – there will be more seating capacity in German domestic air traffic. Eurowings plays a key role in this, as do foreign airlines such as easyJet.

At the same time, ticket prices are falling. Since 2010, the Federal Statistical Office has been pointing out how expensive German domestic flights are. Throughout the entire period, tickets have never been as cheap as in April 2018: domestic flight tickets were 5 percent cheaper than in 2010. In the same time, the consumer price index increased by 10.7 percent.

**Further strengthening air traffic**

Underlining capacity and price developments in Germany: competition in air traffic is alive and kicking. However, it is increasingly difficult to be profitable despite rising passenger numbers. Major influencing factors from a policy point of view:

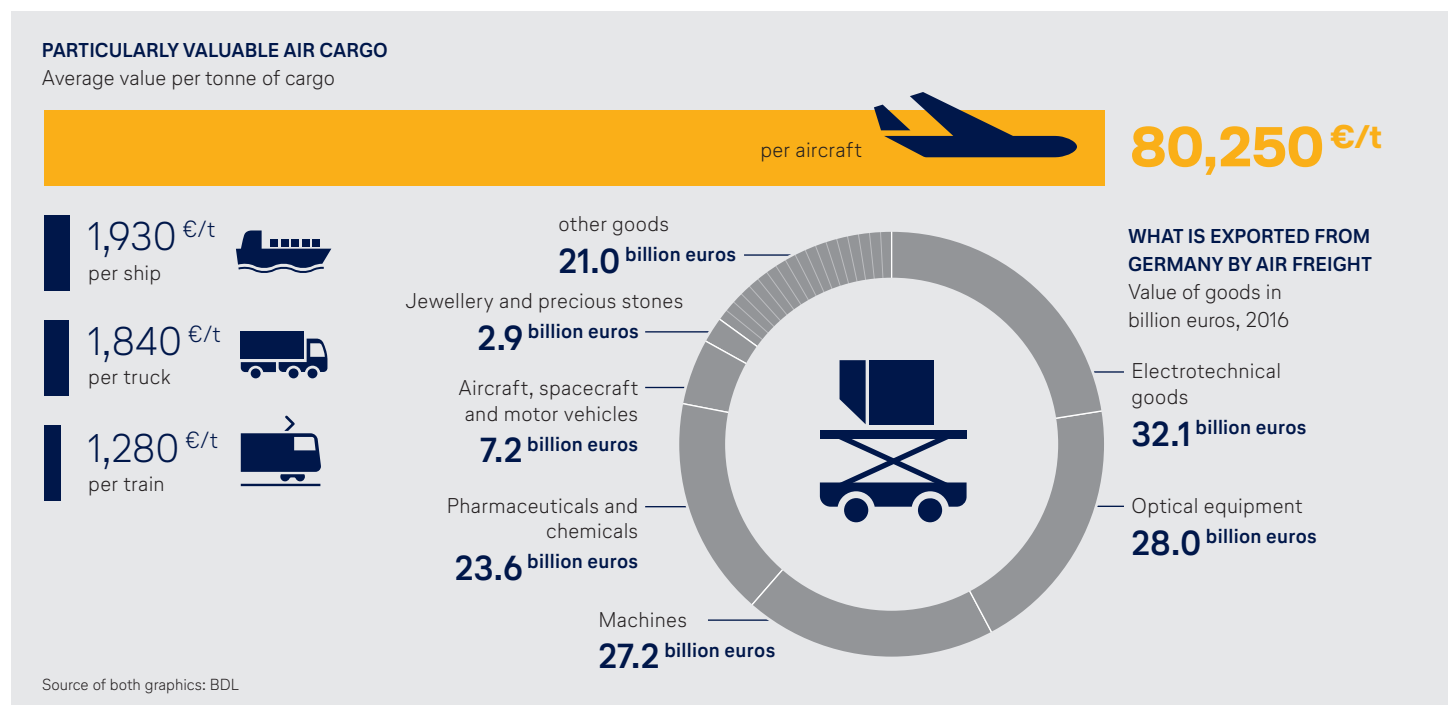
- **Enabling consolidation:** In Europe, some 240 airlines are competing for passengers. This is not a viable market structure in the long term, further consolidation is absolutely necessary. Policy-makers must not obstruct these market mechanisms and should enable further acquisitions.
- **Making airports efficient:** Policy-makers have largely liberalised the airline market and thereby made it more efficient. However, competition between the relevant airports is very limited. In their capacity as guardians of the market and of fair conditions, policy-makers thus must demand top quality and reasonable prices.
- **Lowering air traffic tax:** In 2017 alone, German airlines paid 590 million euros in air traffic tax. Transport policy-makers have been advocating a lowering of this tax for years – they should be heard.
- **Covering a share of the aviation security costs:** According to the coalition agreement, the federal government is planning to cover a share of aviation security costs. They are currently paid only by the airlines, even though the protection of citizens against terrorist attacks is one of the government’s core responsibilities.



German industry

# STRENGTHENING AIR CARGO FOR WORLDWIDE SUCCESS

Measured by value, German industry transports around 30 percent of its exports overseas by air. Domestic partners like Lufthansa Cargo are an indispensable part of this process. For this to continue, they need fair and competitive conditions.



**Lufthansa Cargo: Multimillion investments for Germany**

At the beginning of May, Lufthansa Cargo ordered two Boeing 777 freighters. The advantage for the export economy and German consumers? The aircraft can transport up to 103 tons of cargo across 9,100 kilometres non-stop and connect Germany to the world market quickly and securely. And so the airline recently commenced operations to the Chinese city of Chengdu, where companies such as BASF, Bayer and Bosch as well as dozens of German medium-sized companies are active.

Lufthansa Cargo is also continuously improving its offers on the ground, not only in the air. For example, until 2022 the company will be investing an eight-figure sum in Frankfurt every year. In 2017 the cooling centre almost doubled in size to over 8,000 square metres. The centre mainly cools high-quality medicines – essential for Germany’s export-intensive pharmaceutical industry and patients around the world. In addition, AeroLogic, the joint venture company of Lufthansa Cargo and DHL, operates from Leipzig with ten Boeing 777F. AeroLogic is an essential part of Leipzig as a logistics hub.

**Making Germany ready for the future as an air cargo location**

For Germany to continue to be a successful air cargo location competitive framework conditions have to be in place:

- **Security:** The aviation security authorities and the aviation industry must develop security standards together. In addition, the specifications regarding security technologies and procedures and their implementation should be harmonised at EU level.
- **Digitisation:** Nowadays, efficient logistics requires digitisation and networking at every point in the process chain. Customs and security procedures must be in line with this. All stakeholders should reduce complexity and work together much more efficiently.
- **Air traffic rights:** Countries generally conduct bilateral negotiations on the frequency with which airlines are allowed to fly to which destinations. It is important to ensure that the airlines compete with each other fairly. If this is not the case, this can result in artificially created market distortions – which are to the detriment of German air cargo companies.

**Transatlantic air traffic**

# BLUEPRINT FOR LIBERAL MARKET ACCESS

Transatlantic relations are currently under pressure. It is therefore all the more important to focus on the things which unify us. For example: 10 years of open skies over the Atlantic – a milestone of aviation policy and blueprint for continued liberalisation.

**A boost for air traffic**

In the summer of 2008, the EU and the United States set up the Open Aviation Area. Since then, US and EU airlines have been able to use any route between the two economic areas and passengers can continue their travels to third countries. Passengers benefit significantly from this: According to the EU Commission, since then prices have dropped by 230 euros per ticket on average. Dozens of new routes have been added and an additional 6.4 million passengers cross the Atlantic each year.

**Liberal aviation needs clear rules**

This was preceded by intense negotiations between the USA and the EU in order to give airlines on both sides opportunity for growth. This required legal conditions to be in general alignment. Three examples: subsidies for airlines and airports that distort competition are not allowed. Independent aviation authorities safeguard fair access to the market. Workers' rights such as the right to strike and protection against dismissal are incorporated into law, so that a price war at the expense of employees is prevented, for example. This is monitored by the Joint Committee, which meets each year.

The open-sky agreement is a success. In the areas where similar conditions are not in place, on the other hand, steps towards liberalisation jeopardise the proper functioning of the aviation markets. The EU Commission is drawing up a new competition regulation. The US is already a few steps ahead. When US airlines are shown to be harmed by unfair competition, sanctions come into play. This increases the willingness of airlines that want to fly to the United States to communicate. The Gulf carriers, for example: under current agreements with the US authorities, both the United Arab Emirates and Qatar have promised balance sheet transparency and, in addition, accepted a limitation to traffic through so-called fifth freedoms under additional agreements.

**Further intensification of trusting cooperation**

Intensified discussions pave the way for relations between the United States and the EU. The best example: in 2017, US authorities considered banning passengers from taking laptops with them into the cabin on flights from Europe to the US. This did not happen thanks to the intense discussions and trustful cooperation between the authorities on both sides of the Atlantic. This should serve as an example, not just in the aviation sector.



## Lounge

## FLYING WITH CHILDREN

While half of Europe is going on holiday, the airlines are working at full steam. To offer children and families a great start to the best time of year, the Lufthansa Group has come up with a few ideas. Here are a few examples.



- Lufthansa issues **120,000** additional flight tickets for cuddly toys.
- Up to **10,000** toys – from handicraft sets to 3-D puzzles – are given out to young passengers.
- The Lufthansa subsidiary LSG prepares **130,000** children's menus, including sausage mummies and turtle rolls, each year in Germany – and the menus were preselected by a jury of children.
- Watching television to your heart's content: **22** children's films and **31** TV programmes are available on board at the start of the holiday.
- Let's get moving! Since the middle of May, the Lufthansa Terminal 2 at Munich airport has featured a **110-sqm** play area where children can climb ropes, milk cows and shimmy up sliding-poles.
- Where would you like to go? During the summer months, the Lufthansa Group offers **15,415** connections to **343** destinations in **103** countries.

#### Ms D'Aloia, who is more nervous during take-off: the children or the parents?

I would say that children often pick up on their parents' anxieties. Parents often have worries like 'a full plane, a six-hour flight – I hope my child won't go crazy'. But in the vast majority of cases things run smoothly.

#### And what if they don't?

We try to get an idea of what the children are like, just like with all passengers, when they board the plane. Are they feeling happy? What do the families need? Often, it's just a glass of water or a heated up bottle that relaxes people. Small children in particular sometimes have problems with pressure compensation. It can give them an earache. When that happens, we have some tips for the parents and we try to distract the children. A special highlight is, of course, when we get the chance to take the children to take a look into the cockpit.

#### Your best experience with children?

There was a baby on board, no older than six or seven months, at the end of March on a flight from Munich to Los Angeles. The parents were very emotional, but also nervous, about flying long-haul for the first time with their child. And the baby was clearly relaxed, in a good mood and getting everyone's attention. The parents trustingly passed the baby to me when they wanted to get some rest. Then they wanted a photo of their first flight together and insisted that I be in the photo with them. When the Polaroid was taken, I felt like a 5-star babysitter 30,000 feet above the Atlantic.



**SUSANNE D'ALOIA**

Lufthansa flight attendant

**Telegram**

**Strong growth in Munich:**

**A380 ENJOYS A SUCCESSFUL LAUNCH**

Since the end of March, five Lufthansa Airbus A380 have been taking off from Munich. Every day they fly to Los Angeles, Beijing and Hong Kong. The A380 fleet is an important part of the clear course of growth at MUC: in May, Lufthansa increased its offerings by 11 percent compared with the previous year – in Frankfurt the comparable figure was just 1.8 percent.



The increase is the result of excellent framework conditions. Customers in Munich enjoy outstanding airport quality, which is constantly being further improved. The airport is very efficient, as is reflected in the deployment of the A380: the often complex changes to the processes and infrastructure were implemented in a highly professional manner.



**Police trade union:**

**OPTIMISING CONTROL PROCESSES**

The federal government is looking to make aviation security controls more customer-friendly and efficient. This is essential given that people often wait for hours at airport control points in Germany. The DPoIG police trade union are also joining the discussion. They clearly criticise the current conditions and demand more efficient technology, for airport operators to carry out the planning and organisation of the controls, and cost coverage by the state.

**Innovation chair:**

**LUFTHANSA GROUP CREATES KNOWLEDGE**

How are new ideas and innovations developed in networks and communities? How can companies make better use of external sources of innovation and integrate them into their own processes? These are the research questions of Prof. Linus Dahlander. The Lufthansa Group has been financing his professorship at the European School of Management and Technology in Berlin and looks forward to more insights on how travelling will become more digital, more connected and smarter.

**Lufthansa Group**

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