ACI WORLD AND ACI EUROPE

AIRPORT ECONOMICS AND FINANCE CONFERENCE - 10 February 2009

ERRATIC TIMES – THE NEW CONSTANT

Angel Gittens, Director General, Airports Council International

When we began planning this conference, some six months ago, we thought that the new constant for our industry was high energy and commodity prices. That almost seems like a golden era now.

In 2008 we watched the strong industry growth trend of the previous two years ebb away, first slowly and then picking up speed in the last two quarters.

By mid 2008 our dynamic aviation industry had turned into a volatile aviation industry. The small flame of hope that moderating fuel prices would give us some breathing space was extinguished by new pressures in the financial and investment sector, a sector so vital to our capital intensive airport business. The magnitude and the speed of the investment market free-fall have been breathtaking. And it's not over. Businesses worldwide continue to suffer falling profits, and unemployment is growing everywhere. With even established, name-brand businesses floundering, governments are trying to avert a disaster. The taxpayer is wary, businesses cannot get financing, and consumers are afraid to consume.

As a result, airports worldwide are feeling the squeeze. Many of our airline customers have reacted rapidly by cutting capacity, eliminating routes and services, reducing staff, merging and even closing down. Plans announced yesterday are no longer the plans of today. Business downturns and consumer fears have resulted in the slashing of business and leisure travel and air freight has tumbled. We can see this in ACI's preliminary 2008 traffic results.

December traffic results reported by a representative sample of airports – those handling 65 percent of world traffic – showed that passenger traffic was down by 6 percent compared to December 2007. For the year, the falling numbers in the second half were masked by the strong growth early in the year, resulting in a flat result overall as the following table illustrates.

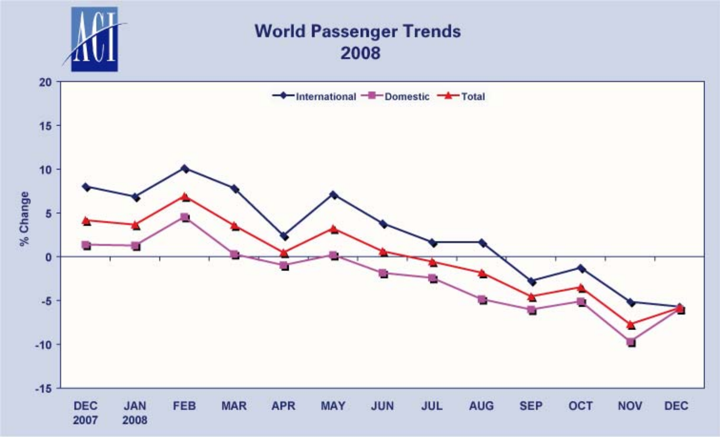
December 2008 – Passenger Traffic Summary		
Region	Monthly Dec 2008 over Dec 2007	Full Year Jan - Dec 2008 over Jan - Dec 2007
Africa	-4.6	4.2
Asia - Pacific	-4.8	0.5
Europe	-7.8	-0.3
Latin America - Caribbean	-2.6	1.9
Middle East	6.5	11.8
North America	-6.8	-3.2
Total	-5.8	-0.6

Now let us look at the traffic percentages for freight. As usual, freight traffic is a leading economic indicator. The results are stark, with a whopping 25 percent drop in international freight for the month, a 9 percent drop in domestic freight for the month and an overall drop of 4 percent for total freight for the year.

December 2008 – Worldwide Freight Traffic Summary Percentage change		
	Monthly Dec 2008 over Dec 2007	Full Year Jan - Dec 2008 over Jan - Dec 2007
International Freight	- 24.5	- 3.2
Domestic Freight	- 9.2	- 6.7
Total Freight	- 19.7	- 4.3

This next graph shows the 2008 passenger traffic for the full year. A promising first quarter was followed by steadily decreasing demand. Not shown is that, in December, nine of the top 10 international airports reported declines led by Bangkok (-42%), London Gatwick (-14%), Incheon (-13%) and Tokyo Narita (-10%). Dubai was the only exception registering a 5 percent increase.
By region, the Middle East, Africa and Latin America markets showed good international results for the year. On the domestic side, traffic in the US was particularly hard hit, with a 7.5 percent decline, as was Europe down by 12.3 percent.

Passenger Demand Falls in 2008 (Monthly comparison 2008 over 2007)

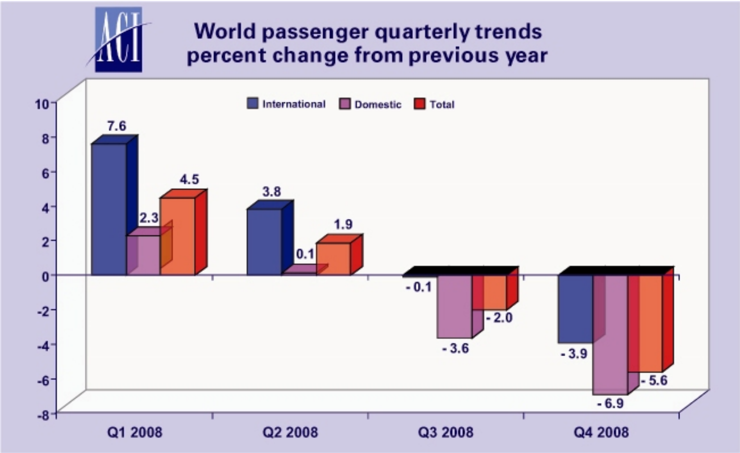


With freight there was no good news in any region and 2008 saw a steady decline that perhaps we needed to pay closer attention to for its implications.

Steady Decline in Freight Traffic

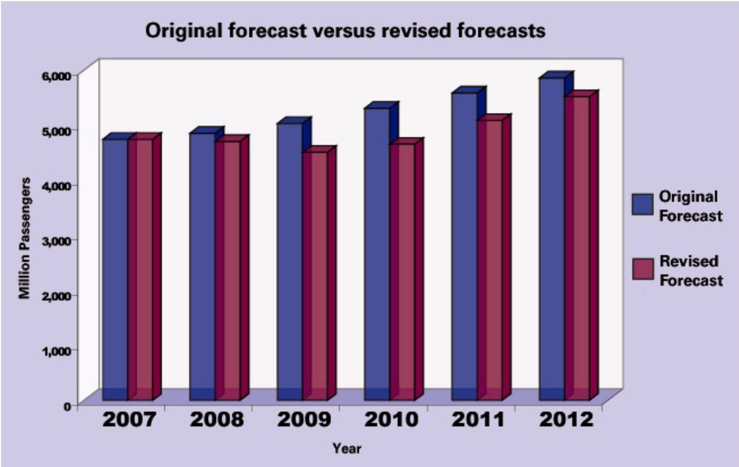
And just to make the point more colourfully, we prepared this bar graph of 2008 passenger traffic by quarter. It almost looks like a mirror image between the first two quarters and the last two quarters.

2008 Passenger Traffic by quarter



Given the circumstances, ACI took a fresh look at our five-year forecast. We looked at data from airports, OAG bookings and trends, revised GDP forecasts from 40 countries, aggregated by region, and reviewed four previous recessions since 1974. Our analytic assumption is that the current crisis is more acute than the previous recessions and that this downturn will be deeper and longer.

We see a contraction in 2009 as inevitable with an estimate of a 4 percent decrease in passenger traffic, comprised of an acceleration of the downturn in the first quarter of 2009 and a slow stabilisation of traffic during the rest of the year. We forecast that 2010 will show spotty growth, with 2011 starting a rebound.



I will be listening carefully during this conference for insight from other industry professionals on their predictions and their strategies for meeting the challenges of this most erratic era. Each airport will have to analyse its specific situation and plan to both sustain itself through the current challenge <u>and</u> prepare for the rebound.

This, airports have been doing. Although 2008 was a tough year for the industry, airports continued to plan for the future based on forecasts for medium and long-term growth needs. Capital expenditure commitments in 2008 reached a record USD 50 billion. And that is a fundamental conundrum for airports as enterprises with high fixed costs and a long-term outlook that have to make major capital investments even while operating in an economic downturn.

This long-term perspective is tied to the strong community role played by airports. They are catalysts for economic growth and employment, and a cornerstone for community business development. They have a service commitment that does not change just because there is a cyclical downturn. Even when short-term demand falters, airports have to ensure that they can deliver service in the future. Airports generally cannot move to a stronger market location – they have to make their market location stronger.

Through good times and bad times, airports must manage a facility development cycle that typically runs 5 to 25 years. Unfortunately, airports are not the comfortable ‘monopolies’ one sometimes hears about. They do not get to watch the crisis from the sidelines. They have to pay back their debt, maintain their facilities and keep the highest levels of safety and security even with 5, 10 or 15 percent drops in traffic.

Indeed, bad times put airports into more competition than ever as they vie for a shrinking base of airline routes and frequencies. The wave of traffic rights liberalisations over the past 20 years has meant that airlines increasingly can go ‘airport-shopping’, picking and choosing routes as they please. Airlines have no commitment to an airport but an airport must commit to its community to manage heavy investments in infrastructure projects and inflexible running costs tied to the operation and maintenance of the facilities.

And airports have displayed the kind of entrepreneurial acumen that allowed them in 2007 to hold their user charges to USD 18 billion worldwide, constituting 3.5 percent of airline operating costs, about the same level it has been for over 30 years. They have done this by using non-aeronautical revenues, about 48 percent on average worldwide, to fund capital investment and to subsidise airfield costs. Airlines have called upon airports to help them even more in these difficult times. Each airport must react and make decisions based on analysis of its specific situation; there is no one-size-fits-all formula nor is a short-term decision always the right one.

As we know, an airport’s balance sheet is tied to many factors. Depending on each airport’s stage of planning and development, with billions of dollars committed to future infrastructure, it can be at considerable financial risk during a downturn. Aeronautical revenues decline, as do non-aeronautical revenues. Fewer movements mean fewer passengers, which in turn means less passenger spending and lower income for airports. Airports cannot maintain half of a runway. Airports cannot simply cut off building projects, and may not be able to defer them due to contractual agreements. The bottom line – airports cannot always lower charges to airlines, as airlines request. And, frankly, the savings to the airline will not save the airline. That is a message that we need to convey clearly to our airline customers and to the governments, aviation authorities and officials who regulate our industry.

Airport responses to the current crisis have varied. No matter what the answer is to an airline’s plea for more discounts, airports worldwide need to listen to the strident economic wake up call. Each must seek the best formula and timing for riding out the current environment, while keeping a long-term focus on how to position itself for the next environment.

The new global economic rule book is being written as we speak. Erratic times may be the new constant. In our close-knit world the ripple effect of any economic shift spreads quickly. A constantly changing market, buffeted by sudden economic swings, may remain the norm. The world is not so predictable anymore. We live in a global economy, a global culture and aviation is one of the key global facilitators, along with telecommunications and the Internet for connecting people, goods and places. This crisis makes the world smaller so we are all in this together.

I urge my airport colleagues to take advantage of these two days to consider the way forward. Here are some suggestions:

- Stick to the basics; forecasting, planning and keeping the long-term perspective at the management decision table.
- Look at your market; re-evaluate your situation.
- Do not be complacent in good times (they will be back someday) because changing times require attention and action in a highly customised way, a sustainable way. Build up those cash reserves while you can.
- Understand your dependencies; on your carriers but also on your community, government, regulators and investors.
- Recognise the importance of customer retention, but be wary of short-sighted reactions.
- Move to diversity to spread your financial risks.
- Pursue investments in staff training and technological modernisation that positions you for the future; streamlined processes will give airports a competitive advantage.
- Keep the customer in mind, no matter what the traffic numbers say. Invest in quality service and environmentally sound and efficient facilities.

The aviation industry has experienced and survived economic cycles and crises in the past. The long-term forecast for traffic growth remains very positive. We must work closely with our aviation partners, despite current setbacks, to prepare for the resurgence of global markets. We cannot sit back to see what happens next. Our industry must continue to invest <u>now</u> to ensure that <u>tomorrow</u> we are ready to serve the billions of passengers who rely on us for efficient service in an environmentally sustainable manner. Airports must continue to work closely with their airlines to prepare for the upswing and what that means, in terms of adequate capacity and operational needs. On-going diversification, innovation and efficiency gains will ensure that airports remain key facilitators in the re-emergence of global economic growth.

As US President Wilson once said, “One cool judgment is worth a thousand hasty counsels. The thing to do is apply light not heat.” I wish you all a successful conference, where light and not heat will guide your debates.

Thank you.