



AIRPORTS COUNCIL INTERNATIONAL

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“Airports 2005: We Mean Business”

Address by Robert J Aaronson, ACI Director General

To the ACI Annual World General Assembly

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This year it is a special pleasure to report on the state of our industry. We have a terrific story to tell. Your airports association is growing in numbers, and its members are performing well, both in financial terms and in delivering ever better levels of service to their users. Capital expenditure for new infrastructure reached a record US\$ 36 billion in 2005, on top of US\$ 31 billion in 2004, demonstrating once again that airports are striving to keep ahead of demand for air travel. Airports are truly a key stabilizing factor in the troubled air transport industry, and airports are widely recognized by the international financial community as excellent investments.

With our success, comes responsibility. I believe that all of us need to start looking at ACI and its member airports in a new way. We need to see ourselves as industry leaders. We need not respond to those who criticize us mindlessly and shout—rather impolitely. We do need to keep telling the airports’ story effectively to governments, travellers and other stakeholders. We need to leverage our success to become a more powerful voice for airports at ICAO, in discussions with other industry stakeholders, and with governments. And we need to mobilize our collective talents to deliver new services and products, including cost-saving technologies, enhanced industry information and sophisticated training to our members. By taking these actions we can deliver on the core responsibilities of airports: safety, security, environment, efficiency, quality, and economic development. I am particularly optimistic about the airports community, and I have never seen so many opportunities for us to move forward together.

Strong financial performance

“Investor’s stock tip: sell airlines, buy airports”. Ten years ago, Professor Rigas Doganis keynoted an ACI conference commencing with this statement. His words have proven to be correct repeatedly in subsequent years, as airport operators diversified revenue streams, enhanced services for airlines and passengers, and maximized asset utilization, all the while building new capacity. In a sector hit by multiple external shocks over the past four years, many of our airports are indeed a solid investment. This is evidenced by the recent tender, at a considerable premium of 27 percent above the market share price, for a majority stake in Copenhagen Airport to Macquarie Airports (MAp). The Board of Directors of the airport unanimously recommended that the shareholders accept the tender. A more recent development and perhaps the ultimate compliment to an airport by an airline, the purchase of a block of Fraport stock by Lufthansa, was announced last week.

How did the community of airports find itself in this strong position? I believe you got here by listening to your customers and by aligning your goals with the broader economic objectives of the communities you serve. In many cases, this meant being responsive to the changing tourism market, the theme of our conference here in Auckland. Any tourist will tell you that the airport experience, inbound and outbound, is a major factor in the overall satisfaction with his holiday. Our colleagues in the World Travel and Tourism Council estimate that over 10 percent of all salaried employees worldwide work in travel and tourism. Some 40 percent of all tourists travel by air. Airports worldwide are challenged to make the initial “gateway experience” as rapid, seamless and friendly as possible—tourists simply do not want to begin their holidays in long queues. Airport operators are not in total control of the entry process, and must partner carefully with government immigration, customs and health authorities, and in many places such as New Zealand, with agriculture ministries as well. Here in New Zealand a strong partnership with government agencies is essential to providing a high level of service to the tourist.

Apart from the important role airports play in facilitating tourism flows, I believe it is useful to step back and assess the current state of our industry. I only get this opportunity to address the general membership once a year, and I have a lot of territory to cover. Let’s consider some of the facts of our operating environment.

Airports operate in a tough market

Many (but far from all) of our airline partners are sick. Some suffer from high cost curves dictated by high labour costs and exacerbated by the spike in fuel prices. But there are also structural problems caused by continued reliance on outmoded business models and a resistance to adapt to a changing marketplace. Even IATA admits that all carriers must

reinvent themselves as “low cost carriers”. Sick customer airlines create significant uncertainties and difficulties for airports.

Airports compete strongly with one another. Here in the Pacific region, for example, Tokyo, Incheon, Hong Kong, Singapore, Bangkok and Kuala Lumpur, compete for transfer traffic. And in the past two years, Dubai has also become a key transfer point between Europe and Oceania, competing for some of the same business. Here in New Zealand, Christchurch is competing with Auckland as a gateway to NZ; recently Christchurch welcomed its first non-stop services from the United States. There is also strong competition from other transit modes, particularly fast rail in Europe and Japan, and the automobile on shorter sectors in both Europe and the U.S. Airports also compete for cargo services, both all-freighter services and express parcel services.

What is ACI doing to help you meet the challenges?

Last year the Board and Assembly approved a strategic plan that emphasizes 5 major areas for ACI to focus its activities:

- Increased communications on global airport issues through strengthened presence at ICAO and through a proactive media outreach
- Serving as the primary source of statistics and forecasts on the airports industry
- Knowledge sharing, information and assistance to our members, including training activities
- Support to the regions, with special emphasis on developing nations
- Forums for interaction and exchange between airport managers and world class businesses

And we continue helping airports to anticipate and respond to crises that could threaten growth - terrorism, epidemics and natural disasters, environmental issues - and working to improve relations with our airline customers and their associations.

Last year, I encouraged the Assembly to adopt a positive approach to airport-airline relationships to resolve our differences. A partnership attitude to reach commonly agreed solutions. But that relationship has not worked in many locations. The major international carriers' association IATA has aggressively, and not very accurately, relied on rhetoric and media pressure to inflame charges negotiations that should be straightforward business negotiations. In fact the best and speediest agreements have been made where IATA had no role, and where airports engaged in direct discussions with airline customers and the boards of airline representatives. So this year I advocate a new approach. We can no longer

rely on IATA as a serious industry partner **when it comes to business issues**. Our response will be to undertake several efforts—an ACI members' advisory service on user charges launched this year, and for next year joint ACI-ICAO courses on user charges to assist airports in understanding and applying the ICAO standards. We also plan to develop global economic performance benchmarks under the leadership of the ACI World Economics Standing Committee. While we need to move away from IATA in the area of business relationships, I want to emphasize that our successful and essential partnership in areas such as security, facilitation, and technical matters **must be maintained**.

ACI Advocacy

In March of this year the Governing Board further sharpened our focus on 6 primary accountabilities of airport management: safety, security, environment, efficiency quality of service, economic development. For each we have initiated activities that strengthen the airports' position: training and accreditation, additional revenue streams, new financing channels, intra-airport information exchange on best practices and solutions. I would like to quickly share a few examples for each of these areas.

Health

One of the most pressing public concerns today is the threat of a worldwide pandemic stemming from avian flu. We have been in close contact with the World Health Organization (WHO) to ensure that we remain on top of this issue, so that we can react speedily as guided by the WHO and national health departments. There is no need for exaggerated reactions, nor has the WHO issued any travel warnings at this time. They will advise us immediately of any status change that requires action on our part. Our experience with SARS showed that airports can implement preventive measures quickly and that preparedness is a key to effective containment. Airports must and will remain vigilant.

Safety

Safety remains the aviation industry's top priority, and following the rash of airline incidents this year, both ICAO and ACI will reinforce efforts. For our part, we have three new proposals on the table.

The first is establishment in the next 12 months of the ACI global safety network, a web-based safety information network for all airports for sharing best practices, information, expert advice, guidelines and recommendations from airports with a strong safety culture;

The second proposal—still being evaluated—concerns an ACI-run programme for safety audits at airports to help them to comply with ICAO requirements and certify their safety systems, facilities and procedures with an ACI label of quality.

The third proposal—also being further evaluated—is for risk assessment and hazard analysis for airports with ACI assistance in the development and implementation of safety management systems, safety training programmes and new and evolving technologies to increase safety.

Security

Aviation security equally remains at the top of every airport operator's agenda. Good security is a pre-condition for a healthy global air transport industry. ACI and IATA collaborated just two weeks ago on an annual security event--AVSEC World--which attracted over 700 participants. The conference stressed the principle that security incidents must be anticipated and pre-empted. ACI continues to reinforce its security training programmes through the Global Training Hub and to developing nations through the ACI Fund seminars on security and crisis management. We are actively involved in ICAO Annex revision work and the drafting of the ICAO Aviation Security Manual. The industry simply cannot afford to let down its guard in today's high threat environment.

Environment

Environment joins safety and security as another top priority for the industry. ACI has expanded our bureau in Montreal to a full time Director to manage our activities at ICAO and a specialist in environmental issues to lead our participation and input to the ICAO CAEP committee. This year ACI will co-sponsor the 2nd Aviation & Environment Summit to be held in Geneva in April 2006. Although climate change concerns are primarily focused on aircraft emissions, airports must play a role in implementing solutions on the ground for issues as diverse as incineration, disposal of de-icing residue and more efficient airside management. And as airports plan for the future, they must balance expansion needs with regulatory demands. At the same time, we must work in a positive manner with the local community to find the best compromises between economic growth and environmental protection.

Excellence in Airport Service

ACI and its members recognize the importance of meeting passenger expectations in an increasingly competitive environment. As of 1 January 2006, ACI will provide sole management of a new customer survey and benchmarking tool. This new Airport Service Quality programme provides continuity with the previous joint ACI-IATA product known as

AETRA, and it will be better tailored to meet airport requirements for information, data analysis and comparisons with your best-in-class peers. It will be managed solely in the best interests of the airports industry. We will continue to promote quality service through our annual conference, which is designed to be a learning and sharing experience for participants.

Efficiency

Airports are dedicated to running efficient businesses and we will assist you, not only through user charges negotiations, but through seeking a liberalised environment that allows corporatisation and privatisation. We lobby on your behalf to convince governments that it is in the interest of all to allow a more flexible regulatory environment. This is essential if we are to meet increased demand, to increase non-aeronautical revenues, to reap and share the benefits of flexible management. ACI is working on a new benchmarking tool that will help you analyze your business performance and determine efficiency gains you can make.

Training

And let me quickly address the importance of our training efforts. I cannot stress enough the importance of having well-trained professional staff working at our airports. Now in its second year, the Global Training Hub has been a great success. We are recruiting experts and airport expertise to continue developing both ACI and airport-sponsored training sessions. Our new executive leadership programme will begin in January 2006, to help prepare the leaders our industry will need in the future, and a new accreditation programme for airport staff will be piloted in the Latin American and Caribbean region in 2006 as well.

Let me conclude by emphasizing the vital role that airports play in the aviation and tourism sectors, and in economies generally. ACI member airports are 1600 strong around the globe. All of the initiatives and new programmes that I have mentioned will strengthen us in terms of skills and preparedness to meet that challenge. But that is not all. We **must** make our collective voice heard—with airlines, with governments and with the public. We have a great story to tell. With your continued help, we will tell it!