



“AIRPORTS AND AIRLINES: PARTNERS NOT ADVERSARIES”

Presentation by
ACI Director General Robert J Aaronson
Aviation Club of the UK
London, 6 July 2006

I can't think of a better time to be in London to talk about airport business. In this city alone, events of the past two months have proven that airport operations are blue chip investments.

Indeed, London City Airport is selling at ten times its 1995 purchase price.

And if airports looked good to the Scottish Widows Pension Fund, then I suppose anyone might consider them for their portfolios. Perhaps even more significant, today's airport investors now also include airlines, for example Lufthansa and Thai Airways. Analysts recognise that airports can be stable investments, withstanding economic cycles better than many other investments.

If your pension fund or airline is becoming an airport shareholder, then I think it should be especially useful if I impart to you this afternoon a clearer understanding about how the airport sector works as a business. And, in the process, dispel a lot of misinformation. You heard a much distorted version of the airport business when Giovanni Bisignani, the IATA Director General, spoke to the Aviation Club this April. The reality is that airports and airlines could not exist without each other. And while airports and airlines have different business models and different owners, in most cases they recognise their common interests and work together well.

Airlines and airports each have their job to do.

Airports require long-term planning and they must invest heavily in fixed assets and fixed costs. Take Heathrow's Terminal 5 for example.

Airlines, on the other hand, can, and do, engage in short-term planning based on the flexibility of their mobile assets and variable costs. Routes and schedules can be changed abruptly, without airport consultation.

The airline short term flexibility is in sharp contrast to an airport's long-term commitment to airlines.

Airports have six key responsibilities to their customers—passengers, shippers and airlines—and their communities:

1. and 2. Safety and security of passengers and employees, operations, and facilities are supreme, of course. What are the other four?

3. Providing quality service to users—Airports place considerable emphasis on customer satisfaction, measuring and comparing themselves to each other through an extensive program of ACI-provided passenger surveys known as ASQ, as well as by other means. In fact, airports compete with each other on the basis of quality.
4. Efficiency—airports are continually improving their operations so as to provide value for money to airlines and other users. They engage in extensive financial performance benchmarking for this purpose, and ACI is working with its members to establish meaningful comparisons on a global basis. This efficiency is required by shareholders and other owners, by regulators – and by competitive forces in the marketplace.
5. Environment—airports exist within their communities, and they must be good neighbours. All environmental impacts must be managed to the maximum benefit of the community, particularly recognising that the number of flights at most airports continues to grow.
6. Economic Development—airports are economic engines for their communities, nations and regions. They must do what they can to stimulate employment, commerce and tourism. In particular, they must invest huge sums to provide the capacity that airlines will need in the future to satisfy air transport demands. This is a matter of particular concern in Europe and, globally, passenger traffic is forecast to double by 2020.

Airports are painfully aware that the airline industry has faced considerable adversity in the past five years. While airlines still must deal with the escalation of fuel prices, geo-political uncertainties and adverse government policies in many countries, quite a few airlines nevertheless have succeeded in bold efforts to overcome these challenges and make needed changes.

Contrary to the IATA message that you have heard and read, airports are not the cause of the airlines' problems. The truth is that airports have been stable service providers and reliable business partners even when airlines are in trouble.

IATA appears to believe that it can further its corporate mission by casting the world's airports as adversaries to the airlines. This is nonsense—as I said earlier, the two sectors are partners and in most cases good partners.

I am not trying to tell you that badly run airports do not exist. Of course they do – just as the record shows that there have been *too many badly run airlines.*

I would like to use my remaining time with you to refute what IATA is saying and explain how what they are saying harms the entire industry.

As I said earlier, airlines and airports are joined at the hip and—in most cases—have mutual incentive to work out their differences. These relationships can only be built on an airport-by-airport basis, with the active involvement of those airlines actually serving an airport. They are the customers who understand the local political and economic pressures. There is no scope for an international trade group like IATA being the negotiator. The situation never calls for generic formulas, but requires informed business discussions. Where there are “seemingly intractable differences” on either side of the table, the players can only be encouraged to get together one-on-one and sort out their differences—just as happens in all other businesses.

IATA, while acknowledging that there are some exceptions, claims that airports are inefficient monopolies—treating airlines like “cash cows”—and thus needing to be more actively regulated by states. Wrong on all counts.

Monopoly is not a relevant label to stick on airports. Airports today function in a demanding and competitive environment, competing with each other and with other modes of transport—rail and road. Such competition certainly operates in different ways from one airport to another and varies in extent as well. I will explain.

- Hub airports provide forceful competition for important connecting business. In Europe, it is Heathrow vs. Charles DeGaulle vs. Frankfurt vs. Amsterdam Schiphol vs. Munich. In North Asia, Incheon, Narita, Shanghai and Beijing are going after the same connecting passengers. In South Asia, it is Hong Kong vs. Singapore vs. Guangzhou vs. Kuala Lumpur vs. Bangkok. And now, Dubai is becoming a forceful hub competitor for many of these other major airports. Hubs actively compete with each other in the same way in North America.
- We all know, of course, that if you want to go to New York you won't choose a flight to Chicago. But there are numerous situations where major airports under different ownership compete for the same origin and destination traffic, such as: Moscow, where there are three competing airports; San Francisco-Oakland-San Jose; Washington Dulles-Baltimore; and the airports in the Pearl River Delta region of China – Hong Kong, Guangzhou, and Macau.
- Yet another competitive situation exists between smaller airports near city centres and the established airport operators; for example in London, Luton and City Airport; in Brussels—Charleroi; in Paris—Beauvais, etc.
- Airports compete with each other not only for passengers and cargo but for the airlines that transport them. Last year in Copenhagen, some 550 airports participated in the annual Routes conference solely to pitch the over 280 airlines which were represented for new services at their airports. For the same reason, airports are important advertisers in airline trade magazines.
- Lufthansa CEO Wolfgang Mayrhuber has expressed an even broader view of industry competition that exists not just between entities but “. . . between air traffic systems in their entirety, encompassing airlines, airports and air traffic control” of one region versus those of other regions.

Ladies and gentlemen, the “monopoly” label does not stick!

Another sweeping IATA claim is that airports “overcharge” and are “inefficient”. This is equally specious! In the early years of commercial aviation, airports were developed and operated as government services. More recently, there has been a marked and accelerating trend toward the commercialisation of airports. They have been diligent and very successful in growing their non-aeronautical revenue streams. In 1990, only about 30 percent of airport revenues were from non-aeronautical sources. In recent years, the global figure is closer to 50 percent, with a number of large airports deriving over 60 percent of gross revenues from non-aeronautical sources, including retail concessions, auto parking, rental car concessions and property income from leasing of airport land. Thanks to these revenues, airports have held user charges to a constant 4% of airline operating costs for 25 years, not something other airline suppliers can claim.

The other element of efficiency, of course, is cost reduction. As I mentioned earlier, airports engage in extensive benchmarking in order to measure results and identify best practices.

Given the competitive forces that airports are dealing with, they have strong incentives to continue driving greater efficiency.

A case in point is close to home here in the UK at Manchester Airport. Working directly with its airline customers, Manchester was able to define and implement a very substantial cost reduction programme, which helped this efficient operation win this year's Eagle Award from IATA. In his acceptance remarks for the award, Chief Executive Geoff Muirhead tied Manchester's efficiency achievement to its need to compete effectively with other airports for traffic growth.

Case closed!

Now, what about increased regulation of airport charges that IATA advocates? If I were cynical, I might argue that at the same time IATA—quite appropriately—seeks to advance its members' ability to grow profits, it wants to cap their costs through government regulation (i.e., obtain subsidies). The IATA which consistently speaks out strongly for greater liberalisation of air transport inconsistently would put shackles on airports' ability to operate commercially. Such cumbersome and costly regulation will backfire, only raising costs to airlines. Don't just take my word for it. Air Transport World, in its May 2006 editorial, questions the wisdom of airlines calling for more regulation of air transport by a government body—the EU Commission—whose track record they hate.

Case closed!

I do want to clarify that, in most nations, there is regulation of airport charges to airlines and there is a requirement for consultations. ACI recognizes that there can be a place for regulation—but we always advocate that it be “light handed” regulation that will not stifle initiative and raise costs.

So, why is IATA pushing an anti-airports agenda? It is strange. Despite the strained atmosphere over airport charges, the long-standing and fruitful cooperation between ACI and IATA must continue in the areas of security, safety, facilitation and technical matters. ACI appreciates, and actively supports with its members, the IATA “Simplifying the Business” initiative—where airports are investing heavily. Perhaps airports are viewed as an easier target to attack than—say fuel suppliers—in order to demonstrate to the member airlines that IATA is aggressively pursuing their interests.

This is not constructive and the question—I think—is where do we go from here in order to best protect and advance the air transport industry of which we all are integral parts. Here is the answer from an airline industry leader, Ulrich Schulte-Strathaus, the Secretary General of the Association of European Airlines (AEA):

“I can see only one way to solve this—more consultation, more transparency on costs and more dialogue between our associations. Public squabbles and the blame culture are no use to anyone—the work needs to be done behind closed doors.”

ACI agrees with every word.

We think IATA does not want airline and airport executives to meet. It wants to control the dialogue—and get the headlines from waging a “phony war” against the world's airports collectively. What we need instead is constructive dialogue. Here is what the June 2006 issue of Airline Business says:

“The time clearly has arrived for all stakeholders to come together and demonstrate that a united front will present far more persuasive arguments to politicians and regulators than swapping insults. For some across the airline/airport divide this approach has often proved difficult. But it is a bridge that needs to be crossed, and not just in Europe.”

ACI certainly has no difficulty with this approach, and that is why we call for direct consultation with airlines and more involvement of regional airline associations that are closer to the day-to-day issues, and more sensitive to local requirements and regulations. The process has started in Europe.

But perhaps there is hope for all players to come to the table as suggested by Ulrich Schulte-Strathaus and Airline Business. Airport operators and the airlines are natural allies. They need to meet face to face. They need dialogue not diatribes.

Ladies and gentlemen, in these demanding times airports and airlines need to drop the theatrics, get on with business, and truly be the best of partners, not the worst of adversaries.