



Airports 2006: The challenge of building sufficient capacity

Aerodrome India

Keynote address – Robert J Aaronson, Director General ACI

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It is a great honour for me to address you today. The Indian aviation marketplace has captivated the imagination of the international aviation community with its tremendous record of passenger growth, its vibrant low cost carrier sector and the imperative that its airport infrastructure be upgraded and expanded on an urgent basis. My chief forecaster at ACI in Geneva refers to the Indian situation, only partly in jest, as “aviation on steroids”.

Indeed, ACI's forecasts for the next 20 years show India as the single fastest growing global market, with projected growth of 10.4 percent per year. No other nation comes close to this figure. China is a distant second with forecast growth of 8 percent per year. But I am here today to talk to you, not just about India, a market many of you know much better than I, but also the global state of the airports industry and the challenge faced by our members worldwide in building new capacity. While the capacity crunch will be played out on the global stage, I believe that here in India we have a microcosm of the larger international picture.

I plan to discuss first the scope of the capacity challenge and then concentrate on four key inter-related aspects of the solution: overcoming regulatory barriers to building new infrastructure, liberalisation as a means to get the most out of existing scarce airport capacity across airports, and creating international partnerships to overcome some bad

bureaucratic habits which governments may have passed on to their airports and airlines. Finally, I will comment on airport financial performance benchmarking to drive economic efficiency.

Overview of the Indian aviation sector

Let us begin with a quick overview of the situation here in India. In terms of aircraft on order, capacity is being added at an exponential rate. The Centre for Asia Pacific Aviation reports that the current combined fleet of Indian carriers is 270 aircraft. A further 480 aircraft are scheduled for delivery over the next seven years alone, and that includes many wide-bodied aircraft including the A-380. But as you know, this expansion is just part of an overall pattern of growth throughout the Indian economy. Gross domestic product rose nearly 9 percent in the first half of 2006. And the Mumbai stock market hit record highs in early November. Inbound tourism is up over 10 percent over 2005. Tourists are truly beginning to appreciate the tremendous cultural and geographic diversity of this enormous nation, just as international firms discovered decades ago the economic benefits of building partnerships with Indian businesses in this land of vast human and natural resources.

With growth inevitably come new strains on airport capacity. The New Delhi-Mumbai route is now served by eight airlines (up from 3 in 2004) and this city-pair is now the 7th busiest in the world. Indeed in late September, Minister of Civil Aviation Patel called a meeting of airline CEOs to announce that the Ministry had “resisted the temptation” to turn back the clock and increase regulation of the industry. But he did signal clearly that preference for new routes would be given to routes focused on new city pairs away from congested airports. ACI applauds this emphasis on spreading capacity through a light-handed regulatory approach, a topic to which I will return.

The global scope of the capacity shortfall

ACI recently forecast airport traffic would exceed 7 billion passengers by 2020. That is good news for our industry and represents an opportunity for the entire range of aviation stakeholders. The same forecasts, however, predicted that--given the current pace of construction--airport capacity would accommodate only 6 billion passengers in 2020.

The prognosis, given that scenario, is quite grim, with congestion degrading the travel experience. When air travel becomes a burden, the industry misses its chance to fulfil its role as a primary catalyst for economic growth and prosperity.

Time is running out on the building of airport capacity to meet anticipated demand. The strain on many airports is already apparent, as many of you undoubtedly noticed on your way to this conference. Our statistics team confirms that in 2005, some 4.2 billion passengers used the world's airports and that the number could grow by 7% to 4.5 billion passengers in 2006.

The Chinese Government has decided to build almost 50 new airports to accommodate high growth in traffic. Other governments need to make their own commitments, and the clock is ticking very fast as infrastructure expansion can take well over a decade to plan and implement. For greenfield airports, the cycle is longer. The approval process in the mature aviation markets of North America and Europe provides clear evidence of the difficulty in building new airports. Indeed, in the U.S. there has been only one major new airport (Denver) built in the past 30 years. In Europe, only Athens and Oslo obtained new airports in the last decade. Political will at the highest level of government, like that exerted by China, is one effective way to energise capacity building.

The surge in traffic affects all aspects of airport service from car parking to check-in to security screening and baggage delivery. Higher passenger numbers also put pressure on immigration and customs services to process greater numbers of travellers in and out of international gateways.

Regulatory flexibility, the key to building new capacity

I would like to give you three examples of regulatory constraints which have impeded airport capacity. The first is the construction of a parallel runway at Seattle-Tacoma International Airport, which, due to environmental constraints and a number of protracted lawsuits filed by local citizens, will finally be completed in 2008, 23 years after it was initially approved by local authorities. These restrictions greatly constrained Seatac's vision to be a major international hub on the Pacific Rim.

In the UK, the government inquiry required before construction was begun on Terminal 5 at London Heathrow took six years and countless hours of testimony to approve. Indeed, airport operator BAA measured the documentation not in pages submitted, but in kilograms! In the end, approval was granted for a facility the entire industry -- including ACI and IATA and other stakeholders in the Air Transport Action Group – unanimously agreed was required at the outset of the inquiry.

In the Pacific region, construction of a second runway at Narita International Airport near Tokyo was held up for over a decade by a powerful group of local farmers and politicians. When approval finally came, it was for a runway too short for movements of any aircraft larger than a Boeing 767, thus failing to provide the capacity to meet forecasts for Narita's growth.

ACI policy recognizes that oversight of airports by governments is to be expected, but we have consistently recommended a light-handed regulatory touch in the area of economics. Regulation which distorts market forces or creates expensive, time-consuming bureaucratic hurdles to airport development distracts airports operators from their core mission: that is to serve the community and region and deliver services for airport users in an efficient and cost-effective manner. In sum, governments must remove regulatory barriers to building new capacity and fast-track approvals for expanding existing airports and building greenfield facilities. Again, we believe that India has adopted this regulatory approach, and I hope that it will stay the course.

Market liberalisation can relieve the pressure on airport capacity

As I mentioned earlier we also need to harness the international market access liberalization process in a way that spreads air transport benefits to previously unserved, or underserved city pairs. This will allow carriers, including low-cost carriers, to bypass congested hub. Liberalisation has worked well for India so far. In August 2004 there were only 34 weekly nonstop services between India and the UK. In August of 2006 this had risen to 121 frequencies per week. In the same period, liberalisation with nations in the Gulf has greatly increased capacity on Etihad, Emirates and Qatar Airways, all of which now provide convenient connections onward to Europe, as well as serving the

origin and destination market in the Gulf, where a large number of Indian citizens are employed.

Another good example of the benefits of liberalisation was Tiger Airways' announcement last month that it plans to launch service from Singapore to Trivandrum, Goa, Cochi, and Kozhikode, all secondary airports with excess capacity.

Liberalisation of market access provides an opportunity to ease capacity shortfalls, if implemented prudently. A recent study by the Centre for Asia Pacific Aviation showed that a high percentage of large cities in the Asia/Pacific region had no international services whatsoever due to outmoded bilateral air services agreements. Liberalised market access, which both ICAO and ACI favour, could create new international point to point services, alleviating pressure on congested hubs and spreading growth more evenly over entire national airport systems. In addition, liberalisation would allow low-cost services to move into previously unserved city pairs, as Tiger Airways is doing here in India and as has been the case in North America and Europe, providing a boost to tourism and opening international air transport up to previously untapped large markets. To ensure that liberalisation proceeds along these lines, and does not simply create more congestion, airport requirements need to be considered at every step in bilateral and multilateral air transport negotiations. Indeed, the best scenario for realistic liberalisation is for airports to have a seat at the negotiating table.

Creating an airport environment open to commercialization and innovation

Many airports and airlines suffer from a legacy of government ownership that was characterised by burdensome and inefficient bureaucratic practices and a general lack of innovation and entrepreneurial spirit. Privatisation can be a remedy for some of these inefficiencies, but many governments have demonstrated that they can change as well without introducing privatisation. One example would be the way the former Irish airports company, Aer Rianta, pioneered duty free sales and exported their expertise worldwide. Other governments have encouraged commercialisation of their airports by creating a system of independent airport authorities, which are established outside the heavy bureaucracy that often is the hallmark of government departments. Canada took

this step some 20 years ago, with excellent results. Strong public and private partnerships are another effective way to build new capacity for the aviation sector. It is encouraging that Indian airports are forging international partnerships with airports such as Zurich, Malaysia Airports, Frankfurt, and the Airports Company of South Africa to inject the needed philosophy of entrepreneurship and commercialisation in upgrading their facilities. In this way, best practices can be quickly spread across the globe, and the difficult business of changing the corporate culture toward a more entrepreneurial approach can be accelerated. And as you know from recent events in the aviation marketplace, there is no shortage of private financing for well-reasoned airport developments worldwide.

Another important factor in building capacity works in India's favour. That is the fact that the proliferation of low cost services can often be served by low-cost terminals, which are less expensive to build than those for legacy carriers. Kuala Lumpur and Singapore were quick to develop such terminals, with great success.

Benchmarking to achieve economic efficiency

Airports worldwide clearly recognize the value of benchmarking, acknowledging the maxim: "you cannot improve what you cannot measure". In a globally competitive environment, benchmarking is a widely accepted means to analyse internal business performance against objectives and to evaluate achievements relative to peer performance. An increasing number of airports have adopted financial and quality of service benchmarking as a management tool to enhance efficiency, improve service and drive down costs. Benchmarking can be particularly useful in airport systems, such as the 120 plus airports of the Airports Authority of India, to identify which airports might be underperforming and which are "best in class," and also to determine the factors driving performance. For example, we have heard anecdotally that in some Asian markets, labour costs have been on the rise as the aviation sector grows unabated. This trend needs to be acknowledged as airports set their rates and charges based on their cost base, as ICAO guidance stipulates.

Airport operators realise that benchmarking is not a precise science, as differing physical characteristics of airports, varying ownership and regulatory frameworks and disparate business models can all distort comparisons. ACI has a responsibility to its members to point out the potential pitfalls of benchmarking, which can occur either through flawed

methodology, or the difficulty of comparing some parameters across airports. Nonetheless, benchmarking is now an established part of the airport manager's tool kit. To facilitate this important process, ACI provides its member airports with the Airport Service Quality (ASQ) customer satisfaction benchmarking programme, a key management tool in which nearly 100 airports around the world are participating.

Immediately following this conference, ACI will be hosting its inaugural workshop on airport benchmarking. This is just the first in a series of workshops and courses we will be launching in the coming year, and we hope that many of you will attend and provide your input and your feedback as we prepare to move ahead with this initiative.

In conclusion...

I believe we are at a crossroads in the history of air transport. We are in a period of rapid traffic growth, despite record high fuel prices. Airport investments are proving attractive in the global financial marketplace and private sector funding for new infrastructure is available. The imponderable factor in the capacity equation is government regulation. Economic regulation which inhibits airports' commercial flexibility can slow new development and bring back the hassle factors associated with congestion, degrading the travel experience. Indeed, if demand for air transport in India is "on steroids", then the supply of infrastructure needs a powerful elixir as well. The preferred option is for governments to allow the marketplace to function efficiently and to fast-track approvals of airport projects which are consistent with the plans of the community and region. In that scenario, airport operators can build sufficient capacity to underpin trade, tourism and investment flows that are key factors in driving regional and global economic prosperity.

Thank you for your time and attention. I wish you continued success in this, the second annual Aerodrome India event.