



3rd World Civil Aviation Chief Executives Forum
Session “Challenges and Opportunities in Turbulent Times”

“Airport Strategies and Stakeholder Partnerships in Challenging Times”

Angela Gittens, Director General ACI World

I want to thank the Singapore Aviation Academy and the Civil Aviation Authority of Singapore for inviting me to the Chief Executives Forum.

Singapore is a fitting place to talk about partnerships, here where industry and government work in partnership and where both demonstrate bold leadership and a dedication to quality and customer service. The industry looks with interest and admiration at the new blueprint of the entrepreneurial management model for Changi in the very competitive Asia Pacific market and in these troubled times.

Now is a good time to embrace change. As we have seen after crises, traffic will rebound but things don't go back to the way they were before. Things change and the strategies at the airport and across the industry need to focus on building new strengths not relying on old wisdom.

We can deplore this crisis but we should not waste it. The things that did not seem feasible in good times become necessities in bad times. We still must deliver on the fundamentals: safety and security, economic vitality, customer service and environmental responsibility. To achieve this, the industry players will have to join forces with greater collaboration than we have managed in the past.

Before I turn to some of the key future airport strategies for partnership let me say a few words about where airports stand today. We acknowledge the financial difficulties in the airline sector but, believe me: **Airports are hurting too.**

That same traffic lost by the airlines is lost by the airports as well. These graphs on the screen show the decline in passenger and freight traffic from late 2008 and first five months of 2009.

What does this trend mean for the future?

Our forecasters 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. However, we do not see a radical departure from our long-term forecast for resumed growth and expansion over the next 20 years. Communities worldwide depend on aviation. Aviation may have a new face after the current crisis but, airports will still face capacity needs.

Through good times and bad, airports must manage a facility development cycle that typically runs 5 to 25 years. Infrastructure takes time to plan, gain approval and actually build, so in this most erratic era, each airport will have to analyse its specific situation and plan to both sustain itself through the current challenge as well as prepare for the rebound.

What appears broken today must be mended for the future. With these business constraints in mind, what does that present as **strategic considerations** in planning for the rebound.

The **first** of course is the short term **drop in demand** in times of crisis, as we have seen in the past – 9/11, SARS, fuel hikes, and now economic crisis turmoil.
When the customer is hard hit, the supplier also feels the squeeze.

Many of our airline customers have reacted rapidly to the drop in demand 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.

Crisis times put airports into more competition than ever as they vie for a shrinking base of airline routes and frequencies.

With increased liberalization, airlines 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 finance investments in infrastructure projects and sustain running costs tied to the operation and maintenance of that infrastructure.

The **second** consideration is the **inflexible cost of infrastructure**: airports have high fixed costs.

That is why airports must adopt a long-term view of the business. Even when traffic drops, capital and operating costs stay at a fairly constant level at airports. Unlike airlines, airports cannot readily lower capacity to match lower demand. Airports have made staff reductions where they can and have delayed capital projects where they can. But, once built facilities must be maintained.

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. Airports have to pay back their debt, maintain their facilities and keep the highest levels of safety and security even with 10, 15, 20 percent drops in traffic.

This highlights an obvious **third** consideration for airports: **declining revenues**.

Unfortunately, airports are not the comfortable ‘monopolies’ one sometimes hears about. They do not get to watch the crisis from the sidelines. When passenger numbers drop, passenger-related revenues decline as well. Aeronautical revenue declines, as does non-aeronautical revenue.

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.

Airlines are calling for charges reductions in this crisis, but, the truth is, airports have been subsidizing airline operations for some time: aeronautical charges to airlines

account for 21% of overall airport income. Airports get 79% of their income from commercial airport activities and passenger service charges.

As you can see in this chart, compiled by the North American carrier association ATA, labour and fuel are the biggest costs to airlines, not the 2% landing fees. And globally, user charges have stayed a steady 4% of airline operating costs for 20 years.

So: while some airports can make the gesture of temporarily lowering charges, the bottom line is that, as long as the costs are still there, someone has to pay for them. And, frankly, with charges at 4%, the savings to the airline will not save the airline.

Lastly, what do we do about the **development plans** underway, or in the pipeline? Do we bear the considerable cost of suspending them or slowing them down? Does the future suggest we need to cancel them altogether? Airport management, along with its community stakeholders and its business partners, review the options. Some can and some can't be revised or delayed: there are additional costs involved in any solution, and an airport must pick the most feasible working closely with our partners.

In 2009 airports are committed to over 50 billion US dollars to airport expansion and renovation projects. From 2003 to 2013 airports worldwide will have committed over 350 billion US dollars to modernize and expand existing infrastructure. Although some projects have been deferred while individual airports re-evaluate their forecasts, the industry as a whole realizes that they need to continue with prudent investment for the future. Our airline users will want to have the capacity they need as soon as demand returns.

All of these constraints determine our strategic direction.

We need to find the ways to take costs out of the system – efficiency through innovation – not just find someone else to pay. I would like to suggest that we can find common ground with our aviation partners to shape the future through expanded collaboration, sharing the risks and the costs in a more trusting atmosphere...as committed partners. I mentioned before that we have **four key priorities**. For each we could target mutual success.

1. **Safety and security** represent anywhere from 60-70% of airport operating costs, and we want to make sure that no airports are left behind in keeping the system safe and secure. This requires investment in training, sharing of best practices, audits, and international guidelines such as our new manual on apron markings and signs. We have been working with industry partners through the Flight Safety Foundation to reduce runway incursions, producing a practical toolkit for common use. We have worked together at ICAO on the development of Safety Management Systems and to make improvements in security, including the harmonization of global practices.

As well, now is the time to ensure global coordination as we develop new air traffic management systems. The NextGen and SESAR programmes are the fruit of the recognition that we needed to make a giant step forward, not just adjust current systems. Both systems should feed directly into the vision being developed at ICAO for a harmonized global air traffic system.

Two warnings: First, although 2025 and 2050 may seem far in the future, airports must be involved from the outset. Any airspace capacity changes will have direct impact on airport capacity and traffic management. Second, to move forward speedily will require political progress as well. It is not too soon to work hard on both fronts.

2. For **economic vitality**, the crisis should inspire the aviation partners to work together to make better use of I.T. technologies that save money and improve processes – an opportunity not to be missed. One major effort here is the ‘Simplifying Passenger Travel’ cross-industry project that has led to the agreement of common protocols for communications procedures and has laid the groundwork for building fully shared common use systems at airports. CUSS check-in and shared application platforms typify this move. A few examples:

In Hong Kong, new control centres enable real-time management of multiple airport systems and operations using a shared system that automates and remotely captures performance measurements, which in turn facilitates improvements in operational planning. The result: improved safety and security, as well as economic efficiency.



Schiphol airport is a real leader in articulating its vision for common use systems. And right now they are piloting a common bag drop system with Air France and KLM. The goal: improve operations, eliminate bottlenecks and optimize staffing levels.

All common use applications are designed to produce savings and better service to airport partners and our customers. This is the future beyond today's crisis.

3. Environmental responsibility will remain a key strategic building block for sustainable aviation. Airports are integral features of the communities they serve, day after day. Noise, local air quality, water and wildlife management, recycling, energy consumption are areas that remain constant concerns, no matter what the demand level at the airport.

Many governments are now debating emission trading systems, green taxes and other measures designed to reduce aviation's contribution to climate change. Again, industry has to work together to promote the best policies – and I am pleased to say, the industry is working together. ACI and IATA, among others in the industry, signed a declaration of commitment last year to reducing aviation's contribution to climate change and since then have deepened activities to make good on that commitment.

Our joint contributions will serve us during the upcoming debates in Copenhagen when governments set new targets for reducing the world's carbon footprint. It is critical for all of us to maintain an active role in helping to shape realistic targets if we are to meet our long term carbon reduction commitments.

We must continue to develop best practices, share knowledge and work together through ICAO to agree environmental targets that are beneficial in many contexts. As the Swedish airports have discovered, it is both environmentally and economically sound to optimize the use of electricity, air conditioning and lighting systems – an approach of great interest to airport managers as they search for ways to shave costs without impairing any of the other fundamentals.

4. Customer service: I hear that some airlines are discussing having passengers stand during flight and pay to use the toilet. Although airports too believe in keeping costs



down, they are making more of an effort to improve customer service in these times, not less.

The airport strategy focuses on performance measurement and management through benchmarking and customer surveys to identify targets for improved passenger and cargo facilitation processes. Travellers rank staff courtesy and friendliness, cleanliness, efficiency, and ease of way-finding as the most important factors. And successful service delivery strategy also involves airport platform partners equally committed to a culture of service excellence.

And I will add that Changi is one of the great leaders in our industry in continuous improvement in customer service.

Let me close with this: Let the crisis also be an opportunity...do what we don't have time to do in a boom growth period (training), perfect our performance (through audits and benchmarking), look for greater efficiencies (share IT platforms and work together to streamline our processes) and care about our customers.

For air traffic service providers, don't forget to work with us now, so that together we avoid simply moving congestion from the sky to the ground.

For Governments, continue to support your aviation infrastructure and encourage its stability. Think twice before you tax or burden the industry as it tries to recover. Help us to meet our environmental targets, as partners in a common goal.

And to my airline colleagues, collaborate with us to improve the entire service chain. Work with the airport to reduce the cost to everyone of providing facilities and services, and help us to maintain an excellent level of customer service.

Thank you.