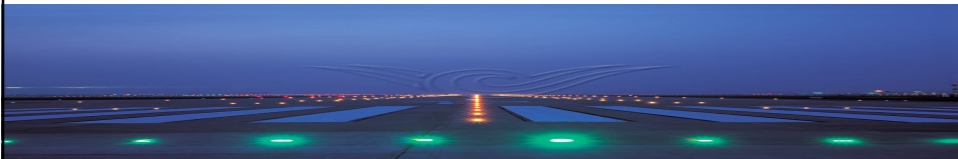


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What Airlines Need from Infrastructure Providers



Andrew Herdman, Director General
Association of Asia Pacific Airlines
4 September 2007, Hong Kong

ASIAN
AEROSPACE 2007
INTERNATIONAL EXPO AND CONGRESS

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Presentation Outline

- **Industry collaboration**
 - Airports
 - Air navigation service providers
- **Stakeholder expectations**
- **Rebalancing incentives**
- **Regulatory frameworks**
- **Some wider issues**
- **Conclusion**

Aviation: what a great industry!

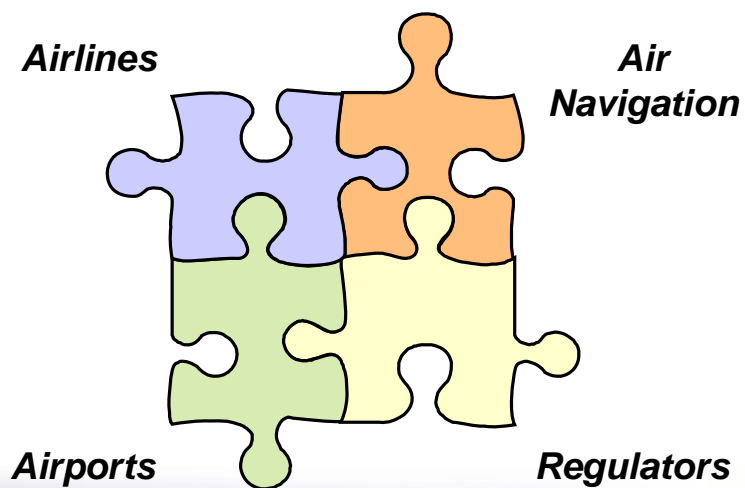
- Air travel delivers global mobility
- 2,200 million passengers
- Outstanding safety record
- Carries 35% of global trade by value
- Wider social and economic benefits



Source: ATAG

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Working together



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Asia is home to some of the world's best airports

... delivering positive passenger experiences



Hong Kong International Airport



Incheon International Airport



Changi International Airport

Source: Skytrax 2007 Passenger Survey: top 3 airports

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Airports: multiple stakeholders



Stakeholder	Expectations
Passengers	Service quality
Shippers	Service quality
Airlines	Efficiency and cost-effectiveness
Community	Economic benefits, mitigate environmental impact
Airports	Growth and return on investment

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Streamlining passenger flows



- Reducing the “hassle factor”
- Simplified process design
- Integration of airline, security, CIQ processes
- Use of new technologies:
 - Automation
 - Biometrics
 - Self-service kiosks
- Aim to deliver high levels of customer service whilst offering consumer choice

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What airlines expect from service providers

- Work together with airlines as business partners in long term strategies and investments
- Conformity with ICAO principles:
 - Consultation, Transparency, Cost-based charges, Non-discrimination
- Balanced goals:
 - Safety, Performance, Capacity, Convenience
- Meet established service level standards
- Greater focus on operating efficiency and cost-effectiveness

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Cost impact: aligning incentives



- Air traffic growth remains positive and sustainable, but competitive pressures remain intense
- Airports and ANSPs account for US\$45 billion in charges paid by airlines
 - ~ 10% of total airline revenues
- Rising costs per passenger, even though average airfares lag inflation
- Need to invest in development of infrastructure whilst ensuring that capital is deployed efficiently

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Airports: business framework

- Highly capital intensive ~ US\$300 billion
- Relatively modest revenues ~ US\$40 billion
- Correspondingly high gross margins 30%-80%
- Relatively stable returns
- Long-term planning horizon
- Shielded from competition

These features go some way towards explaining the tension in relations between airports and airlines

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Non-Aeronautical Revenue Opportunities

- Retailing and other commercial revenues
- Single-till / Dual-till debate
- Peripheral real estate development
 - Value-added services
 - Logistics
 - Airport metropolis

*Airlines contribute to the flow of goods and people that drive such revenues ...
... and so expect to share the rewards*

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Regulatory framework

- Airline industry fragmented by international regulatory framework and is highly competitive
- Larger airports and ANSPs are natural monopolies with market power
- Structural differences lead to imperfect competition
- Need for economic regulation of major airports
 - Independent statutory oversight
 - Price controls
 - CPI-X incentives
 - Return on capital commensurate with risks involved
 - Must also include service level commitments

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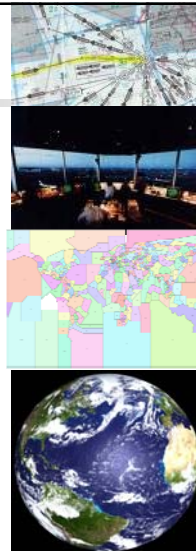
Infrastructure ownership

- Ownership not an issue *per se*, but often has an influence on performance
- Ownership structures
 - Government
 - Corporatisation
 - Privatisation
- Potential conflicts when governments seek to maximise sale values
 - Pre-IPO price increases
 - Expectations of further charges escalation

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ANSP: global performance challenges

- Harmonisation of technical standards
 - Better use of modern aircraft systems
 - Greater inter-operability
 - Next generation systems
- Business consolidation
 - e.g. Single European Sky
- Impact of ANSPs goes far beyond charges since inefficient routes contribute to ~12% wasted fuel burn
- Straighter routes, and reduced ATC, ground and security delays could yield significant savings



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Aviation and the Environment



- Environmental challenges:
 - Noise
 - Local air quality
 - Global climate change
- But even with targeted improvements in fuel efficiency, aviation emissions are projected to double in size by 2025
- Policy implications:
 - Stringent technical standards
 - Operational restrictions
 - Threat of additional taxes and charges
- Aviation expected to pay the full cost of its environmental impact, and contribute to other global efforts to address the challenge of climate change

The industry needs to work closely together to address public concerns

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Conclusion

- Aviation is an integral and valued part of modern life
- Airlines, airports and ANSPs need to work together even more closely to meet future growth and adapt to changing patterns of customer demand
- Greater emphasis on overall efficiency and productivity
 - Efficient use of capital
 - Efficient use of labour
 - Efficient use of technology
- Mutual recognition of the benefits of a collaborative response to industry challenges

Working together to serve the customer

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