



GASS 2010 - Moderator Summaries



GASS Session One: The Airline Industry – Position Report

Moderator: Mr Aaron Heslehurst, News Anchor & Presenter, BBC World Television

ICAOs View of the Industry Today - Mrs Folasade Odutola, Director, Air Transport Bureau, ICAO

Commercial Challenges in Aviation Today - Mr Robert Boyle, Director Strategy & Business Units, British Airways

The Airport Perspective - Ms Angela Gittens, Director General, ACI World

Etihad - Expansion in Today's Market - Mr Vijay Poonosamy, Vice President International and Public Affairs, Etihad Airways / Chairman - IATA Industry Affairs Committee

The Manufacturers Perspective - Dr Fariba Alamdari, VP Market & Value Analysis, Boeing Commercial Airplanes

Summary

In the first session for GASS 2010 – we explored the dynamic & practical steps taken to get to where the industry is today. The conclusion: It's been a long hard road to travel. Cutting costs, conserving cash and meeting capacity to meet the huge fall off in demand. We've seen rather dramatic changes in the landscape - which has resulted in how the industry looks today:

- 2.4 billion passengers
- 43 million tonnes of cargo
- 32 million jobs
- 1 accident for every 1.4 million flights
- 2% of global carbon emissions
- \$545 billion in revenue
- \$217 billion in debt

The industry's resilience has been tested by: disease, war, terrorism, spiking oil prices, the worst economic recession in 80 years which saw revenues drop by \$81 billion.

A volcanic ash cloud which shut down just under a third of global aviation – the cost to airline revenue \$1 billion.

And combined losses of almost \$11 billion in 2009. But – saying all of that. Today we finally have some cautious optimism. Global traffic is back to pre-recession levels.

Load factors are nearing 80% and thankfully the bottom line is improving. But it is a fragmented global picture. Asia Pacific is powering the upturn with \$2.2 billion in profit.

North American carriers should move back into the black with close to \$2 billion. Middle Eastern & African carriers should each deliver profits of about \$100 million. And Latin American airlines should return close to a billion in profit – not forgetting, it's the only region with 2 consecutive profitable years.

But – as I said – it's a fragmented picture. Europe will likely be the only region in the red with a loss of \$2.8 billion.

But here's the good global news story. Because according to IATA the global industry should see a full year profit of \$2.5 billion. This would be the first global profit since 2007.

GASS Session Two:

Session Two: Environmental Challenges and Opportunities for the Industry

Moderator: Ms Anne Murray, VP Community & Environmental Affairs, Vancouver Airport Authority

Mr Ian Matheson, VP, Airport Development of the Transportation Division, SNC LAVALIN

Mr Simon Pickup, Director, Business Operations, Airbus Americas

Dr Charles E Schlumberger, Principal Air Transport Specialist, The World Bank Group

Summary

The discussion of environmental issues in aviation is characterized by divergent views and this session was no exception as we discussed both challenges and opportunities facing the industry.

Managing the environmental, noise and climate change impacts associated with the potential doubling of passenger miles over the next 15 years was identified as most significant challenge facing the industry. Simon Pickup from Airbus noted that bigger and more efficient aircraft are part of the answer. Leveraging new technologies and materials for both airframes and engines will help to reduce problems on all fronts – CO₂, NO_x particulates and noise. The main proviso is that you can't have your cake and eat it too – each emission has an impact on the other or on noise – so there will always be an engineering trade-offs to consider.

Alternative fuels--the so-called bio fuels of the future--will help reduce the climate change impacts of aviation. Great ideas and small scale pilot projects are underway around the world. The panellists discussed the magnitude of the fuel challenge. Taking the bench scale alternative fuels project and moving from "proof of concept" phase to being able to produce alternative fuels globally on an industrial scale is a huge undertaking that will require extensive investment and cooperation.

Optimization of Air Traffic Management in many jurisdictions around the world would also lead to significant reduction of green house gas emissions. Better management of airspace leads to more efficient use of aircraft reducing fuel burned and emissions produced.

The opportunities around capital developments and airport infrastructure were also discussed. Ian Matheson of SNC Lavalin pointed out that we can design, engineer, and construct airport infrastructure that will operate in an essentially energy neutral and sustainable manner. We simply need to align all the parties involved with such projects-- governments, authorities, owners, operators and financial partners--to focus on the long term "life cycle costs" of a project instead of the initial short term capital investment. Long term benefits of doing things right result in reduced electrical, energy and water use all leading to lower operating costs. These results hold true for renovations of existing infrastructure as well as new construction.

While Charles Schlumberger of the World Bank agreed on the need to change funding models to recognize the value of sustainable design and development solution he also raised the challenge of community perception. Quoting the controversial “flying is a sin” comment Charles noted how the industry is subject to attack.

The panel discussion concluded with a lively interaction with the audience who questioned the panellists and added fresh perspectives to the debate. Audience members lamented the vulnerability of aviation as it is easily taxed, highly visible, and heavily regulated. In addition to the substantive issues of environmental science, aviation is vulnerable and needs to address the perception of its environmental impact. The industry should improve its communication while avoiding accusations of green washing.

To truly move to sustainable aviation will be a big leap. The industry has a history of addressing the challenges. Environmental issues first revolved around aircraft noise and environmental compliance, now we’re in the climate change era. For the industry to be successful we need to move to sustainable aviation integrating the social benefits of air travel, the economic importance of aviation and the management of environmental impacts. We must move from transitional to transformational and to do so successfully we must ensure that the next generation of aviation professionals are well trained to take up the challenge and opportunity of sustainable aviation.

GASS Session Three: Hardtalk – From the Leaders of Air Transport, the next crisis, what does the future hold?

Moderator: Mr Aaron Heslehurst, News Anchor & Presenter, BBC World Television

Mr Robert Boyle, Director Strategy & Business Units, British Airways

Mr Mauricio Emboaba Moreira, Planning and Statistics Director, GOL Transportes Aereos

Mr Alex De Gunten, Executive Director, Latin American and Caribbean Air Transport Association (ALTA)

Mr Andrew Herdman, Director General, Association of Asia Pacific Airlines (AAPA)

Mr Girma Wake, CEO, Ethiopian Airlines & President, African Airlines Association (AFRAA)

Mr Germal Singh Khera, General Manager Government & Industry Relations, Malaysia Airlines

Summary

So just what is the next crisis? An alien invasion as Robert Boyle from BA joked!

Because who are we kidding. Surely after ten long horrible years of one crisis after another –the industry deserves a break. But of course given we know where the industry currently stands today – nobody denies the down side risks that face us.

Excess capacity is one of those. 1,340 new aircraft will delivered this year & only 500 are for replacement. Which means – and to protect the bottom line – the industry needs the discipline of chasing profits & not market share, something we all agreed on. And we could go on – Labour costs, External costs, Taxation and Oil – all represent down-side risks. But I think it's important – before we look at what's next & what the future holds – to take a look at the past & what this industry has endured. What are the lessons we've learnt.

Sept 11th 2001 – those events helped to trigger a global slump in demand and huge combined losses for the industry. Oil prices hitting near \$150 a barrel – crippling many in the transport industry. And again more staggering combined losses within the industry.

Followed by the global financial meltdown – followed by a global recession – the worst since the Great Depression of the 1930's and subsequently followed by yet again – a huge – fall off the cliff in global demand. In particular – at the front end of the plane – the cabins that typically the industry makes money from.

A volcano eruption – that shut down close to a 1/3rd of global aviation. This was a crisis which not only impacted the airline industry, we know lost revenues of about \$1.7 billion, but also look at the airfreight picture, look at the loss of global business. That was a crisis which had a severe impact on global commerce.

If there is one thing positive I took from that event – it's the fact that it showed, it highlighted how important, how fundamentally important the aviation industry is. And again, let's not kid ourselves - if those birds aren't flying – the global economic wheels aren't turning.

And then of course – throw in a couple of global viral scares and you've got a decade pretty much on biblical proportions!! In fact, the only thing missing was possibly a global plague of locusts.

So after all of that – how did the industry survive – how has it survived? For the airlines that continue flying today – does it mean they're LEANER & MEANER companies. Is that the case?

There is no doubt – that this recent global downturn was quite possibly – as Giovanni Bisignani, head of IATA has been telling you all – he's been saying you have all been battling the biggest crisis this industry has ever faced!

We know the numbers – a combined loss of \$11 billion – last year. An unprecedented 15% drop in revenue, what's that a loss of about \$80 billion from industry revenues. The industry just can't afford that! The total loss for the past decade – nearly \$50 billion.

And I agree with IATA when it says – this past crisis is surely the rallying call you need – a rallying call for aviation to get much more vocal about putting its issues on the agenda of government. Something I'd like to touch on with the panel.

Because we also saw what's happened over the past couple of years. Car makers, banks and insurance companies have all sought survival through government bailouts.

But aviation!?! Well this industry went about putting its house in order by cutting & controlling costs, conserving cash and adjusting capacity to match the big fall off in demand. That's the very tricky balancing act you've had to juggle!

In fact – this rather quiet determination in this industry to solve its problems – on its own – possibly allowed many governments to ignore those problems - that many would suggest are their responsibility.

But as I've been saying – we've got some good positive signs within the industry to be optimistic about. The industry is recovering faster than expected. Demand is up. Business confidence is up. Some strong positive numbers on growth in many parts of the world.

Although – we do know that as these govt stimulus measures around the world start tapering off – could we see another major economic hiccup. There are some big worries about the US economy?

This was a session that covered a vast array of areas within the industry. Too many to highlight and put down in words. If you missed this year's GASS, then you must make sure you're with us next year in Berlin.

But in all – the HardTalk panel were more optimistic than pessimistic. Most of the panellists agreed, in terms of the global economy, that the worst is over. They of course remain cautious, but the industry is seeing more and more positive signs.

However, saying that – these were some of the concerns/worries highlighted by the panel. How confident are we about forecast rates of traffic growth? Relative growth rates will vary with the changing patterns of global economic activity and international trade.

Growth also brings challenges. The challenges of financing investment in fleet to meet growth in demand. With growing competition and other economic pressure, return-on-investment (ROI) in air transport has been consistently declining. Securing financing for purchase of new fleet under the situation could be a challenge especially now that Banks are starting to think twice before they finance such expensive projects like aircraft.

Infrastructure investment in airports and air traffic management, manpower training and skills development – this appeared to be a major concern for Girma Wake.

A possible shortage of a skilled labor force in the developed world as less and less youngsters join the industry to replace the aging /retiring work force . In a globalized world this may cause migration of skilled manpower from developing countries. To fill this gap which deprives airlines in developing countries off the few skilled staff that they train at a very high cost (brain drain). It will also have safety implications for these airlines in the long run. Rising labor cost and the demand for more benefits by labor could also cause a challenge for the industry.

Also is continued growth sustainable from an environmental perspective? Industry is showing leadership. Will governments overcome the current impasse blocking meaningful collective action? Environmental restrictions in various countries especially in Europe, Japan etc will also be a challenge. Oil and currency volatility remain uncertain and can also have a macro-economic impact. Problems of over-regulation: but for whose benefit is a concern? Air travel is no longer a luxury, punitive taxes are counter-productive, but dangerously appealing to fiscally challenged governments.

The historical regulatory structure, including restrictions on national ownership and control, continues to shape the structure of the industry and distorts competition. Business strategies including alliances, branding, and cross-equity deals are steps towards consolidation and are challenging governments to rethink the interpretation of the rules.

GASS 2010 - Session Four

Security, the Next Challenges

Moderator: Mr Aaron Heslehurst, News Anchor & Presenter, BBC World Television

Dr Charles E Schlumberger, Principal Air Transport Specialist, The World Bank Group

Mr Jim Marriott, Chief, Aviation Security Branch, ICAO

Summary

Let us be frank when we say the topic in session four is surely the single most important priority for airlines and airports around the world. And because it's the number ONE priority, going hand in hand with safety – air travel is and continues to be the safest form of travel there is.

In 2009 - one accident for every 1.4 million flights with 2.4 billion people taking to the air that year.

And in fact these numbers were clearly highlighted by the panel that security (right or wrong) is working. In 2009 one incident with one person involved out of 2.4 billion passengers! But we are all aware and agree that none of us in our right mind wants to be blown up during a flight!

However, we're also aware that there are very gullible people out there that are preyed upon by, so called evil. And because of that - we all happily subscribe to airport & airline security measures as and when they are developed. We now have to take off our shoes at airports thanks to the half-witted Richard Reid who attempted to set fire to his shoes on a flight to America. Thankfully – he was a dismal failure.

Last year, a young Nigerian, one Umar Mutallab decided to try to emasculate himself by setting fire to his shorts. But of course, as funny as the scenario may have appeared – it is nothing to laugh at.

It was during another flight to the USA. And so now there are further enhanced security measures in place. In July of this year – we saw three UK citizens jailed for life for plotting to blow up several Transatlantic flights using explosive liquids.

That plot – single handedly changed the way we fly today. It changed the way passengers view their airport experience and their own travel experience.

The panel and audience agreed that 9 years on from the attacks on September 11th 2001 – the industry is secure – but everybody agrees that the lack of harmonization and the ineffective and inconsistent use of technology continue to contribute to a security regime that frustrates & confuses passengers.

In fact the industry needs to ask the question – has the imperative for security forgotten the customer along the way?

Charles Schlumberger raised a very valid point. Travelers are very willing to adapt, humans are flexible. But what they don't like, what confuses them is the global airport/airline inconsistencies.

Travelers would be much more willing to take part in whatever security measures are required as long as those measures are all the same.

Angela Gittens from ACI agreed and said the inconsistency of security measures was a huge problem for airports. And despite ACI working hard to solve them – dealing with local politics in regions all over the world is the main obstacle. In fact Jim Marriot from ICAO stressed the immense importance of sustaining political will to continuously improve the effectiveness and efficiency of aviation security. Something ICAO as well as ACI and other industry groups continue working at.

Jim Marriot also talked about the ongoing efforts and achievements being made towards anticipating new and emerging threats, instituting new security measures before vulnerabilities can be exploited and adapting to changes in civil aviation.

This was an issue Charles picked up on – with his usual vigour. He said one of the biggest problems with aviation security is the reaction and implementation of procedures after every incident. We need to be much more proactive in anticipating events.

Other areas highlighted included – the lack of focus on possible soft targets. ie: airport perimeters, the possible planting of devices on parked aircraft overnight.

And finally a rather frightening thought and/or possibility was raised by Girma Wake from Ethiopia. He reminded us all of the bribe payments, typically made by diamond smugglers to poorly paid security staff. But..... what's not stopping a terrorist group paying security to smuggle something far more dangerous on board than dirty diamonds!? Food for thought.

GASS 2010 - Session Five

Route Development – The Airline and Airport Partnership, Who is the dominant partner now?

Moderator – Michael Kellaway, Civil Aviation Adviser, Department of Transport, Abu Dhabi, United Arab Emirates.

Joseph W Lopano, Executive VP Marketing & Terminal Management, Dallas/Fort Worth International Airport.

Horst E. Findeisen, Vice President Business Development, Star Alliance Services.

Vijay Poonoosamy, Vice President International & Public Affairs, Etihad Airways.

Mike Luddy, Chief Commercial Officer, London Gatwick Airport.

Summary

The moderator introduced the subject matter and advised that within the context of the subject matter the following issues would be discussed:

- a) Whether or not the airport/airline model is universal across the globe and across all sub sectors of the industry.
- b) The impact of privatization of airports on relations and the impact of highly leveraged buyouts on relationships.
- c) The responsiveness of airports in coping with major alliances and implementing the customer benefits (at airport level) that alliances try to deliver.
- d) The fundamental differences between the business models of airlines and airports.
- e) The impact of LCC's on airport/airline relationships.

The panel agreed that the most critical difference in business models is the differences in planning horizons, where airlines typically plan on 5 year cycles and airports plan on 25 years plus. The fact that airports are building high value fixed assets and the airlines largely rely upon flexible mobile assets are the key challenges. It was agreed that considerable work needs to be done to improve the mutual understanding of the relevant business models.

The panel then discussed regional differences and it became clear that in the US where airlines largely fund their own terminals the relationships are easier and less conflicting. It was also agreed that (as in the case of the ME and certain Asian airports) both airlines and airports are under common direction the relationship is much more cohesive. In Europe where there is greater economic regulation of airports and greater privatization the relationships are more fractious and more complicated. Generally it was agreed that privatization has brought benefits to the commercial relationship but that at times when airlines lose money it is difficult for airports to share the "pain". It was generally felt that the

London Airports had suffered adversely from a highly leveraged buyout and that as a result had lost some competitiveness.

The experience of coping with the requirements of alliances was mixed with many airports, by virtue of their physical attributes, being able to accommodate alliance “moves” to consolidate thus bringing customer benefits. Others had found the process much more difficult and early adoption of advanced technical solutions to passenger and baggage handling seemed to be a major hurdle. It was clear that if the alliances are to deliver the major customer improvements they require some airport administrators need to better understand the airlines and its customers. Development of universal standards by all alliance members assists the process but there still needs to be greater mutual understanding.

The growth of LCC's, particularly in Europe, has dramatically changed the airport/airline relationships for many regional airports where big benefits can accrue to both airport and local economy from strong relationships. In most cases airports have been very responsive to driving costs down in support of the LCC model.

In summary it was clear that there are good airline/airport partnerships and that there are relationships that are not as productive as they may be. The participants did not feel that there is a dominant partner but rather that the partnerships are such that substantial emphasis should be placed on improving them. There was a general feeling that work was needed to gain a better mutual understanding of the respective business models.

GASS 2010 - Session Six

Session Six: Air Transport and Economic Development, the New Frontiers

Moderator: Professor John D Kasarda, Director, Kenan Institute of Private Enterprise,
University of North Carolina

Mr Rick Antonson, President & CEO, Tourism Vancouver

Mrs Narjess Teyssier, Chief Economic Analysis & Policy Section, Air Transport Bureau, ICAO

Mr Mike Malik, CCO, UBM Aviation

Mr Chris Lyle, UNWTO Representative to ICAO

Summary

Summary

Research by IATA, ICAO and academics documents that improved air connectivity

1. widens markets
2. provides manufacturers with efficient access to better and cheaper supplier bases
3. attracts inward foreign investment
4. boosts trade and tourism and
5. fosters GDP growth

Along with substantial job creation at all rungs of the socioeconomic ladder, there are social benefits of aviation that ultimately affect economic development and citizen well-being. These include such benefits as the delivery of life-saving vaccines and better and cheaper perishable foods to distant locations.

The economic impact of air transport has been measured in four ways: direct, indirect, induced and catalytic. The fourth, which taps increases in the competitiveness and productivity of cities, regions, and nations through improved air connectivity of firms to their suppliers, customers, and enterprise partners is typically missed in economic impact studies. However, catalytic effects are likely the most significant.

With nations such as China forecasted to have as many as 100 million of their inhabitants travelling internationally by 2020, airlines, airports and communities have propitious opportunities to leverage the coming tourism boom. This will, however, require not only expansion and improvements in their hard infrastructure (aircraft, runways, hotels), but also “soft” infrastructure including security and visa processing and aviation regulatory liberalization.

The panelists and audience discussed the above needs. They also debated such issues as whether international development agencies and multilateral lending institutions should incentivize the construction of airports and expansion of new airline routes in third world nations as economic development tools. The broad conclusion was to allow the market to determine airport development and airline routes since well-intended interventions may actually result in inefficiencies that do little to enhance economic development in such places.

GASS 2010 - Session Seven

Session Seven: Scenarios for the Future – Full Privatization and Liberalization of all Air Services or back to National Carriers and State-Owned Airport Infrastructure?

Moderator: Mr Neil Pakey, Deputy CEO, Peel Airports Group

Tan Sri Bashir Ahmad, Managing Director, Malaysia Airports Holdings Berhad

Mr Jaime Daly, CEO, Lima Airport Partners

Mr George Casey, President & CEO, Vancouver Airport Services

Mrs Janice Antonson, Vice President, Airport Strategy & Marketing (ASM)

Summary

The trend for privatisation of airlines began in the 80s and was followed by airports in the early 90s and although there has been a slow down recently, it is expected that the move towards privatisation will continue in the future. Ownership models currently range from fully state owned, to privatised with the government still as a major stakeholder e.g. MAHB to fully privatised e.g. Heathrow, BA and Qantas.

In the 80s governments started privatising airlines because they could not afford to re-equip the fleets, especially when the airlines were making insufficient profits. In the 90s privatisation of airports began, again mainly led by the need to upgrade the facilities and the lack of available funds.

The reasons for privatisation often include: the need for financial investment, bringing in expertise from outside and transfer of best practise, access to capital and better credit ratings and long term strategy plan. Even though finance is often the main driver even countries with a lot of money e.g. Saudi Arabia and Dubai are looking at privatising airports as they believe it is important to bring in business expertise from outside.

In addition the panel explored issues between airport and airlines in part state owned airlines and privatised airports and vice versa. Panelists agreed that regardless of ownership the most important factor was to try to treat all players equally and establish a good working relationships built on trust and continuous dialogue. However it was also suggested that airlines, with access to liquidity, strong balance sheets, good business forms and governance structure, that can make decisions in a competitive environment on a commercial basis, would be attractive as most airports would be looking to attract in successful airlines. In addition, the panel suggested that ideally they would be looking for

liberal environment to be created with no restrictions on traffic rights thus leading to the market dictating how much traffic an airport would get.

In summary the resounding answer to the question posed is a resounding yes that we should stay the course and there is no turning back from privatisation. As we move forward it is expected to be an evolutionary process more about efficiency and best fit in terms of getting the right operators into airports that are being privatised for the greater good taking local, regional and national economies forward.

In terms of liberalisation of air services or back to national carriers again there was a progressive response from the panel who would like to see the removal of barriers to market entry, which still exist for airports, so that they are able to do business with airlines and consumers.