

The economic situation of airports

Andreas Schimm,
Bangkok, February 26, 2009



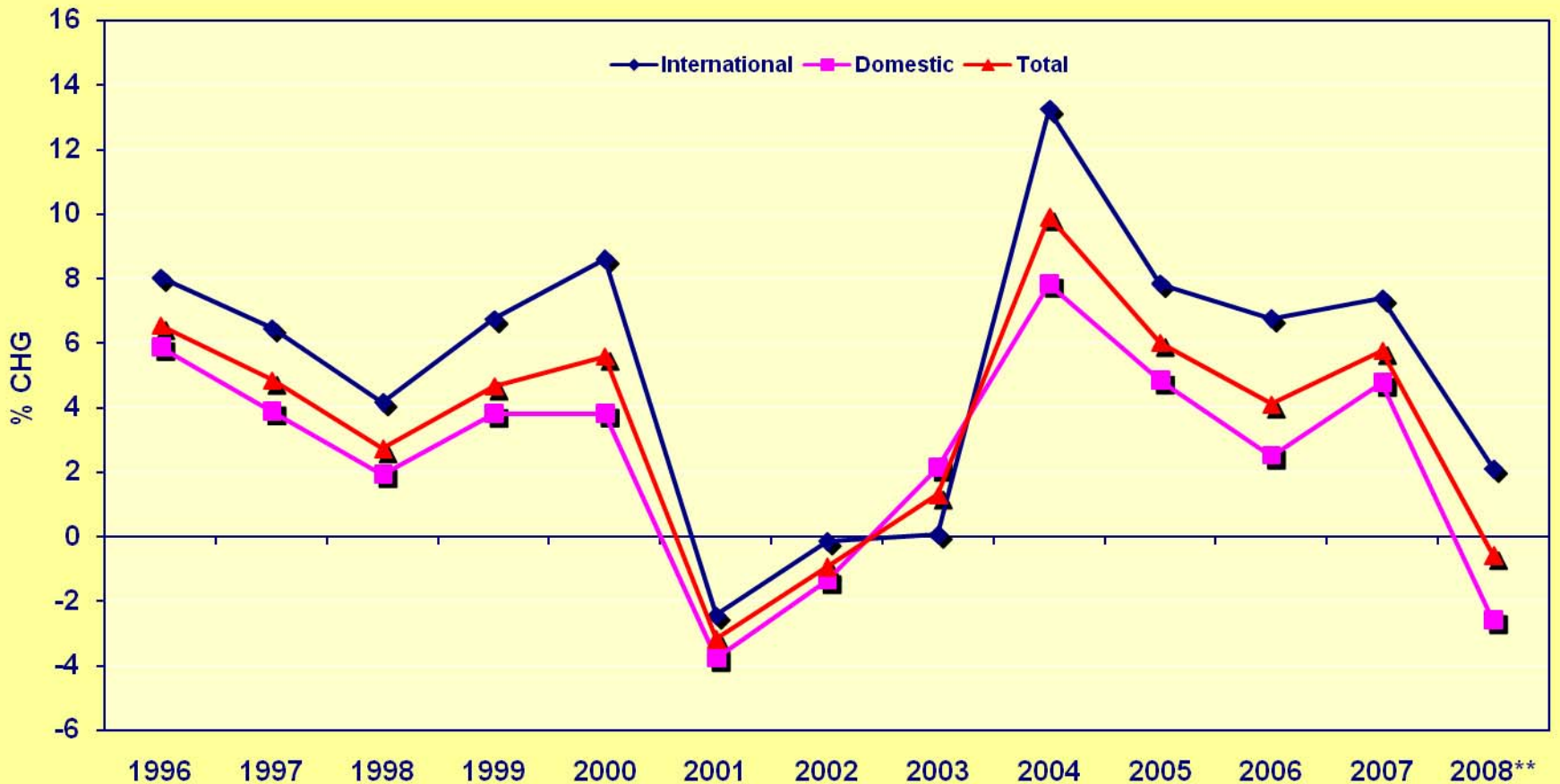


Structure

- State of the industry and forecast
- ACI Airport Economics Survey 2008
- CEANS appraisal
- Industry characteristics + challenges



WORLD ANNUAL PASSENGER TRENDS* 1995 - 2008

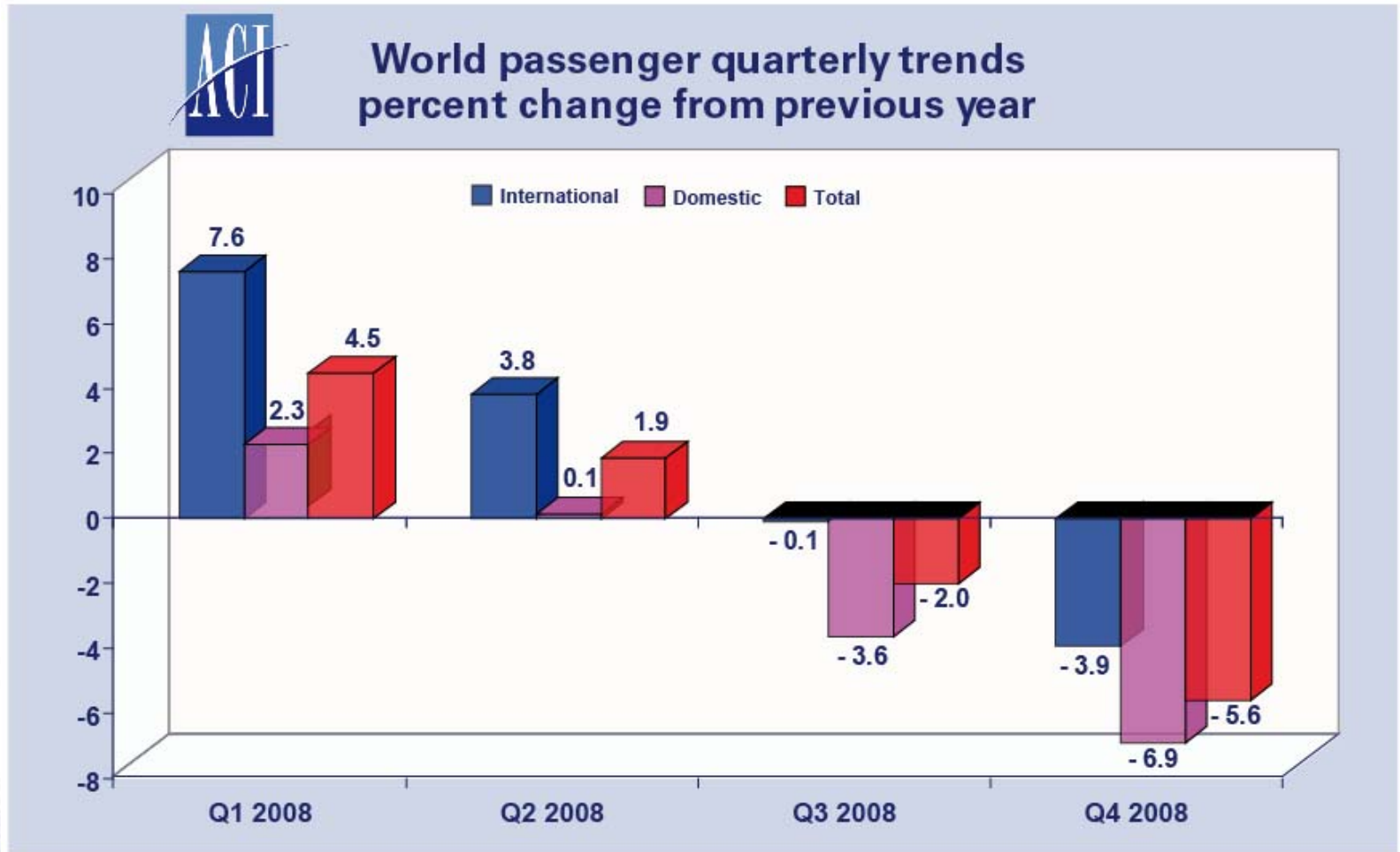


* Sample size: 554 airports with complete data series

** unconfirmed data based on PaxFlash

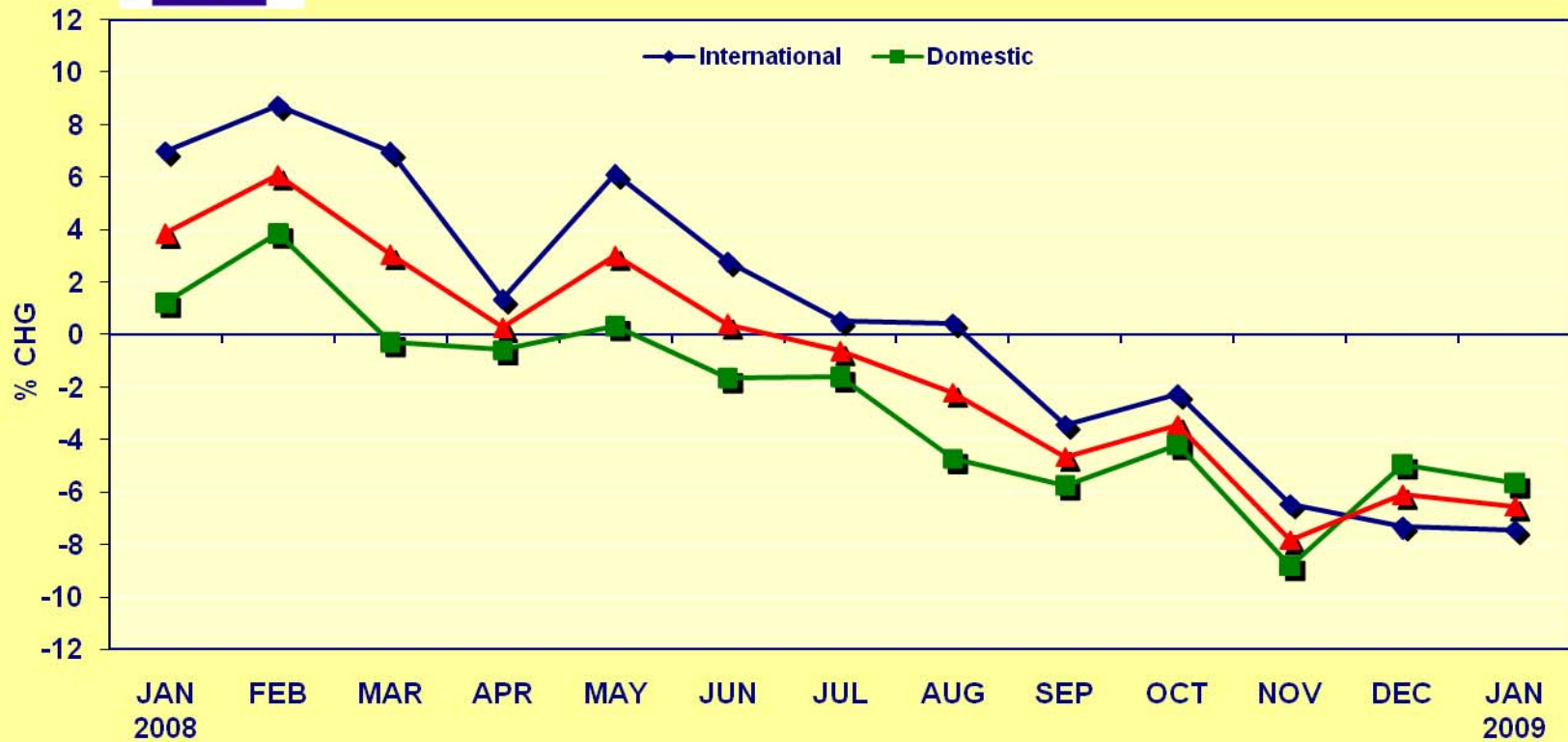


2008 Passenger Traffic by Quarter





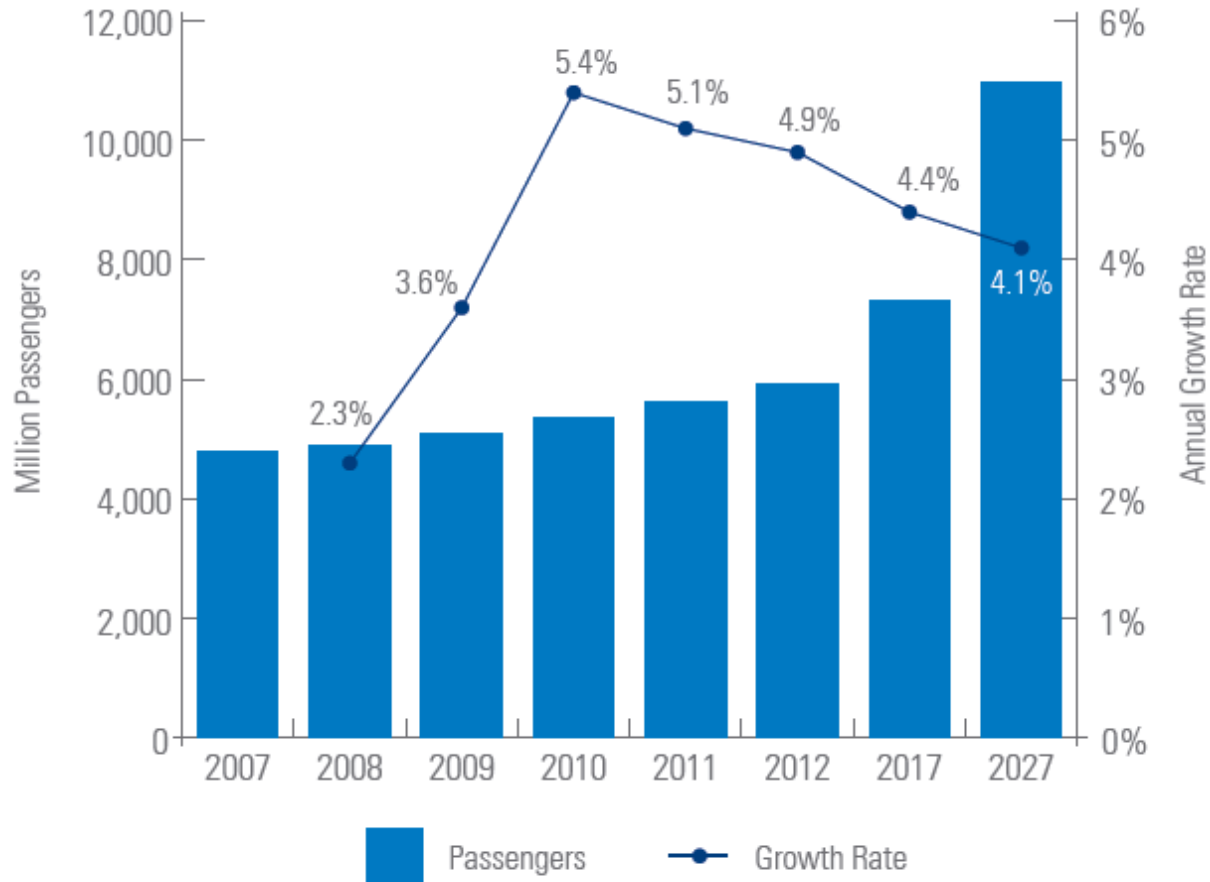
World passenger trends Jan'08-Jan'09





ACI global forecast 2008 - 2027

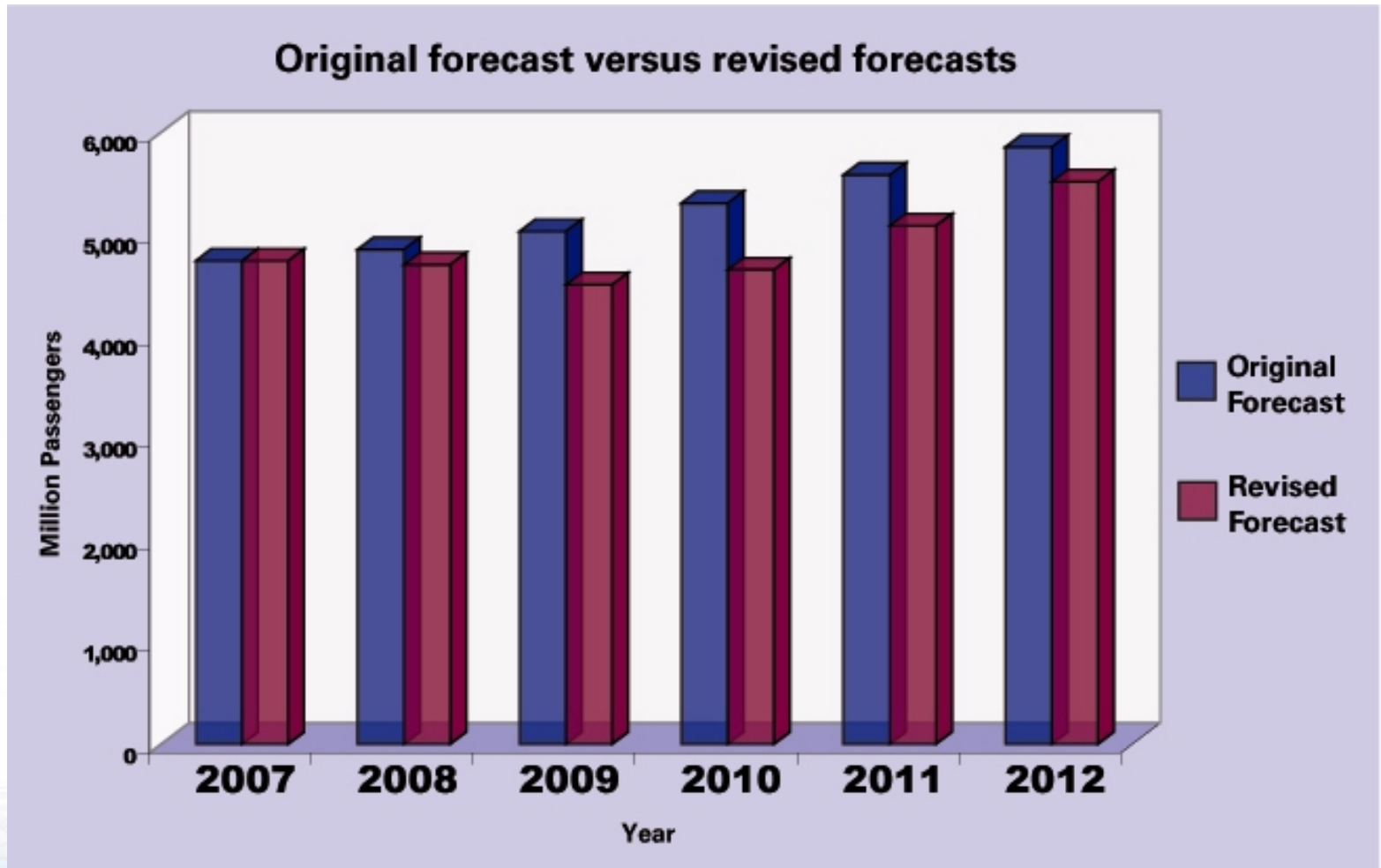
Global passenger traffic will reach 11 billion in 2027



Source: DKMA



ACI's Revised Five-year Traffic Forecast 2008 - 2027

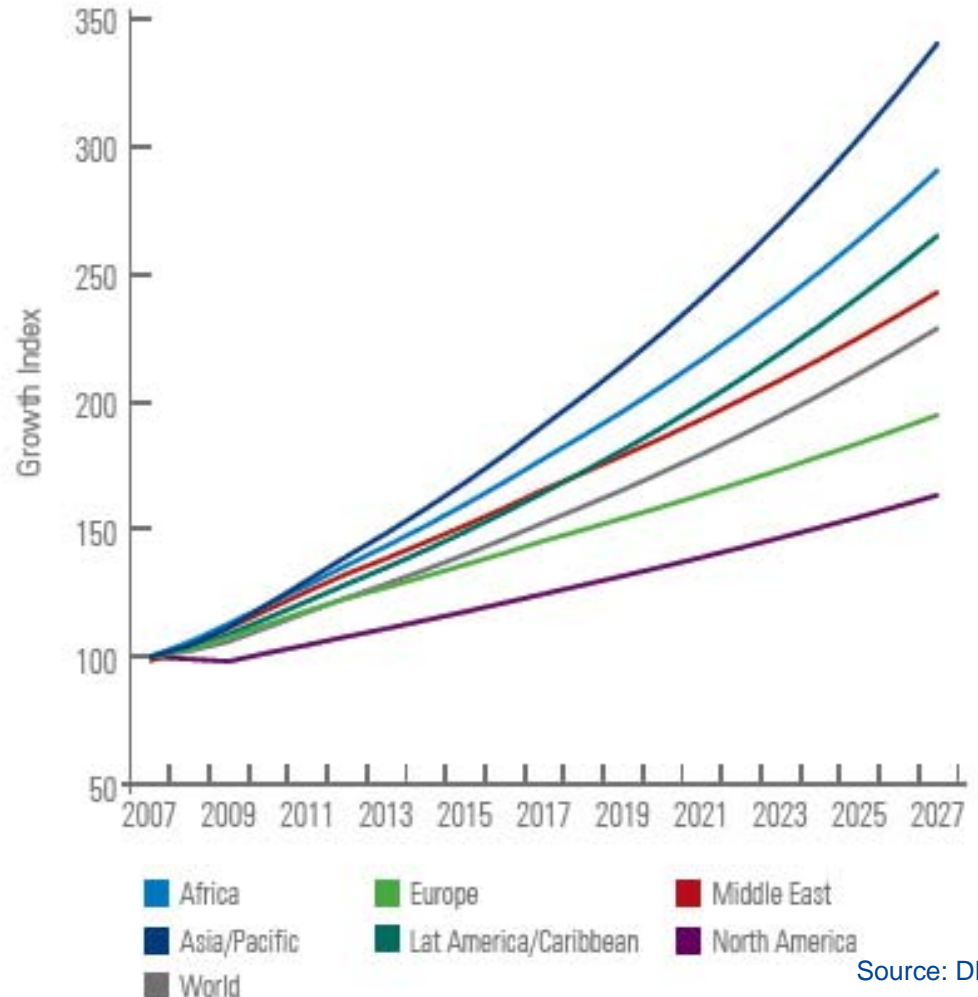




Asia Pacific leading growth

- Traffic in the region expected to triple by 2027
- Handling more than a third of worldwide passengers
- Volume in India and China forecast to increase six-fold

Asia will be the fastest growing region in the next 25 years





ACI Airport Economics Survey

- Airport revenues
- Capital expenditure
- Employment



Economics Survey 2008 - Sample

Region	Airports responding	Number of passengers	Percentage of total passengers
Asia/Pacific	121	729 million	64%
Europe	224	1,186 million	81%
Latin America/ Caribbean	111	266 million	81%
North America	109	1,305 million	84%
Total	565	3,488 million	77.5%

*Middle East/Africa not included in the report due to statistically invalid responses



Airport revenue

Region	Revenue by aircraft	Revenue by passenger
Asia/Pacific	47.5%	52.5%
Europe	43%	57%
Latin America/Caribbean	25.6%	74.4%
North America	50.5%	49.5%
Total	44.5%	55.5%



Revenue breakdown

Region	Aeronautical	Non-aeronautical	Percentage non-aeronautical
Asia/Pacific	10,300	10,150	49.6%
Europe	19,300	17,100	47%
Latin America/ Caribbean	2,700	1,050	28%
North America	9,700	11,000	53%
Total	42,000	39,300	48.3%



Direct cost/ revenue to/ from users

- 21% of airport industry revenues generated from users (airlines and general aviation)
 - Airport user charges account for 3.5% of global airline industry revenues (488 billion USD)
 - USD 475 per aircraft movement, or USD 7.50 per passenger
 - Below ICAO 30-year-average proportion of airport user charges
- Airport industry has achieved a high level of commercialization and diversification resulting in significant relief for airline operating cost and optimization of contributions from both passengers and commerce



Capital expenditure

Region	2007	2008	2009 (tbc)
Middle East/ Africa (est.)	6,000	7,500 (+25%)	6,500
Asia/Pacific	8,500	11,500 (+35%)	9,300 (excl. China)
Europe	14,000	17,000 (+21.4%)	16,400
Latin America/ Caribbean	1,600	2,600 (+62.5%)	3,000
North America	10,000	11,800 (+18%)	15,000
Total	40,100	50,400 (+25.7%)	50,200

** only includes upgrades or expansions of existing airport infrastructure

CAPEX in the Middle East is substantial with major expansions in Dubai, Abu Dhabi, Doha and KSA, but also in other GCC states, estimates to amount to an annual CAPEX of USD 5.5 billion in 2008.

CAPEX in Africa is expected to be around USD 2 billion in 2008.

Investment in China in 2009 is expected to rise to USD 30 billion, but unclear which proportion will be invested in existing airports.



CAPEX by size

Size category (pax.pa)	% of total CAPEX 2007	% of 2007 worldwide traffic	Pax growth rate 2007
<5 million	19.5%	18.3%	+9.7%
5-15 million	23.2%	24.3%	+9%
15-25 million	14.9%	17.2%	+5.6%
25-40 million	17.2%	19.2%	+6.1%
>40 million	25.2%	21%	+3.6%



Employment

Region	Directly employed by airport operator	Total employees on airport sites
Middle East/ Africa**	40,000	250,000
Asia/Pacific	120,000	1,100,000
Europe	165,000	1,200,000
Latin America/ Caribbean	28,000	150,000
Europe	50,000	1,600,000
Total	403,000	4,300,000

**2006 figures



Employment

Airport	Number of employees on site	Number of employees directly employed by airport operator
Frankfurt	70,000	12,500
Hong Kong	65,000	1,100
Atlanta	56,000	700
Beijing	52,000	1,700
Tokyo Narita	47,500	730



CEANS 2008 – ACI appraisal

- Economic oversight objectives
- Performance management
- Consultation with users
- Other recommendations



Economic oversight objectives

- Minimize the risk of airports engaging in anti-competitive practices or abusing their dominant position
- *No more reference to 'monopolistic nature of airports'*
- Ensure non-discrimination and transparency in the application of charges
- Ascertain that investments in capacity meet current and future demand, and
- *Protect the interests of passengers and other end users*



Economic performance:

Definition of performance objectives with the purpose to continuously improve performance in four key performance areas (KPAAs), i.e. safety, quality of service, productivity and cost-effectiveness. States may choose additional KPAAs according to their specific circumstances



Consultation with users

- Specific procedures to be determined on a case-by-case basis taking into account the form of economic oversight adopted by the State as well as the size and scale of airport activities
- Provider and users to give adequate information
- Aim should be agreement wherever possible but failing such provider continues to be free to impose its decision



Other CEANS Recommendations

- Governance, ownership and control – clear separation of regulatory and operational functions
- More flexibility in setting airport charges (aggregation of cost bases)
- Differential charges: transparent, costs not allocated to other non-benefiting users and on a temporary basis
- Implementation by Contracting States



Understanding airport business

CAPEX hits USD 50 billion in 2008

High fixed costs

Managing the long-term outlook

Community commitment

25-year development cycle

More competition than ever

Inflexible running costs

User charges steady

Expanding non-aeronautical revenues





The capacity imperative

Further growth and liberalisation without sufficient ground capacity:

- Inhibits the full development of markets
- Poses barriers to entry or expansion for airlines
- Results in limited or distorted competition ...which stifles competition and removes incentives for quality of service, innovation and new technologies





The risk factor

- Airports worldwide have invested over 150 billion US\$ in capital infrastructure over the past 5 years
- Asia Pacific CAPEX over 6 billion US\$ in 2007 and 10 billion US\$ in 2008
- Annual CAPEX in China and India not quantified, but in the multi billion range





The airline factor

- Airlines may be forced at any time to cut routes, fly smaller aircraft, reduce frequencies or abandon an airport altogether
- In a deregulated and competitive environment, the mobility and flexibility of airline operations increases





Modern airport business imperatives

- Compete for air service
- Take long-term financial risk in uncertain times
- Work with all stakeholders
- Look to fundamentals – passengers, shippers & communities
- Diversify revenue
- Investor premium on risk





Thinking ahead

- Substantial capital needs and commitments despite tough times
- Cost of capital accounts for 30% of airport industry revenues
- Airports required to look beyond current problems
- Governments need to provide an aviation regulatory framework conducive to competition and sustainable growth – liberalization, capacity and profitability





THANK YOU

ACI World, Geneva

Tel: +41 22 717 8585

Fax: +41 22 717 8888

E-mail: aci@aci.aero

www.aci.aero

