

Noumea PECC Round Table on Air Transport in the Pacific

Noumea, November 2002

**“Airports Today and Tomorrow - There Role in
Supporting Growth in Air Travel within the Pacific Area”**

George Bellew

Chief Executive

Christchurch International Airport Ltd

Introduction

In his brief to me, Ambassador le Blanc identified three key purposes of this meeting.

1. Was to identify the ability of air transport to meet the demands for business travel, leisure and freight travel within the Pacific Island states and between them and the rest of the world.
2. Was to identify under what conditions air transport may enhance growth and development in the Pacific Island states.
3. A third outcome of the above was to make recommendations to Governments, regulatory bodies and airlines with a view to meeting the concerns of local constituencies.

Introduction

Let me declare my biases:

1. I am an airport person.
2. I am a business person, as my background is in leading and driving successful business enterprises in the private sector.
3. I am not blessed with any extreme visionary powers, although I do recognise that as a business person we can but influence the future, the past is already enshrined in history.
4. I believe quite strongly in laissez-faire, ie I am pragmatically one who believes that markets will dictate and that regulation and its inherent artificialities should be minimised.

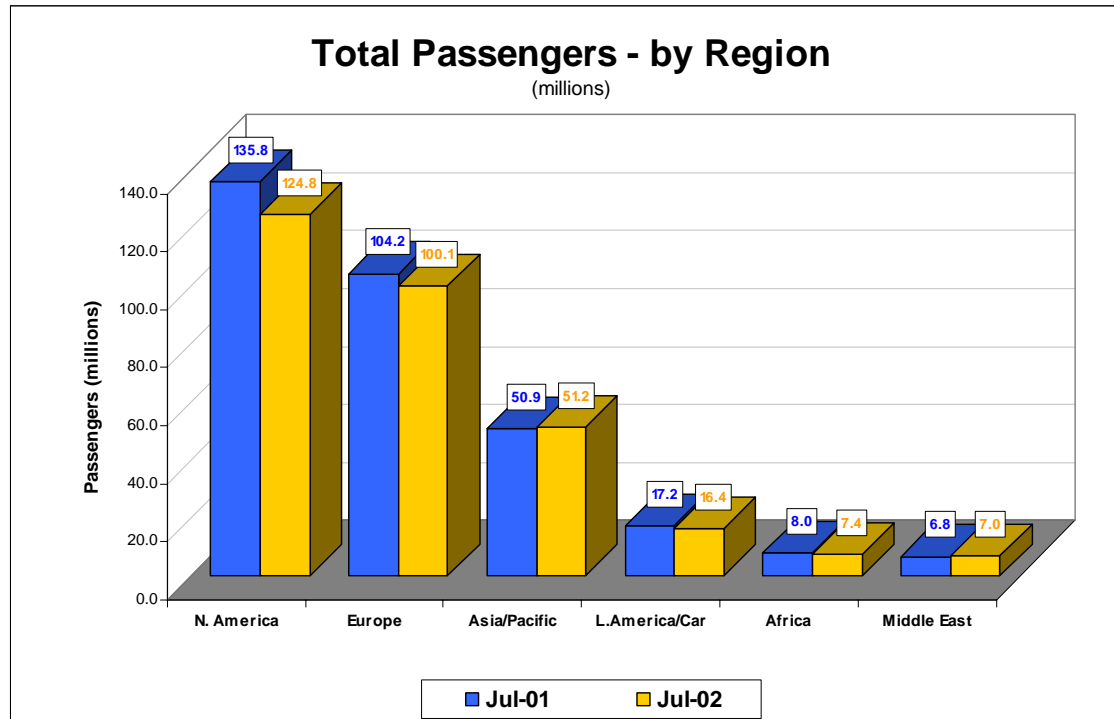
Given the above, perhaps you will now all stop listening!

Situation Analysis

Before we attempt to move into the realms of what “might be” ie the future, lets do a quick review of what applies today. The following graphs which are based on ACI (Airports Council International) statistics for the period ending July 2002 illustrate the story as it exists.

On a regional basis, the Asia/Pacific region which includes our focus for today's discussions, is about one half that of Europe and 38% of North America if we take total passengers travelling during the month of July 2002 as but one index.

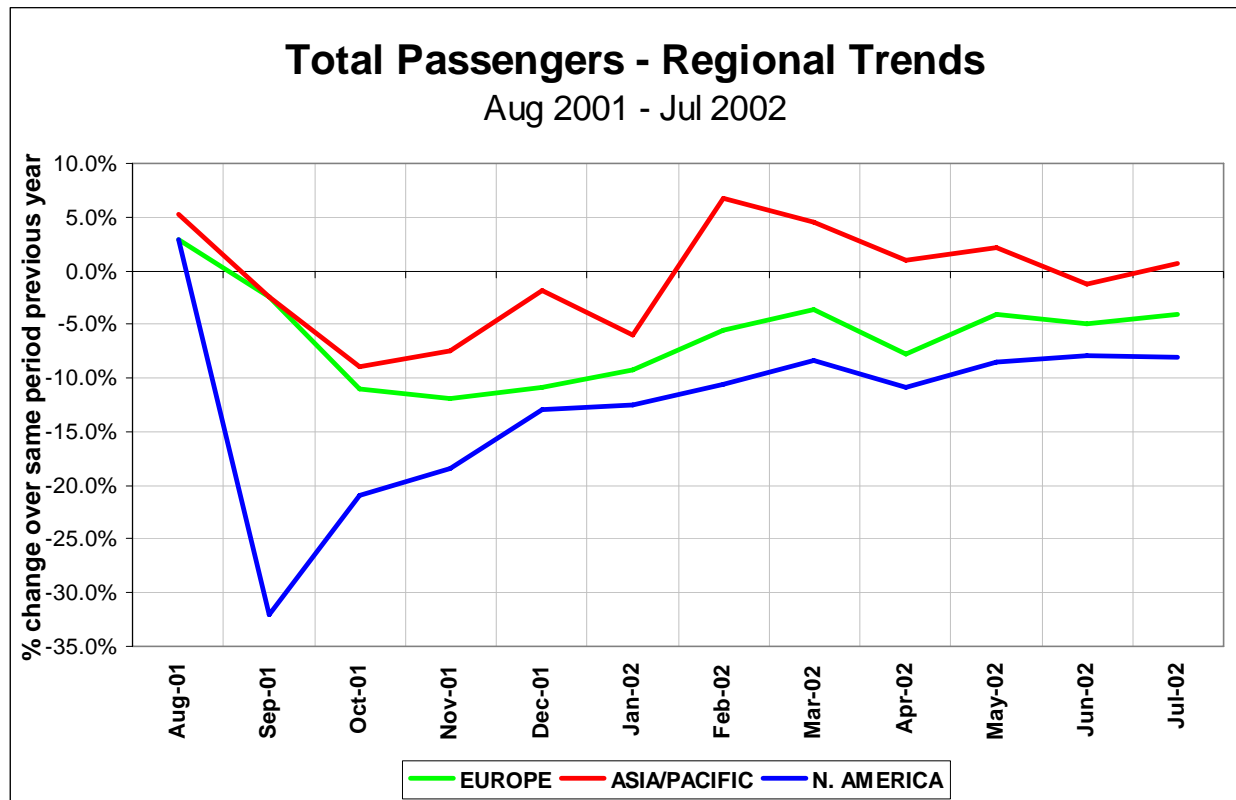
Situation Analysis



Note the height of the respective blocks, it tells us something about recovery all be it on a snapshot of but one month post September 11th, 2001.

Situation Analysis

It we look at total passengers on a regional basis over a longer time sequence, the following graph is very illustrative.

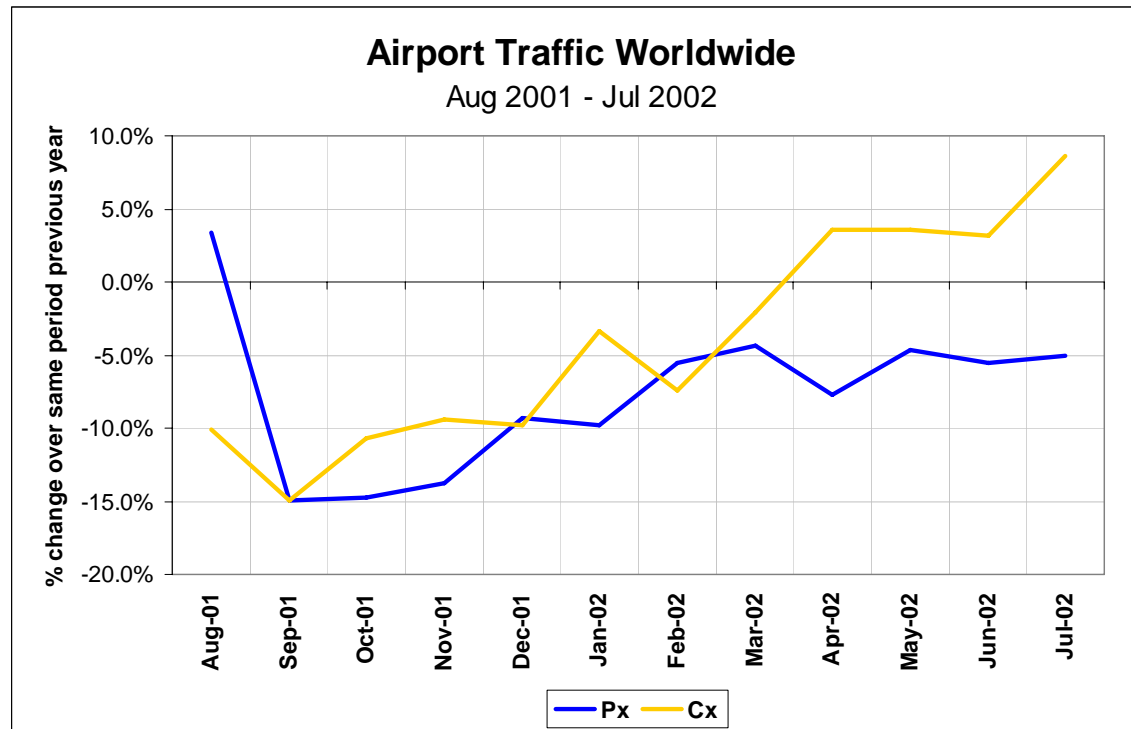


Situation Analysis

Asia/Pacific relative to both Europe and North American regions has not been affected and indeed since February 2002 has more or less been showing small but some growth on a month by month basis, contrast this with both Europe and North American regions.

But if we look at airport traffic worldwide and compare passengers and cargo, there is a further disparity in that since April cargo figures have been growing very strongly indeed, whereas passengers wallow along at approximately 5% negative compared to the same month in the previous year.

Situation Analysis



To summarise, Civil Aviation is still very much in recovery mode, although for Asia/Pacific region it is a little healthier than the two major markets, North America and Europe.

Looking Forward

We have already seen that during the turbulence of recent months the Asia/Pacific region has fared rather better than most in terms of air travel. In part this is because of the engine of such strongly developing markets as Peoples Republic of China, in the main and to a lesser extent Korea. For once it would seem the Pacific is in the right quadrant of the world - not to sneer at our European or North American colleagues, but we are adjacent to where the growth and upside in air travel is.

Earlier and I am sure subsequent speakers will extoll the economic virtues of tourism which, is largely dependant on air travel. Lets focus for but a moment specifically on airports and the role that they play within this economic engine.

Looking Forward

Airports themselves are very capital intensive businesses, take our own somewhat modest airport in Christchurch, with total assets of \$232 million, and a turnover of only \$54 million. With this investment, we service total passenger flows of approximately 4.2 million per annum.

If you apply turnover relative to total assess invested, there are few businesses which have such an intensity of investment - the message for owners/operators is obvious.

There is another characteristic of airports, namely that expansion tends to be somewhat blocky, ie quite large quantum's of capital are required in order to incrementally expand. To illustrate in our own case in Christchurch, in 1998 we spent approximately NZD\$70 million to redevelop our international terminal. Furthermore, when the market settles down we will be spending in excess of NZD\$50 million to expand our domestic terminal.

Looking Forward

Indeed one of the great and continuing challenges for any senior airport Executive and of course the Board of any airport company is the timing and quantum of capital spend.

On average, we are privileged to be in a sector where growth is almost endemic. Most commentators believe that tourism will continually grow at a rate in the order of about 5% to 6% real per annum. Contrast this with the growth prospects for most sectors.

Growth is good, but in order to support it it does require ongoing investment - note my earlier comments.

Inadequate investment is becoming an issue for certain key airports that may well service Pacific Island airports.

Looking Forward

Remember that in the world of airports it takes two to tango, ie there are two airports involved in any travel process.

Furthermore, many Pacific region airports act as spokes from major hub airports. Should these feeder hubs become congested then the spokes can wither.

For many Pacific region airports the majority of passengers are travelling for leisure.

Looking Forward

Leisure travellers are price convenience and security sensitive.

Price sensitivity - with web based distribution systems the consumer has never been better informed or more empowered.

But smaller players with a creative message are now better able to reach the consumer without spending the millions of dollars needed to sustain the more conventional marketing campaigns.

The no or low frills models of air travel are creating greater travel due to the innovation of airlines.

Looking Forward

This particularly applies to shorter haul routes, ie sectors of up to three or so hours although Qantas Airways has launched an experiment with its Australian Airlines which will use this model for longer sectors.

We, in New Zealand, are witnessing such models in domestic travel where Air New Zealand with its Express model launched 1 November 2002 has dropped fares by an average of 20% but believes the number of travellers will increase by at least 20%.

Looking Forward

New aircraft types bring new solutions.

Not only lower operating costs but also the ability to better match number of seats to the sector density and hence achieve frequency.

But many airlines post September 11th are in a very perilous financial state.

While this must be of concern it is driving airlines and airports to come up with more relevant solutions. There is unlike before a ruthless pragmatism afoot - growth in market share (often without supporting profitability) is no longer the creed.

Summary

It is a very very turbulent time for civil aviation and hence airports. There are some huge threats but I remain optimistic in that there are also a plethora of opportunities for those who are prepared to adapt, innovative and follow the market.

Being small allows you to be more nimble. You can, with vision and astute judgement, outwit the large and ponderous and enjoy rewards.

Most Pacific region countries do not require a huge market share to enjoy considerable economic benefits from tourism.

Summary

To illustrate - New Zealand is but a small Pacific country, many in the world still do not know exactly where on the world maps we are located. We, for most of our major tourism markets have a less than 1% market share but the rewards for our country are already huge and still growing.

- (a) For the year ended 30 June 2002 international visitors spent NZD\$5.7 billion in New Zealand.
- (b) This was up 11.8%.

Summary

Tourism employs an estimated 163,000 full time equivalent jobs or more than one job in ten.

Tourism directly and indirectly contributes 9.7% of New Zealand's GDP.

Airports will continue to innovate, partner and compete to ensure that air travel and tourism continue to grow and reward our countries. Sure there are threats but as an old boss of mine used to say “the world is full of opportunities”.

Thank you.