

LOW COST CARRIERS IN ASIA AND THE RESPONSE OF AIRPORTS

Presented by Mr Wong Woon Liong, Director-General of Civil Aviation of Singapore at the Liberalisation of Air Transport Conference on 25-27 May 2005, Shanghai, China

Good Morning, Ladies and gentlemen,

Introduction

Nowadays, when you turn the pages of your newspapers in the morning, good chance you will read about air tickets going for a song.

Some less than the price of a can of Tiger beer.

You cannot help but realize that low-cost air travel has finally arrived in this part of the world.

2 Then you go on to read about new low-cost carriers, or LCC's in short, starting operations in different parts of Asia.

Tiger Airways, Air Deccan, AirAsia, NOK Air, Kingfisher Airlines, One-Two-Go, Jetstar Asia and Okay Airways.

These are some examples of the catchy names adopted by these new carriers, to appeal to a new generation of air travellers.

3 Indeed, it would be foolhardy for anyone to dismiss LCC's as a passing fad, blown over from US and Europe.

There is now no doubt that LCC's are here to stay in Asia and will indeed grow and succeed as they have in Europe and America, though their shape and form may be different.

The growth driver is the emergent middle class in Asia, creating an explosive demand for cheap air travel.

4 The whole air transport industry must therefore be ready to respond to these new comers to the market.

The full-service airlines have no doubt spent a lot of efforts to understand and to react to this challenge.

Business is never going to be as usual.

The response of full-service airlines ranges from initial denial to launching fierce marketing programmes to fight the competition.

Some even set up low-cost subsidiaries themselves.

In other words, the full service carriers are saying: if you can't beat them off, better join them.

But this fascinating subject of on-going battles between full-service carriers and LCC's, I shall leave it to my airline friends to talk about.

Challenges Facing Airports Serving Low-Cost Airlines

5 My topic today is about the response of airports to the arrival of LCC's.

Airports in Asia, and indeed all over the world, have so far invested heavily in infrastructure which cater primarily to the needs of full-service carriers.

These airport facilities are generally geared towards luxury and comfort, as air travel used to be targeted at the higher income groups. In more recent times, airports have also become a source of national pride.

Some are national icons.

Huge passenger terminals, with expensive finishes and sophisticated equipment can be justified, as they serve a demand and users are prepared to pay the price.

But the entry of LCC's has overhauled this quality/price equation. LCC's thrive on low fares.

To charge low fares, they do away with the frills.

They appeal to a new generation of air travellers who do not mind having "no frills" in exchange for cheaper tickets.

6 Airports are now in a dilemma.

They have inherited expensive terminals, more suitable for full-service carriers.

They have put in sophisticated and expensive equipment like high-speed baggage handling systems and people movers to serve hubbing operations of long-haul carriers.

And yet they have to respond to the calls for support of a different business model of the LCC's.

How can airports provide “no frills” facilities, or charge cheaper rates for expensive facilities?

The full-service carriers will also not stand for any discrimination by airports giving special deals to LCC’s.

After all, full-service carriers are the main users of an airport and will continue to command a bigger market share for many years.

7 I think airports can choose two ways to respond.

One, it can treat LCC’s just like full-service airlines.

LCC’s will have to find their savings not from the airport, but from other measures elsewhere, like online ticketing sales and lower crew costs.

Such airports will accommodate the operations of LCC’s within their existing full-service terminals, especially if the terminals have sufficient capacity.

They charge these LCC’s for the use of all the facilities whether they need them or not.

8 However, LCC’s argue that they should not be made to pay for services or facilities they do not use or require.

They challenge airport operators to implement a “fair” system of charging based on utilization.

This would allow them to in turn charge the right fares based on their no-frills offering.

Airports, especially if government owned, suddenly find themselves positioned as inefficient monopolies hindering these airlines from offering no-frills services as additional choice to the travellers.

9 If LCC's operate at existing terminals, they would also create congestion problems in the long run.

Terminal capacity will be used up quickly, especially during the morning peak hours as LCC's strive to maximize the utilization of their aircraft.

The various terminal slots, including gate holdrooms and aircraft bays, would be filled up quickly during peak periods.

Eventually, airports would have to decide if the additional capital expenditure would take the form of expanding the existing full-service terminals or building a dedicated low-cost facility for LCC operations.

10 A second option for airports is to recognize that there is a new breed of players who do not need nor want elaborate and therefore costly airport infrastructure.

Airports can then try to provide them only the basic facilities.

But what are some of these simplified facilities that LCC's require?

11 Firstly, LCC's focus on point-to-point traffic.

Therefore require only simple airport systems – for example, they do not need sophisticated baggage handling systems to handle transfer bags.

They also do not require common-user check-in systems or people mover systems as they do not interline.

12 Secondly, LCC's require only basic terminal services. For example, they do not need space for airline lounges or have special operational requirements for handling of premium passengers. They also prefer not to use aerobridges, especially if they have to pay for usage, so that their passengers can embark and disembark quickly from the aircraft using both aircraft doors. They want re-fueling and other ground handling services to be simultaneously carried out.

13 LCC's also want to minimize their ground time due to their shorter flight times and business model of quick turnarounds and higher utilization of assets. Ground handling companies at airports are therefore expected to turnaround the aircraft faster and with greater productivity from its workforce.

14 Based on the above arguments, some airports see the benefits of this second option.

They have chosen to create dedicated facilities at their existing airport to cater specifically for LCC's.

For example, Geneva Airport would be transforming its second terminal, which had been used for cargo and ski-season charter services, into a facility specifically for LCC's.

Marseille Airport is planning to convert an existing cargo facility into a low-cost terminal.

Glasgow International Airport and Budapest Airport are also taking this option.

Changi's Response

15 In Asia, Changi Airport was the first to announce in July last year that it has chosen to respond to the LCC phenomenon by building a stand-alone no-frills terminal, away from the main terminals.

Earlier this year, Kuala Lumpur International Airport also announced that it would be building a new low-cost terminal at KLIA.

16 Changi's low-cost airline terminal will cost around S\$50 million to construct.

The total floor area of 25,000 sqm will allow up to 3 million passengers to be processed annually.

It will be a single level building without aerobridges.

With A320/B737 aircraft stands just outside the terminal, to make it convenient for passengers to walk to and from the aircraft.

Quick turnaround times from a compact terminal will hopefully contribute to more savings.

Terminal user charges levied on passengers will also be lower as the terminal will have only basic facilities.

17 Our low-cost airlines terminal will be located within the existing Changi Airport.

This means that travelers will find it just as convenient to get to and from the low-cost airline terminal, as compared to the existing full-service terminals.

Its proximity to Changi Airport would also facilitate self-transfers by travelers between the LCC's and other international long-haul carriers.

18 In building a dedicated facility for LCC's, we have given due regard to the views of the full-service carriers.

For after all, they have been our close partners all these years and will continue to be supporting Changi in the future.

This new terminal is therefore open to all airlines that find the facilities there suitable for their business model and their passengers.

19 Of course, having a separate low-cost facility will create new challengers for airport management.

As some LCC's may opt not to operate from the dedicated facility, travelers would need to be guided properly to the right terminals for their LCC flights.

At the same time, passengers affected by flight disruptions at the low-cost airline terminal would need to travel to the main terminals to secure alternative flights out of the country, especially since LCC's normally do not provide hotel accommodations or ticket endorsements to other airlines.

20 At the existing full-service terminals at Changi, majority of the revenues come from airport shops and restaurants.

At the low-cost airline terminal, there would not be a critical mass of passengers initially vis-à-vis the existing full-service terminals.

More important, there will not be transfer passengers who are the most important shoppers in any airport.

Coupled with the profile of low-cost airline travelers, who could be potentially much more price-sensitive, it is likely that passenger spend at the shops of the low-cost airline terminal will be lower than that at the existing full-service terminals.

Conclusion

21 In conclusion, LCC's are here to stay.

Of course, over time, it is likely that the cost gap between the point-to-point LCC's and the traditional hub-and-spoke full-service carriers will narrow.

Airfares for short-haul travel on all airlines will come down correspondingly.

LCC's themselves might also vary their business models.

Some may add frills and even introduce more services and facilities to differentiate themselves from the competition.

In time to come, it is likely there will be even more varied business models from the different airlines, offering different service and price options.

Ultimately, travelers will benefit from the greater choice.

The challenge to airports remains on how to better respond to the ever-changing business environment, brought about by the entry of new players, LCC or otherwise.

Thank you.