ICAO - World Bank - Routes Development Strategy Summit 2011

Moderator Summaries

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Sunday 2nd of October 2011 - Morning

Positioning Report

Aaron Heslehurst, Broadcaster and News Anchor, BCC

Ten years have passed since a single event shook up the whole aviation industry and changed it drastically. Since then airlines have become greener, leaner and safer.

2009 was particularly challenging for airlines but they proved resilient. After losing $9.9 billion that year, thus bringing the cumulative loss over the last decade to $50 billion, the industry has managed to recover and to show a collective net profit of $18 billion in 2010, 70 billion dollars in revenue and a capacity expansion of 5.2%. Although this is the largest improvement in the last 60 years achieved largely by government stimulus helping growth to resume and an increase in asset utilization, these profits are still weak however with average net profitability still merely 0.1%.

2011 appears promising so far, leading IATA to revise and increase its profit expectations for the year to a net profit of almost $7 billion dollars. Airlines are seeing stronger passenger demand despite the recession restraining spending. Not all has been good though. The impact of this year's unrest in the Middle East and North Africa and the earthquake in Japan has once again shown the vulnerability of the industry to external factors. Especially the turmoil in oil-producing countries has had a tremendous impact with fuel prices rising to an average of 129 dollars per barrel in the first 4 months of this year, representing a 45% spike.

Unfortunately the look ahead to 2012 is not a rosy one – the economic crisis has not yet reached the light at the end of the tunnel and the economy might even be worsening again, possibly slowing down the industry significantly.

In terms of Safety and Security, one of the most important factors in the industry, airlines and airports have managed to improved standards to the point that aviation only suffered 1 jet loss per 1.6 million flights in 2010, which represents a 40% improvement since 2001. IATA members even outperformed the industry, recording one accident per 4 million flights.

Although governments have continued to handle security issues intensively, cross-border harmonization and coordination remain patchy. IATA has however reached a breakthrough with the US Department of Homeland Security concluding an agreement based on 5 priorities to make security more efficient worldwide. One of the proposed measures presented at the IATA AGM is the 'Checkpoint of the Future' which will combine intelligence, technology and screening of passengers without them stopping, taking their shoes off or unpacking. Initiatives like this could maybe lead to a more unified system across the globe.

Airport Security cost however still remains a major financial issue for the industry having risen to an estimated $7.4 billion. These high costs have impacted the aviation industry more than any other transport industry. Furthermore aviation has been subject to many regulatory and policy issues in the past years, most recently the proposed inclusion of the aviation sector in the European Trading Scheme, which will add to the long list of challenges that this industry is facing.

Session 1: Untangling international air politics

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

Olivier Jankovec, Director General, ACI Europe

Athar Husain Khan, Deputy Secretary General, AEA

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

Prashant Sukul, Joint Secreatry, Ministry of Civil Aviation, Government of India

Folasade Odutola, Director Air Transport Bureau, ICAO

It is the topic everyone complains about these days: Taxes. Solidarity taxes, LDC Adaptation Levy, environmental and carbon taxes, tourism taxes – being introduced under the guise of "environmental measures" taxes have become one of the most prominent and troubling issues of the aviation industry. $3.6 Billion were generated solely from taxes last year, with the United Kingdom and Canada being the champions of tax income generation.

Since the EU's announcement of the inclusion of Air Transport in the ETS, this issue has become even more perturbing. Last week Tony Tyler of IATA vehemently opposed this measure, highlighting that besides only making up 2% of carbon emissions worldwide the aviation industry is already strongly committed to reducing carbon emissions by setting the CO2 reduction target to 1.5% annually and trying to cut net emissions in half by 2050.

From the outset the panel presented themselves as one harmonious voice. There was consensus that taxation has a detrimental impact on the growth of the aviation sector as well as its partners in the tourism industry. Olivier Jankovec from ACI Europe highlighted the correlation between the recovery of the industry and the level of taxation. The UK, which was one of the markets that was struggling to recover, is also one of the countries with the highest taxes imposed.

Vijay Poonoosamy pointed towards the wider impact of these taxes stressing that it is an obvious fact that air transport acts as a catalyst for growth, creating 250 million jobs worldwide. He quoted a recent Intervista study showing that every 10% growth in air transport leads to 0.7% growth in GDP. Every reduction in growth triggered by high taxes would therefore lead to a negative impact on the GDP of a country.

So how can the industry fight this? Prashant Sukul mentioned a recent meeting held in India with major economic powers like China and the US to discuss the European Emission Trading Scheme. Although the attending countries had very diverse views on how to deal with the issues of climate change they all agreed that the EU ETS presaged, both legally and policy wise, the coming of a discriminatory regime. The agreement reached at the meeting will be sent to the EU recommending that the EU ETS should be reconsidered. Prashant Sukul saw this as a much more effective way than court procedures attempted in the US by various American airlines.

The industry also needs to show the EU that the best way to improve environmental standards is more efficient air traffic management systems. But as Athar Husain Khan pointed out - the same member states that are hindering its implementation are the ones imposing high taxes. It is easily forgotten that this measure alone could reduce CO2 emissions by 16 million tons a year.

Public opinion clearly plays an important role in this context and campaigns such as ‘Hands off my holiday Mr.Tax man’ in the UK, mentioned by Olivier Jankovec, resulted in 30’000 emails sent to MDs helping to build public pressure.

Of course ICAO's role and contribution in this matter cannot be forgotten. Folasade Odutola stated that ICAO has developed policy guidance on taxes and charges. The Organization promotes the implementation of these policies and encourages the application of charges rather than taxes. Harmonisation of member states' (expressed) views at both ICAO and UNFCCC is important and beneficial.

The very lively interaction with the audience also raised the issue of liberalisation and how ETS will affect this by potentially making it difficult to trade with emerging and recently emerged countries.

Adding to the distress of the ETS and individual country taxation Charles E. Schlumberger also mentioned the issue of the Stoltenberg report, which aims to use $100bn in additional taxes to lower carbon emissions in developing countries. A full $16 billion would come from taxing the aviation sector.

It was unanimously concluded that country environment taxes and the ETS were solely a way of making money in times of recession rather than actually helping to improve environmental standards and that there are various measures that should be taken to oppose the taxes rather than risk retaliatory measures and trade wars. Fortunately the panel also mentioned some examples such as Belgium and the Netherlands who have eliminated these measures showing that these decisions can be reversed. The governments in these cases realised the revenue losses resulting from taxation were outweighing the revenue made from it. It was felt as a positive, that some successes can be reported in the taxation debate!

Session 2: The evolution of the airline alliance

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

James Bennet, CEO, Abu Dhabi Airports Company

Michael Blunt, VP Corporate Affairs, oneWorld

Ivo van der Vlis, Director Aviation Marketing, Airport Schipol

Hussain Dabbas, President and CEO, Royal Jordanian Airlines

Initiated in the late 80s global airline alliances have been on the rise ever since. Qantas and American Airlines, Westjet and Emirates, Etihad and Virgin Blue are all examples of the airline industry’s goal of collaboration. The big three, oneWorld, SkyTeam and Star Alliance have grown to 12, 15 and 27 members respectively. One and a half years ago, these three grouping accounted for 65% of ASK globally. But what are the actual advantages and disadvantages of these close-knit partnerships and who is the beneficiary?

Being part of an alliance is crucial according to Ivo van der Vlies. Alliances can strongly support the growth of airlines and can ease route development across the globe, especially in markets like Asia. Hussein Dabbas added that especially for smaller airlines with less means than the KLM’s of the world, alliances provide access to distributions channels in very competitive markets, allow airlines to expand their networks without having to develop new routes and offer clients the opportunity to fly on alliance partners. Airlines can also learn from each other’s quality standards in some cases much to the benefit of customers.

Hussein Dabbas, who’s airline Royal Jordanian has just joined the oneWorld Alliance, highlighted the importance of being able to complement other members and that in such an highly competitive world, carriers will not be able to survive unless they offered passengers access to a strong network. This makes alliances but also mergers and acquisition very interesting for small to medium-sized airlines.

Unaligned network carriers are shrinking in the world with a few remaining, primarily in the Middle East. Nonetheless the 3 major unaligned carriers are performing very well, particularly Emirates who have vowed never to join an alliance. Emirates represents a strong competition for the alliances but at the same time Ivo van der Vliis noted that this might not be a bad thing and will keep the alliances on their toes.

The discussion also broached the importance of relationships between hubs and the alliances of their national carriers as seen in Schipol Airport with Air France –KLM’s SkyTeam. This alliance makes up 70% of Schipol’s business but Jan van der Vlies noted that it is as important to hold monthly meetings with Star Alliance and maintain good relationships with British Airways, Vueling and others.

Although still very limited, alliances are also beginning to address emerging markets. Kenya Airways and Air France KLM for example, work close together to improve

Nairobi airport. Business traffic, the main target of alliances, to those regions has to grow however to allow Sub-Saharan countries to be included in alliances.

And what about LCCs? Is there space for LCCs in alliances? As Michael Blunt mentioned LCCs are becoming more attractive to global alliances as they upgrade their customer offering. Air Berlin for example, which has adopted many elements of legacy carriers, will join the oneWorld alliance next year.

In conclusion the panellist agreed that the issue of foreign ownership, which represents an important obstacle for global networks, supports the case for strong alliances. As long as aviation is defined by rules laid down 70 years ago, alliances but also other forms of collaboration such as codesharing and partnership agreements are crucial for overcoming these barriers to global networks.

Session 3: Spot the difference: Low Cost versus Legacy Airline

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

John Hanlon, Secretary General, ELFAA

Edmond Rose, Commercial Director, Virgin Atlantic Airways

Javier Suarez, Senior Manager Network Planning, Vueling Airlines

The dividing lines between legacy carriers and LCCs have been significantly blurred over the past years. Codesharing, frills and the usage of primary airports have pushed low cost airlines towards the legacy model and the pressure of competitive pricing has shifted legacy carriers closer to LCCs. But how much are these lines effectively blurring?

According to Virgin Atlantic's Edmond Rose these lines have never been as distinct as portrayed. Low-cost airline Virgin for example has been involved in codesharing and interlining since 2009. Although some purist LCCs still remain in the market many have already moved away from that model. Especially on short haul routes a new generation of airlines are trying to address passengers demand with specific frills. LCCs are however fully aware that they will never be able to compete for British Airways customers on long-haul routes.

One of the hot topics of this somewhat blurring distinction is code sharing. As Edmond Rose noted this will be a possibility in the future but is still somewhat hampered by the IT systems used by LCCs and network carriers respectively. Reservation systems used by LCCs are in most cases only built for point-to-point traffic and restricted in dealing with baggage. There are examples however like Jet Blue who started as LCC using an LCC reservation system and have now shifted to another system to make partnering with carriers such as Lufthansa easier. This has been of value to JetBlue as it now gets extra traffic from connections particularly in saturated markets.

Various issues such as for example the impact of high taxation on LCCs, which can be the make or break factor for LCC routes, were also raised by the audience. As Javier Suarez highlighted during the panel - ' 5 euro down or up can make a route profitable'.

An interesting issue was also raised by Charles E Schlumberger from the World Bank regarding the opportunities for LCCs in Sub-Saharan Africa. Virgin Atlantic's panellist Edmond Rose explained that Virgin Nigeria unfortunately ceased to operate (at least under this name) in 2009 but was one of the first of its kind. Edmond went on to point out that the market conditions and the different ways of doing business made having a safe and high quality airline in this environment very difficult.

The panel touched briefly on the topic of low-cost long haul operations, another concept that in itself does not conform to the radical low-cost model. With rising fuel costs representing a very high percentage of operational cost, it is difficult to stay true to the purist model on longer distances. This gives gulf carriers a competitive advantage in this type of venture due to subsidised fuel supplies and the ready access to low cost labour.

In conclusion the panel agreed that the industry is clearly undergoing a convergence process, which is being catalysed by a far more competitive market and economical fares.

Sunday 2nd of October 2011 - Afternoon Stream A -

Route Development

Session 1: Discovering new markets for route expansion

Moderator: Gordon Bevan, VP Consultancy Services, UBM Aviation – ASM limited

Alex de Gunten, Executive Director, ALTA

Peter Harbison, Executive Chairman, CAPA

Scott Laurence, VP Network Planning, JetBlue Airways

John Kirby, Director International, Southwest Airlines

Where will the key growth markets be in the future? Considering the subject matter of this conference this was one of the most important questions. How can slow growth in North America be offset? Will Latin America and China be the new destinations?

There was consensus amongst all panellists on one point, namely: the North American market is growing very slowly these days. Rising fuel prices and stagnant economic growth are making route expansion inside the US less profitable and make airlines either turn to trying to capture market share from other airlines or to focus on emerging markets in Latin America and China where growth potential is significant.

As noted by Peter Harbison these markets are very complex and often not as accessible for Western airlines however. Although inbound traffic to China is a great market for example, it is difficult to operate outbound as distribution systems function very differently and growth rates in the future are unpredictable. Partnerships with local airlines such as Air China are therefore very important. Chinese carriers are also starting to explore markets further afield as the highly subsidized high-speed rail system is making regional travel more competitive.

The attractiveness of the Japanese market was also discussed by the panel – is it a hotspot or a fridge? Although facing the dire consequences of the earthquake, Peter

Harbison noted that Japan is still one of the biggest premium markets and represents profitable opportunities once restrictions are removed.

Other emerging markets in Asia do not seem as promising however. India has proven less attractive because of regulations and protections and an ailing Air India, which poses a big obstacle for the future. The market is currently too fragmented with few airlines making money. Only a handful of international carriers such as Lufthansa and British Airways have managed to generate revenue from this market.

Latin America is of course another hot destination. Over the last 10 years many airlines have been reaping the benefits of this market and business traffic is showing solid growth. Lacking infrastructure and bilateral restrictions are however still an issue for potential new entrants. The top twenty airports in Latin America are already congested and out of Brazil’s 16 top airports, 11 are already oversaturated. By 2014 this number will increase to 14. Flying through Latin American hubs is very attractive for customers wanting to avoid US regulations and lengthy control procedures. According to Alex de Gunten finding the right partner and showing a long-term interest are crucial factors in entering the Latin American market.

An interesting point of discussion was also the possibly negative effect of the LAN TAM merger on new entrants to the Latin American market. Alex de Gunten highlighted the fact that Latin America is still a very fragmented market and that although LAN TAM will be the biggest airline it is still very small by industry standards. According to him they will be a great partner and a good competitor.

The important factor in developing profitable route networks is access to accurate data. Airlines need to open their research spectrum to data outside their organisation such as census data. This can also help airlines prepare for the challenges of entering into completely new markets.

Governments and protectionism unfortunately still impede African markets. According to Peter Harbison it however remains a very interesting market with carriers obviously focusing on economies tied to the quest for resources.

Session 2: Airport competition - continuing to shrink the globe

Moderator: Gordon Bevan, VP Consultancy Services, UBM Aviation – ASM Ltd

Angela Gittens, Director General, ACI World

Andrew Harrison, Managing Director, Manchester Airport

Germal Khera, General Manager International Affairs, Malaysia Airlines

Airline competition is known to be intense, but what about airports? Airports nowadays need to be able to balance low airport pricing expectations by airlines, escalating competitors' incentives at the same time as capacity constraints. Especially for smaller and medium airports this poses a great challenge.

Although panellists agree that competition between airlines is still much more intense, airports these days also compete for resources and a "share of voice" said Andrew Harrison. As airlines reflect the needs of customers, airports compete for airlines' attentions and spend a lot of money presenting themselves to airlines in addition to competing for customers directly. Communicating clearly with airlines, identifying good point-to-point opportunities to expand the network and simultaneously keeping the focus on the catchment area are crucial to the survival of an airport.

Angela Gittens highlighted the importance of involving the community, which is part of the customer base of the airport. If an airport is not perceived well its growth will be restrained due to more regulations and taxes.

The panel discussed how the evolution of airports from mere locations of embarkment to massive infrastructures with retail outlets and food and beverage facilities has shaped the market and changed inter-airport competition. This in turn is increasingly proving a competitive disadvantage for smaller airports.

Although globally airports may not compete as intensely yet, what about regional competition on a smaller scale such as North England for example? Even competition on a catchment area level is still limited as Andrew Harrison noted. Airports try to attract people to a region rather than a specific airport. Tourism agencies can be of great value for promoting these catchment areas to airlines. As Germal Khera adds however cooperating with airports in jointly analysing the sustainability of a route is more important to the airlines. Airlines in his opinion still tend to deal more with airports than with tourism bodies.

In finding new airports and expanding networks, information is key for airlines. Tourism and investment agencies but also communities can be a great source of intelligence about future passenger demand. Many airlines, such as Malaysia Airlines have specific departments that assess and analyse this type of data.

Another issue raised was collaboration between airports. Some airports have already cooperated formally and informally but in many cases there are complications because of bilateral factors and the fact that airports are not in charge of relationships or routes between different countries. This is unfortunate as the exchange of data and experiences could make airports more efficient across the globe.

Session 3: Route Financing and Funding - Clearing the hurdles

Moderator: Gordon Bevan, VP Consultancy Services, UBM Aviation – ASM Ltd

Jeff Fegan: CEO, Dallas Forth Worth International Airport

Alfred van der Meer, CEO, Hermes Airports

Narjess Teyssier, Chief Economic Analysis and Policy, ICAO

Dr. Charles E Schlumberger, Lead Air Transport Specialist, The World Bank

Amit Rikhy, VP Business Development, YVR Airport Services

What are the challenges that are compromising the ability of airports to finance route and capacity development? And if route support deals are realised – do they really work?

The panel discussion was initiated by Jeff Fegan who highlighted the tremendous risks airlines incur in developing routes, how much money is spent to develop new routes and that route support deals can significantly catalyse the decision making process of an airline. Supporting route deals can bring an airport business that could have not been attracted before. Amit Rikhy added that although it is important to attract airlines through these deals, the economics of a new route still need to match up and underlying markets have to be strong enough to support development.

The panel also voiced the issue of financing responsibility and highlighted the impact of these deals on the wider tourism community. Hotels, governments and agencies all benefit from new routes and should therefore also be included in the financing. Airlines should involve the private sector in their negotiations and try to achieve long-term commitment to support route deals.

The issue of route financing in developing countries was also raised and Charles E Schlumberger noted that in some cases airports pay airlines to serve their airports, as not enough passengers are attracted otherwise. It is however important to also develop a more tourism-friendly infrastructure as can for example be seen in the Caribbean. Failure to do so will cause traffic to simply disappear again. Unfortunately in many of these countries even incentives as named above are ineffective due to governance issues.

The importance of economic regulatory frameworks was also discussed. As Narjess Teyssier noted, guidance and policies on economic aspects of air transport already exist at ICAO. But although these are developed in large conferences with over 100 states, they are not binding and rely on the moral obligation of each state. Strict safeguards of these policies would be needed.

Sunday 2nd of October 2011 – Afternoon Stream B – Travel and Tourism

Session 1: Airline and Tourism Authority: the Golden Triangle

Summarized by Daniel Pearce, Editor, TTG

Moderator: Daniel Pearce, Editor, TTG
Kiran Jain, Head of Airline Marketing and Route Development, Dehli International Airport
Cathy Tull, Senior VP of Marketing, Las Vegas Convention & Visitors Authority
Thomas Alexander Ramdahl, Director of Networks, Norwegian Air Shuttle

Participants in this debate agreed that tourism was increasing in destinations where there was a healthy relationship between Airport, Airline and Tourism Authority - and agreed that Las Vegas was a great example of this. They questioned why more parties in the 'golden triangle' weren't co-operating together, and said it was often something as simple as personalities of the key players that was hampering co-operation. They key to the relationship was defined as having a sense of shared risk, which meant that each of the three were likely to give more to the relationship if it there was a chance for progressive route development and increase tourism.

Session 2: Government Support in the Tourism Market and the Transformation of the Tourism Authority

Moderator: Daniel Pearce, Editor, TTG
Josef Formosa Gauci, CEO, Malta Tourism Board
Alain St.Ange, CEO, Seychelles Tourism Boards
Alavaro Blanco Volmer, Deputy Director General, Spanish Tourist Board
Mario Gonzalez-Lafuente, Executive Director, Puerto Rico Tourism Company
Ricardo Anaya, Underminister of Tourism Planning, Ministry of Tourism Mexico

This panel decided that tourism authorities were getting an increased profile in aviation and routes development circles, thanks largely to encouragement from governments. In Mexico, for example, the clear objective of the government in raising tourism was something that all relevant parties could buy into, and tourism had increased as a result. When it came to national carriers and the choice of airlines that tourism authorities and airports had to work with, panelists broadly agreed that the government perspective was becoming less important - with carriers being chosen increasingly for sound business reasons.

Session 3: The next leap in social media

Moderator: Daniel Pearce
Julian Carr, Managing Director, bmibaby
Katherine Droga, Regional General Manager Continental Europe, Tourism Australia
Mark Treaway, VP of Air Service Planning & Development, Metropolitan Washington Airports Authority

Social media is bringing a new and immediate dimension to the way in which airports, airlines and other route stakeholder engage with their customers - although there was a marked difference between those parties who had woken up to the opportunity, and those where were still operating in the "social media dark ages". Twitter, in particular, was described as a highly effective tool for airports and airlines to get messages out quickly to customers, while destinations were more likely to gain benefits from Facebook - with Tourism Australia and Tourism Queensland cited as examples of destination companies which had achieve this to great effect.

Sunday 2nd of October 2011 – Afternoon Stream C – Air Cargo Routes

Summarised by Jon Ross, Editor, Air Cargo World

Session 1: Making cargo a cornerstone of your airlines' success

Moderator: Michael Webber, Owner, Webber Cargo

Ram Menen, Divisional Senior VP, Emirates Airlines

Chris Mangos, Marketing Division Director, Miami-Dade Aviation department, Miami International Airport

Lise-Marie Turpin, Managing Director, Air Canada Cargo

Moderator Michael Webber, owner of Webber Cargo, started off the three panel sessions comprising the Air Cargo Routes Stream at the World Routes conference in Berlin with a bit of a warning. "The only thing I will say -- based on experience, not on any one in the room -- is I do ask that we not have any speeches from the floor," he reminded the 50 or so assembled cargo executives in the audience.

He shouldn't have worried; what transpired was three hours of enlightening discussion about the industry, with the panelists leading the way, providing plenty of opportunity for thoughtful discourse with the audience. The proceedings felt like an informal chat, with the interviewees seated in chairs on the stage and only a solitary PowerPoint presentation in sight (that belonged to David Hoppin, who provided a succinct if slightly superfluous introduction to the industry).

Ram Menen of Emirates Airlines — along with Lise-Marie Turpin of Air Canada Cargo and Chris Mangos of Miami-Dade Aviation Department — talked about bringing cargo to the forefront in the opening panel. Passenger services are glamorous, but airports, such as Miami-Dade, are learning that there's money in cargo operations. Regarding route development, the panelists allowed that new airline services aren't created to solely service cargo — passenger services are still the main driver for airlines — but the added benefit of cargo has, for instance, helped convince Air Canada executives to choose where to expand, Turpin said.

Session 2 : Gauging flexibility in route development

Moderator: Michael Webber, Owner, Webber Cargo

Tatyana Arslanova, Executive President, AirBridgeCargo Airlines

David Hoppin, Managing Director, D.F. Hoppin & Associates

Steven Verhasselt, Business Development Manager Asia Pacific, Liege Airport

Jim Owens, VP Global Cargo, UPS Air Cargo

Stephen Verhasselt of Liege Airport began the panel on "Gauging flexibility in route development" by explaining that Liege is a cargo-minded airport that switches around the cargo-passenger outlook of many airports. While focusing on generating shareholder value, and with a little help from the government, Verhasselt said Liege is driving business in the region through its focus on cargo. Jim Owens of UPS Air Cargo gave his thoughts regarding airport operators trying to build up their cargo presence, and the panel, which also included Tatyana Arslanova of AirBridgeCargo Airlines, talked about the process of airports pursuing cargo airlines and carriers searching for new airports.

Session 3: Leveraging cargo as a revenue source for airlines and airports

Christa Soltau, VP Cargo & Logistics, Budapest Airport

Franz van Hessen, Managing Director Cargo, Cologne Bonn Airport

Shahari Sulaiman, Managing Director, MasKargo

The panel sessions could in general be boiled down to one idea: education — educating the public about what air cargo is, educating carriers and airports about the importance of cargo. In the last panel of the day, Christa Soltau of Budapest Airport talked about teaching the world about airfreight and "bringing up the importance of cargo," she said. "In my opinion, we are all sitting in the wrong panel. We should be sitting in the other panels to educate our colleagues from the airports," she added, referencing the other talks happening on Sunday at the World Routes conference.

Along with Franz Van Hessen of Cologne Bonn Airport and Shahari Sulaiman of MASkargo, Soltau talked about how an airport develops a lasting relationship with a cargo carrier. It's all about providing information to customers about what is happening in the area, she said. The first step to building a successful cargo operation, she said, is to have representatives from carriers work together with airport executives and government regulators.

Many of the attendees seemed to come away from the cargo stream with new ideas and new ways to think about old problems. If given a wider audience — specifically, the delegates at the conference that came to Berlin to talk solely about passenger services — the thoughts presented in these panels might help educate a wider sector of the aviation industry.

Monday 3rd of October 2011 - Morning

Session 1: Security and Safety – the next challenges

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

Mohamed Elamiri, Deputy director, Safety Management and Monitoring, ICAO

Jim Marriot: Chief, Aviation Security, ICAO

Dr. Charles E Schlumberger, Lead Air Transport Specialist, The World Bank

Ralph Beisel, CEO, German Airports Association

Security and safety are the most important priorities for the airline industry. But although air transport was the safest means of travel in 2010 with one accident per 1.6 million flights, incidents like the parcel bombs sent from Yemen and the attempted bombing of an aircraft at Detroit airport still put the sector in the spotlight. New rules and measures are then implemented adding to the inconvenience of passengers travelling. And with that come immense cost, $7.4 billion, which have to be covered mainly by the airports themselves.

Different opinions emerge from the panel regarding what the biggest threats will be in the future. Charles E Schlumberger noted how important it is to put oneself in the shoes of the 'bad guy' and think outside the box. Sometimes it is forgotten how many children sneak into gear wells every year because of lax security standards in other countries. The panel also voiced that sometimes the threats to the industry come from within. Bureaucrats being complacent in times of calm forget the lessons learnt from incidents and shift resources away from security.

The topic that has been prominent for decades is the issue of security harmonization. According to Mohammed Elamiri a lot has already been done to improve this and exchange of information between industry participants is encouraged. Furthermore the audit programme introduced by ICAO gathered a lot of information on security and safety from different countries, which will help guide harmonization. Ralph Beisel agreed that ICAO has done a good job in promoting standardization but still believes there are too many differences hindering global harmonization. Passengers from Israel for example, a country with incredibly strict security guidelines need to be checked again at German airports because their standards are not accepted by the European Union.

The issue of responsibility was also raised in the panel. Who is hindering the harmonization? The participants agreed that governments play a significant role in this. In many cases government officials are not involved in the industry enough to make decisions regarding safety and security standards. The European commission for example wanted to abandon the liquid rule without involving the industry to discuss issues such as e.g. what will be done with transfer passenger from other regions and is the proper technology available to test liquids otherwise. There is simply not enough communication between the governments and the industry.

A controversial question came from Charles E Schlumberger asking the panellists if they did not believe that enough was done in terms of security and safety considering it was one of the safest industries in the world. He highlighted that countries like the US that are struggling financially still spend billions on security although the risk is minimal.

The issue of working together more closely with other agencies and collecting crucial intelligence more efficiently was raised by the public and the panellist but as Ralph Beisel outlined there is simply a lack of interest and too much focus on protecting ‘passenger rights’ from the side of the government regarding this.

In conclusion various options for the future of security were discussed. IATA has already presented their ideas for a future security check at their annual meeting, which would allow passengers to go through security without having to take their shoes off or take their laptop out of their bag. As Jim Marriot noted however having only one type of check point across the globe may be unrealistic as developing countries should not be forced to have to make this kind of investment. The panellists even suggested that it should suffice that a State meets the minimum standards established by ICAO in order to avoid complex harmonization procedures.

Session 2: Predicting the impact of fuel price volatility

Moderator: Dr. Charles E. Schlumberger, Lead Air Transport Specialist, The World Bank

Lew Fulton, Senior Transport Energy Specialist, International Energy Agency (IEA)

Alan Robinson, President & CEO, Paradigm BioAviation

Professor Kjell Aleklett, Professor of Physics, Uppsala University

Ian Britchford, Fuel Saving Manager, ETS Aviation

The second session on Day 2 commenced with three short presentations by the panellist outlining the issues regarding peak fuel, the future challenges to the aviation industry and the possibilities biofuels offer as solution.

The picture Professor Kjell Aleklett painted of the future oil supply looked very bleak: With existing oil fields being depleted and newer fields needing better and costly technology and ways of accessing them, oil prices will rise and make air travel the way it is today unsustainable unless another solution is found. The growth of economies like China and India will increase fuel imports into these countries and currently oil-exporting countries will start only providing themselves and leave out Europe and the US. In the aviation industry this means that in the future airports that can guarantee supply of aviation fuel will be ruling the market, whereas others will lose out massively.

Unfortunately Lew Fulton from the IEA did not see things much differently. He showed that by 2035 the global use of fuel will rise dramatically and specifically for aviation where it will double. The 450 scenario proposed by IEA where the world would actually try to reach the UN climate goal of halting climate change at no more than 2 degrees showed however that there are ways to grow with less traditional fuel by for example shifting production to biofuels. Many countries have started looking for other ways to keep the economies running but there are ways like coal to liquid used in South Africa that would even harm the environment more.

Having heard two relatively pessimistic outlooks Alan Robinson's presentation portrayed a potential light at the end of the tunnel. Acknowledging the existence of peak oil he is introducing a new way of producing biofuel from municipal solid waste that could represent a crucial step towards the substitution of jet fuel with biofuel.

But although many panellists see biofuel as a viable solution, Ian Britchford, noted that working towards more efficient aircrafts is as important and will in the short-term show quicker results. Biofuel production is still very behind on schedule and the commercialisation of new technologies will take a long time.

The panel also questioned the role of airports in responding to these questions. Some of the participants agreed that the importance lies in partnerships across the industry to deal with this. The sector would have a real chance at becoming a leader in this move towards a more sustainable fuel source before hitting an oil crisis.

Session 3: Greener skies; greener profits – an oxymoron?

Moderator: Dr. Charles E Schlumberger, Lead Air Transport Specialist, The World Bank

Lew Fulton, Senior Transport Energy Specialist, International Energy Agency

Alan Robinson, President & CEO, Paradigm BioAviation

Professor Kjell Aleklett, Professor of Physics, Uppsala University

Ian Britchford, Fuel Saving Manager, ETS Aviation

Vijay Poonoosamy, VP International & Public Affairs, Etihad Airways

Evan Smith, Co-founder Partner, Verno Energy

The previous panel discussion on fuel price volatility lead straight into this next debate which focused on whether the aviation sector is reaping any direct financial return from the investments made in reducing its negative environmental impact. Etihad Airways has already announced its commitment to having 10% of jet fuel replaced by biofuel by 2017 and that the government in the United Arab Emirates will keep a strong focus on renewable energy. Will initiatives like these, actually directly improve carriers' bottom lines?

Evan Smith voiced his concern regarding biofuel pricing. He remains sceptical that the airline industry will ever be able to access biofuels below the price of current jet fuel. Particularly in the short- term this will not be possible as only few mature production facilities are operational. Stable prices for biofuels, potentially below those of traditional jet fuel would be contingent on agreements between biofuel producers and airports capping the prices over a longer period of time. Lew Fulton countered this argument by stating that with rapidly rising fuel prices and an increase in the scale of biofuel production there could be a divergence in price in the future and there is still hope that this could be of benefit for the airlines.

The financing of biofuel production was also discussed by the panellists. Biofuel ventures being capital intensive, with even small-scale investments requiring hundreds of millions of dollars and representing high technology and market risks make it difficult to find venture capitalists or private equity firms willing to commit. It would be left to large strategic investors such as energy companies to take on a leading role.

The role of the defence establishment as a possible source of finance but also as end user was mentioned by the panel. An equity fund has been created by the army in the US allowing it to make investments in strategic resources such as biofuels. As the defence forces are clearly committed to the usage of biofuel in the future, being a strategic investor could secure them much of the supply that will be provided in the short term while significantly decreasing the production available to airlines and airports.

With biofuels posing many difficulties in the near future what other ways of ‘greening’ the skies are possible? Vijay Poonoosamy pointed out that one of the low-hanging fruits is air traffic control, which could save 41 million tons of CO_2 by 2030. Furthermore efficient operations and aircrafts can produce significant savings and “real” returns on investment that are already visible today. Airports can contribute by cooperating with airlines on these initiatives. Primarily a change in culture has to occur which will cause the industry to become far more “carbon conscious”.

Kjell Aleklett suggested that there should be a mandated use of 5% of biofuel irrespective of the price, which would end up back in the biofuel companies’ pockets. This would be much more efficient than taxation by governments.

In conclusion Charles E Schlumberger raised what he sees as the key concern, namely: In spite of the industry being aware of this major issue which is looming on the horizon, they prefer to “ignore the 800 pound gorilla in the room”. It is this form of denial that is likely to have major consequences in the future.

Monday 3rd of October 2011 - Afternoon

<u>Session 1: Power of airport developments on local and country economies</u>

Moderator Louise Congdon, Managing Partner, York Aviation

Jost Lammers, CEO, Budapest Airport

Patrick Heck, CFO, Denver Airport

Mr. Young-Geun Lee, Executive Vice President, Incheon International Airport Corporation

Rajeev Jain, President, Mumbai International Airport

What is the chicken, what is the egg? Does a country’s airport have an impact on the economy or vice versa?

The panel session began with a presentation by Mr Young about the importance of Incheon airport’s expansion plans and their impact on the local economy, creating 35’000 jobs. He stated that the traditional role of an airport as a transportation base was changing and that more than ever airports were expected to meet customer needs and create new demand.

Jost Lammers shared his view based on a study that Budapest Airport commissioned which proved that their investment in Budapest Airport was a key driver in bringing considerable economic benefit to the whole region. Especially with regards to smaller countries such as Hungary having a strong capital airport is very important and there is a significant impact on direct and indirect employment. These benefits should be communicated more openly to the public and to government bodies.

The impact of airport cities was also discussed particularly with regards to Incheon's expansion including retail outlets and entertainment facilities. Many panellists believe in the concept of airport cities and their importance to the local economy. Rajeev Jain mentioned that land availability for these kinds of projects is however still an issue as can be seen at Bombay airport.

The moderator raised the question of the impact on the broader economy rather than just the city surrounding the airport. Patrick Heck mentioned that the attraction of international services is very important for the broader economy and can generate a slew of economic activity. The market however needs to be able to support this kind of development with a commensurate infrastructure.

The panel also discussed the importance of achieving hub status and how Open Skies can affect this process. Rajeev Jain opined that especially in India, where this is an issue, Open Skies can at times interfere with the hub status of airports by increasing competition. He believes that there is a need for Open Skies to be progressed, however in a controlled manner.

Concluding, Louise Congdon came back to the original question of chicken and egg and highlighted that it is far harder to say what would happen if you took away an air service than whether or not airports generate value for an economy. More important is perhaps not the mere presence of an airport in a region but the quality of its air services and its accessibility that can have an impact on the economy.

Session 2: Delayed Aircraft deliveries this year and beyond

Moderator: Louise Congdon, Managing Partner, York Aviation

Christopher Buckley, Executive Vice President Europe, Asia and Pacific, Airbus

Philippe Poutissou, Vice President - Marketing, Bombardier Commercial Aircraft

Pieter Groeneveld, VP Network Planning, KLM

Are deliveries back on track? Are the advancements in aircraft technology keeping pace with the challenges of energy prices and environmental policies? Two presentations by Bombardier and Airbus highlighted the advances that had been made in aircraft manufacturing and instilled confidence that deliveries were back on track.

Philippe Poutissou focused his presentation on the various drivers in aircraft demand such as economic growth, fuel volatility and the environment. With a forecasted 7000 out of 13’100 deliveries coming from the 100 to 149 seat segment in the next 20 years, Bombardier has targeted its product development at this segment and is introducing the C Series. With many new features, the aircrafts’ design concentrates particularly on the reduction of CO2, NO2 and noise. Furthermore the new technology used allows seat mile costs to compete with those of much larger aircrafts.

Innovation was also the leading theme of the Airbus presentation by Christopher Buckley. The A320Neo series will decrease fuel use by 15%, NOX by 50% and will reduce carbon emissions by 3600 tons. The presentation also demonstrated the importance of proactive production planning, which was one of the key factors for Airbus’ financial wellbeing during the recession.

Starting the discussion from an airline perspective, Pieter Groeneveld mentioned that he still sees some rollercoasters ahead especially in the short term. Airlines however appreciate a certain degree of flexibility in their short-term deliveries and are confident as far as the punctual delivery of new aircraft series in the long term.

Both Chris Buckley and Philippe Poutissou agreed that being responsive and flexible are key in delivering on time due to the fact that the long development cycle is much more vulnerable to external shocks occurring in the short term.

In spite of major changes being under way, the audience nonetheless raised doubts whether the pace of improvement could match the projected growth forecast, particularly in light of the fuel markets’ volatility. Pieter Groeneveld mentioned that although the industry would like to see a 50% reduction in fuel use, airlines see 15 % as a good start and that both Bombardier and Airbus are working hard to improve technologies to make the aviation industry greener.