

Remarks at “The Aviation Industry of Tomorrow: Emerging from the Crisis”

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Introductory Remarks

Good afternoon, ladies and gentlemen.

When I received JITI's invitation to this conference, I was very happy because of the wonderful prospect of talking with my old friends in the panel. I accepted the invitation on the spot.

Jeff and I used to discuss various aviation issues between U.S. and Japanese governments. Those discussions have led to remarkable growth of the aviation industry in both countries and excellent cooperation.

When Michael was the Executive Vice President of Northwest Airlines, I shared with him a number of opportunities to discuss airport issues. Based upon the foundations that Michael has successfully built, Northwest Airlines and NAA are now enjoying an excellent partnership.

Another member of the panel, Jiro Hanyu, and I worked together in the Ministry of Transport for many, many years. I am so glad that we are working together again today.

I was in Montreal to attend the ACI World Conference in September 2001 when that tragic event took place in the US. I remember joining emergency meetings in a tense atmosphere to discuss what ACI should do. Ever since, security has become an issue of paramount importance. All sectors of the aviation industry in every country in the world have been making every effort to increase the security level to restore the confidence of travelers as soon as possible.

Review of Past Developments

As mentioned in the introduction of my career, I served as the CEO of Narita Airport Authority for 8 years until July last year. I am now serving as Senior Executive Adviser to NAA and I am also active in the Executive Committee and the Governing Board of the Airports Council International, ACI. Therefore, please understand that my presentation will be from the airport perspective.

I would like to start with a quick review of our past. In the 1950's, when I started my career, and throughout the 1960's, airlines were the proud symbols of the countries to which they belonged. “National Carriers” conveyed the national images of their countries. Governments spared no effort in promoting the

development of national carriers. One of the main roles of airports then was also to serve the needs of the national carriers. Airports were owned and operated by the governments, central or local, and received much financial and other support. Governments, airlines and airports worked closely together within regulatory frameworks providing support for air transport.

Major changes took place in the 1970's with the advent of wide-body aircraft and massive growth in air travel. Airlines expanded and increased in number. Governments were faced with the difficulty of selective assistance for certain airlines. If left unchecked, this situation would need massive injections of funds, encourage discriminatory treatment and stifle the growth of the industry overall.

By the end of the 1970's, deregulation became the keyword. It began in the United States where it was formerly adopted in 1978. Michael successfully guided the process of deregulation as a senior executive of USCAB.

One of the most symbolic results of deregulation was airline privatization. Today, a far greater number of passengers are flown by privatized airlines than government-supported airlines. Furthermore, governments gave the market the power to decide whether airlines would thrive or disappear in the fully competitive environment.

Impact on Airports

What were the effects of those developments on airports?

First, airports have had to continuously expand their runways, terminal buildings and other facilities to accommodate drastically increasing flights, passengers and cargo.

Second, airports have had to diversify their facilities to provide services to a tremendous variety of passenger and airline needs.

Third, as a result of those two factors, airports have come to need increasing amounts of money to finance their facility needs. Greater amounts are needed to finance the construction of new airports.

Fourth, it has become increasingly necessary for airports to respond to the concern of the surrounding communities for the environment, particularly noise. Many major airports must now respond to the demands from the surrounding communities for mainly noise relief in order to expand their airport capacity.

Impact on Government Positions on Airports

Many governments have found themselves no longer capable of supporting their airports financially as they have in the past. Their concern is now focused upon making airports more self-supporting than before while enabling them to

continuously improve their facilities to respond to growing traffic. This has caused a move towards privatization of airports in many countries since the 1980's.

Although governments have decided to do away with their failed airlines through the airline privatization process, they have never said that they would do away with their airports. In contrast to airlines, which are mostly privatized worldwide, the organizational status of airports today varies depending on the countries in which they are located.

Present Status of Airports with a Glimpse into the Future

Now, I would like to quickly review the management formats of airports in major regions around the world to indicate how they are adjusting themselves to changing developments. This will also give us a glimpse into the future.

Europe

Many of major European airports are privatized. Just to name a few, the shares of BAA in U.K., Frankfurt Airport, Zurich Airport and Copenhagen Airport are listed on the stock exchange.

European airport operators are also eager to make their airports the central junction for air, rail and road transportation—the nucleus of an inter-modal transport system. This will bring more traffic and revenue. Furthermore, they are very eager to increase their commercial revenue by becoming huge shopping malls and convention centers. This will secure the funds that will allow airport operators to undertake future expansion projects.

Oceania

In Australia and New Zealand, the move to privatization of airports is almost complete. The final, most important privatization project was that of Sydney International Airport last year. Privatization in Australia is probably the most complete of any country in the world.

Japan

No doubt, you are expecting me to talk about the situation in Japan. Therefore, I will explain in some detail.

The Japanese Government announced last month its decision to privatize Narita Airport. The factors behind the decisions were that the money available to the Japanese Government for airports has dwindled because of the economic stagnation over the last ten years and that there has been growing consensus for establishing a company to manage the airport with more freedom, independence and efficiency.

Narita Airport Authority will become a company in 2004 with all its shares being held by the government initially. This is going to be a very important change for NAA. Presently, because it is a public entity established by a specific law, NAA is not allowed to make a profit or pursue any other business than airport operation. In 2004, NAA will be free to conduct other business in order to earn more revenue. Through this process, NAA will seek to list its shares in the stock exchange. The government will then sell its shares in NAA within several years. Once this is accomplished, NAA will be a fully privatized company. In fact, this is the same process as was applied very successfully to the privatization of Japan's telecom system and national railways.

Ever since NAA's birth, 20% of NAA's investment in its facility construction has come from the government. This support will stop from 2003 without waiting for NAA's change into a company. Since 2001, NAA has been obtaining part of its funds from the commercial money market. It will become more reliant on that market from this year.

A major part of Kansai International Airport's shares is owned by the public sector. This situation will remain unchanged. The crucial challenge facing Kansai International is the huge debt of 10 billion dollars that has accrued from the construction of the artificial island and airport facilities. The government has decided to give Kansai an annual subsidy of 9 billion yen for 30 years in addition to other support. This will help ease Kansai's difficulties and assist it to pursue full privatization.

Chubu International Airport is scheduled to open in 2005. It began as a private company but some of its shares are held by central and local governments. Such shares are likely to be sold on the share market to achieve full privatization.

As you can see, Japanese airports are clearly heading in the direction of privatization.

Other Asian Countries

In the past several years, a number of large, excellent airports have emerged in Asia under government initiatives. Generally speaking, government involvement in airports appears to be still rather extensive in this region. However, there are signs indicating a move towards more private sector involvement.

For example, Korean Airports Authority, which operates Gimpo and 15 other airports, was "incorporated" last year and is now called Korean Airports Corporation. It became an independent entity with the ability to seek other business opportunities and tap into private capital sources. Incheon Airport Corporation, which is now 100% state owned, intends to invite private sector

investment in the near future. Beijing Airport is operated by Beijing Capital International Airport Company Limited, the shares of which are listed on the Hong Kong Stock Exchange. 35% of the shares are held by private or foreign investors.

North America

Canadian airports were transformed into independent entities in the 1990's. They receive no government funding or subsidies. All their earnings are re-invested in airport development and service improvement. They are operated by non-profit private sector organizations free from political pressure.

Management formats at U.S. airports have not changed as much as airports in other countries. They are either managed by a public entity or by a part of a local government and are regulated and controlled by the federal government in conjunction with a state, county or city government. This is in sharp contrast to deregulated and privatized airlines.

Let me cite a question that has been raised in this connection. It may be a good top for discussion today.

Will the positioning of airlines as a fully privatized and deregulated sector, on the one hand, and airports as a regulated public sector, on the other, be the best way to serve the long-term growth of the aviation industry, including airport capacity expansion?

Future - from the Airport's Perspective

There are three points I would like to make on the future of the aviation industry. If the industry can accommodate those points, the future will be great. If not, it is going to be bleak.

Need to expand airport capacity to accommodate long-term growth of traffic

First, I want to stress that airports should be expanded or constructed to accommodate long-term growth of traffic. Air traffic will continue its long-term growth in close correlation with GDP growth, as demonstrated by Boeing's study. Yes, traffic fluctuates in the short-term as we are now experiencing but it is bound to continue long-term growth.

Only two years ago, we all complained about congestion and delays. If traffic returns to the level of two years ago, and, I assure you this is going to happen not too long from now, we will all be complaining again about the shortage of airport capacity. It takes over 10 years or even 20 years to open new runways. Therefore, airports should make its investment decisions from a long-term perspective.

Airports must have a continuous money supply to finance facility construction. Airports should be organized and operated in a manner and under a regulatory environment that allows long-term financing at reasonable costs and ensures reliable operation.

Environment

The second point is the need for changeover to quieter aircraft.

There are two ways to expand airport capacity. One is to expand capacity at existing airports. The other is to construct new airports, and this can be accomplished only after many years and with enormous costs. Therefore, enhancing existing airports is more realistic and effective, if it is possible. Most of existing airports serving major cities are prevented from expanding their capacity because of community concern over increased environmental problems, especially those involving noise. Use of quieter aircraft is the most effective way to alleviate these concerns. In fact, it was proved at Narita that the use of quieter aircraft coupled with various noise relief measures resulted in the community's agreement to increase slots and construct the new runway. Quieter aircraft indeed create airport capacity. Therefore, it is my sincere request to airlines to continue changing their fleets over to quieter aircraft and also to manufacturers to continue to produce quieter aircraft.

Simplifying Passenger Travel (SPT)

The third point is the need to apply the rapid advances in technology to airport operation. Today, passengers have to stand in queues at various stages at airports. They wait in a queue at the check-in counter, a queue at the security checkpoint and a queue at passport control. This is a waste of time for passengers and a waste of money for airports which must provide precious space for the queues.

Many airports such as Narita Airport, ACI, IATA, ICAO and government agencies are working together through a project called Simplifying Passenger Travel, SPT, to encourage the application of advanced technology to reduce waiting time and queuing points at the airport. By the use of advanced technology, it should be possible to check a passenger through a single point only and even without waiting in a queue. Advanced technology should be applied to enhance security as well. In fact, SPT has a potential of improving both service and security. I sincerely hope that SPT will be given special attention and support from all involved in aviation.

I am happy that my work with ACI has given me a global perspective in reviewing the aviation industry. ACI provides excellent opportunities for airport operators to discuss common issues and come up with effective resolutions. ACI also provides opportunities to express the views of airports around the world in a single voice to ICAO and other international organizations. I cherish

ACI activities and wish to continue to do my best to work with ACI for the growth of the aviation industry.

Let me conclude my presentation with a short comment as the Chairman of Japan Tourism Association. Growth of tourism depends on the growth of aviation, and vice versa. I sincerely hope, therefore, that the aviation industry will maintain the perspective of constantly improving passenger convenience. This will result in further growth of tourism and the aviation industry as well.

Thank you for listening.