



TRANSPORT FOR A GLOBAL ECONOMY

*Challenges and Opportunities
in the Downturn*

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MODAL WORKSHOP 1

*Gateway Airport Investment & Development
of Airline Services for a Global Economy*

*Current Issues of Civil Aviation
and Gateway Airport Investments*

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GATEWAY AIRPORT INVESTMENT
AND
DEVELOPMENT OF AIRLINE SERVICES FOR A GLOBAL ECONOMY

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The aim of the discussion is defined as “ensuring development of adequate infrastructure for aviation crucial to the functioning of the global economy whilst properly reflecting aviation’s environmental impacts.”

There are several assumptions embedded in this phrase.

First of all let’s take the term “adequate”. Do we all agree on a level of adequacy of an aviation infrastructure? Do we have a conventional method which contains a set of principles and formulae to determine one? I can pose many other questions if I am not to be accused of nullifying our aim.

Secondly, this adequacy is portrayed as a prerequisite for a global economy which we want to see working the way we have observed for a long time. Under which principles and conditions the functioning of the global economy is desirable? Can we trust a system, core of which is energised by a untrustworthy financial machine? How wise is it to tie up the destiny of genuine effort based economic activities with those unchecked and unchallenged paper tower builders? Before “ensuring adequate infrastructure investment for aviation, shouldn’t we ensure the properly functioning global financial system which supports real activities with creation of “adequate” credit volume? Thus, until and unless the foundation is free of abuse and unless consequences no longer blackmails the man on the street for unfair bailouts, why should we center the argument around functioning global economy in answering questions set forth today?

Thirdly, we must stop being apologetic as far as environmental impacts of aviation is concerned until an independent “may be UN sponsored” body determines beyond doubt the relative economic, social and environmental costs of different alternatives to air travel. Besides, what level of impact to the world we live in is acceptable and who determines the level of acceptance, with which objective function, data and methods?

To sum up, we are now asked to optimize the level of air travel service with the objective of having smoothly functioning and growing global economy under the constraint of environmental concerns. Yes, I can put my Ph D hat and make a model using some greek letters as parameters accompanied by variables of all sorts, dependent and explanatory ones. But it takes us nowhere. Once again I want to assure you that I am not trying to nullify the efforts in this forum, but rather want to display the fact that we are walking on a uneven ground and we do not have solid reference points agreed by all relevant parties.

With these basic criticisms, I would like to develop my argument as follows:

First, we need to go to the basics. Our starting point should be ensuring full democracy without the hegemony of bureaucratic oligarchy. Hence, governments must be in a position to determine their peoples' willingness regarding issues of economic and social development. People must be in a position to reveal their preferences as to what extent they want to be part of or exposed to a fully formal global economy and how far they want to preserve or insulate their local informal economies to partially avoid external shocks.

Governments must understand and surrender to the wants of their own people rather than imposing obsessive aesthetic approaches. People may want to keep some informal activities beside their integration to globally connected formal economy. Thus, maintaining this balance is crucial for moral, mental and economic prosperity and dignity of people. Because, completely becoming part of the global network and being without a job or an income stream with no back linkage to local economies is the biggest tragedy a household can experience today.

We may say that development is a process that one can take initiative and prepare a background so as to get entrepreneurs involved. If some place is not accessible, you cannot attract investment and create jobs. Thus, local authorities should consult with local people and orchestrate a process by which a final decision about airport investment is reached. GAI is not a warranted end but rather a root cause of local economic openness and revealed willingness about integration to the global network.

One issue with huge importance is the fact that governments should not perceive GAI as a direct source of revenue since it is the source or generator of income which in turn contributes to governments' budget anyway. GAI is one of the key infrastructure elements that many other economic, social and cultural activity is

based upon. Thus, as a non-profit organisation airports must be owned by local communities without being turned over to private companies but operated by private companies in return for a reasonable management fee under certain dynamic KPIs which reward generously any increased efficiency. Airport charges must just cover along with the maintenance and operational costs also fixed investments. Non profit Airports Entities and its private management should be audited externally by airlines and other important stakeholders. Therefore, we no longer need to worry about things such as airports' market power and excessive charges, underinvestment, overinvestment and poor service quality. So the prescription is to get everybody involved.

Planning process of a GAI has to involve multi phase approach, thus as the investment starts generating its returns and settle outstanding initial credit balances for fixed assets, new phases can be materialized gradually in line with the local economic development. We all observed that unnecessary credit expansion has been proven to be the source of global financial meltdown.

Another issue with huge importance is the interaction among issues such as implementing competition law, including entry/exit to/from airline industry, optimal resource allocation for economic and environmental efficiency and finally assignment of flight rights to airlines. This issue is further complicated with given current status i.e. initial conditions. Existing airlines have a headway advantage, but do not they deserve since they carried many risks until the current state is achieved? Isn't it legitimate to consider grandfather rights as a sort of kick-back payments to early comers who actually helped created existing traffic volume?

Therefore, regulators in some cases are squeezed between yielding to few airlines as the catchment area of an airport is dynamized and becomes a pull factor for economic activities after initial phase in which airport plays the role of push factor to the local economy and being concerned for the adverse effects of sectoral concentration. It is not only the fixed investments which make an airport up and running.

From an environmental angle, one can claim that higher CO₂ emission and more competition go hand in hand. It is extremely difficult to enter into air travel market for newcomers unless they create a unique business model and identify a niche. Many failures have been experienced in the past due to abundance and availability of cheap finances created by investment bankers. Those examples were bringing nothing new but rather a "me too" type airlines. If existing legacy carriers have lost

their ability to adjust to the changing circumstances, some can find a space good enough to stay afloat and grow later.

Hence, all these competition dynamics are letting sub optimal airline capacities to be created and operated. At the end of the day it is either inefficient and inflexible legacies or failing new entrants go bankrupt with wasted capital and other resources. If our primary concern is to pollute our atmosphere least given the number of passengers kilometers flown, then we need to operate bigger aircraft, single or double aisle depending on the depth of the market and stage length composition as well as plan less frequency against convenience. But this may contradict what we want to achieve through competition. Other than imposing limits to the age and the noise level of an engine, I see no straight forward answer as far as involvement of regulators is concerned. Congestion of airport capacity is another source of pollution and has to be dealt with immediately by fair and direct restrictions or capacity enhancements.

If the airport has already been fully utilized, with regard to the questions of how much capacity is needed, and what would be the economic benefits of additional capacity, my suggestion is as follows.

Airlines can apply for enhanced as well as additional capacity and propose a plan to back up for its finances against the assignment of specified capacity for a specified duration. This proposal can be announced and other competitors are encouraged to participate by offering more favorable commitments to airport authorities. Thus, since I also propose non-profit airports, market forces will determine further development of airport investments. This should never be in the form of airport-airline integration. Furthermore, other than greenfield starts there should be no public incentive for investment toward additional capacity.

The process defined above may favor flexible network carriers. However, after the creation of Low Cost Low Fare (LCLF) business model, one should be worried less about lack of competition and concentration, since hub'n-spoke network carriers will be challenged from below by LCLF airlines despite their model heavily consists of point to point traffic.

Rationing scarce capacity is a problem of huge centers of economic gravity with exhausted opportunity of further capacity expansion. Since there is already sufficient competition in such airports, airlines will assign their rights to one another for a lumpsome price. This current practice in LHR for instance has nothing wrong

with it. If assignment prices turn out to increase further other airports such as STD will speed up their traffic volume due to possibility of more reasonable ticket fares. In any case a minimum level of flights should be required from airlines in any airport for efficiency.

We have to fight poverty and promote prosperity to the extent that is required and demanded by local communities. We must not see natural monopolies such as airports as a direct source of public revenue. They must be promoting private income, not discouraging airtravel through higher prices with the help of privately run non-profit organization. Airlines can survive as long as they have sound business model, proper scale of operation, sufficient operation frequencies and connectivity whilst they do not loose their flexibility to adjust to changing conditions. The spectrum of existing business models ensures enough competition. Regulators should concentrate on security, safety, operational efficiency and unfair commercial practices. Initial investment has to be done with multi-phase planning approach leaving capacity expansions beyond first phase to market forces.

Global economy is a fact of today's world and countries and local economies have to choose the level of integration through unimpeded democratic processes. Horizontal ties should not be the case among airports as a result of proposed non-profit structure. Central government must enter into picture to induce and stimulate local authorities by assisting them in project design, planning, finding initial credit and determining optimal airport locations in terms of efficient air traffic management which will become an integral part of global as well as regional airspace.