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‘Airport of the Future’ by Arnaud Feist

This report summarizes the 8th Airneth Annual Lecture given by Arnaud Feist, CEO of Brussels Airport company on the 24th of October 2017 at De Rode Hoed in Amsterdam. The lecture does not necessarily represent the views or opinions of Airneth, the KiM Netherlands Institute for Transport Policy Analysis and the Dutch Ministry of Infrastructure and the Environment. Any errors in the report are the responsibility of Airneth alone. The slides of Arnaud Feist’s presentation are available on the Airneth website.

Lecture

Introduction

Brussels Airport experienced turbulent times over the past two decades. Its hub carrier Sabena went bankrupt after the September 11 attacks, which had far reaching implications for the airport and its network. Since 2008, the airport and its new hub carrier Brussels Airlines worked hard on rebuilding the network. In 2016 the airport was hit by terrorists and had to close down for 12 days.

Passenger numbers however quickly recovered and the airport will likely process more passengers than ever before in 2017. This shows the resilience of the Belgian airport, and the strength of its catchment area. Due to this resilience, airlines and politicians are convinced of the need and potential for a strong airport in Brussels.

Brussels Airport today

Brussels Airport’s catchment area is one of the strongest in Europe, with around 15 million inhabitants living within 90 minutes of travel time from the airport. This is more than Frankfurt, Munich, Zurich, and Schiphol. Brussels Airport serves the capital of Europe with its many organisations, such as the European Union, NATO, a large variety of NGOs, 300 embassies, and more lobbying organizations compared to Washington. As a result, there is a high demand for air travel. Brussels Airports currently offers 210 passenger destinations in 85 countries, numbers that are comparable to Heathrow’s network.

In total there are now 65 passenger airlines and 20 cargo airlines operating out of Brussels Airport. These numbers are growing, partially due to the recent capacity restrictions at Schiphol Amsterdam Airport. One third of Brussels Airport’s traffic is business related. Around half of the traffic consists of Belgian residents and 20 per cent consists of transfer traffic. Although the transfer share is relatively limited compared to the major European hubs, it is growing.

From a Belgian perspective, Brussels Airport is the second economic engine of the country, after the port of Antwerp. In total, 20,000 people are directly employed and around 40,000 are indirectly employed because of the airport.

Brussels Airport wants passengers to remember the airport. The airport therefore not only invests in infrastructure, but also in improving the passenger experience, efficiency and comfort. This includes investments in way-finding and offering special Belgian products in the terminal.

Heavy competition

Although Brussels Airport serves a large catchment area, it faces competition from multiple other airports. These include three of the four largest airports in Europe: Schiphol, Frankfurt, and Paris Charles de Gaulle. In addition, a number of smaller regional airports compete with Brussels Airport, such as: Charleroi, Antwerp, Lille, Dusseldorf, Eindhoven and Maastricht. In the end, all these airports compete for the same passengers and airlines. Additionally, airports compete with



other transport modalities, such as high speed rail to London, Amsterdam and Paris. The statement that airports are local monopolies therefore does not hold for Brussels Airport or its direct competitors.

While competition among airports is fierce, not all airports compete on all levels. According to Brussels Airport, there are three classes of airports. First, the 'Global Gateways', such as London Heathrow, Paris, Frankfurt and Schiphol. Then there are 'Specialist Gateway', such as Brussels Airport, which serve specific regions of the world. Finally, there are airports that focus on local passengers, such as London Gatwick, Barcelona and Dusseldorf.

Besides competition between airports, the airline market is also very competitive. Europe is currently served by too many airlines. Market consolidation will likely take place in the future. Only 3 or 4 main network carriers may remain, and perhaps just 2 or 3 low-cost carriers. Additionally, the business models of network and low-cost carriers will further converge.

Difficult times and recovery strategy

The end of the 90's were the glory years of Sabena. In this period, Sabena quickly expanded its hub network and transfer traffic. After the September 11 attacks Sabena went bankrupt and Brussels Airport lost one third of its passenger base overnight, including most of its transfer traffic. Part of Sabena was taken over by a group of investors.

The airport was privatized in 2005, with 75 percent of the shares currently owned by private investors. The new owners wanted to become less dependent on the home carrier and started attracting new airlines, such as easyJet and Vueling to serve the European market, and Jet Airways to develop intercontinental markets. At the time the airport still mainly served local passengers.

This period of recovery however was short-lived due to the global financial crisis, reducing traffic by around 8 per cent between 2008 and 2009. In the following years Lufthansa stepped in to Brussels Airlines, and the carrier became a member of Star Alliance. A new period of growth started both in terms of local and transfer traffic. Traffic levels for the first time surpassed those of the glory days in the 1990's.

In 2016, the airport was hit by terrorist attacks and had to close down for 12 days. Although local Belgian and transfer traffic quickly recovered in the months immediately after, cross-border passengers and visitors to Belgium seemed more reluctant to travel from or to Brussels. The image of the country, the city and the airport were damaged. No airline however, decided to leave the airport because of the attacks which signals the strength of the airport's catchment area.

Despite the ups and downs, the airport was able to grow its traffic over the long-term. The success of Brussels Airlines has played a major part in the airport's recovery. The airline nowadays offers an extensive European network of destinations as well as an intercontinental network focused on Africa. The airport expects to return to the top 15 of European airports in the coming years.

Future trends

World population is expected to increase by 20 percent over the next 20 years, but more importantly, the middle class will increase by 71 percent over the same period. This leads to an expected increase of 75 percent in air travel. Airports are becoming the growth engines of the 21st century, just like roads and railways were in the 20th century.

Where the European and North American markets have matured, the Latin American, African and Asian markets are expected to grow significantly over the coming years: between 3 to 4 percent per year. New aircraft types, such as the new Boeing 787 and Airbus A350's allow airlines to



operate long-haul routes with relatively little demand. Brussels Airport focusses on the growth markets.

At the same time the aviation industry faces ever increasing capacity problems, not only in the air, but also on the ground. According to Eurocontrol, 120 million passengers will not be able to fly in 2035 due to capacity shortages at European airports. If society wants to accommodate this growth, additional investments in airports are required across Europe.

Brussels airport in the next 25 years

Airports are increasingly becoming coordinators between companies providing a single service to the passenger, such as airline, car rental, security, ground handling and retail companies. One of the challenges is to get all the companies aligned to offer the passenger the best user experience at the airport. Digitalization allows the airport and its partners to understand who their customers are and provide them with the service and information that they need.

Brussels Airport Company is more than just an airport. The company distinguishes between four main business areas: the airport, a business centre, a logistic platform, and an intermodal hub. In 2040 the airport expects passenger traffic to have doubled relative to 2000 levels: from 21 million to 40 million. In addition, cargo tonnage is expected to rise from 690 tonnes in 2000 to 925 tonnes in 2040. This growth however does not result in more flight movements. Due to the use of larger aircraft and higher load factors, the number of flight movements is expected to decline from 326,000 in 2000 to 315,000 in 2040.

The most immediate capacity constraint for the hub carrier is the airport's maximum peak-hour capacity. Brussels Airport looks at different ways of dealing with this constraints. New technologies, for example, allow the airport to increase its peak-hour capacity from 74 to 87 movements per hour. Further increases to up to 93 movements per hour are only possible by extending the runway or the taxiway. Analyses showed that increasing peak-hour capacity will not increase noise levels around the airport. Noise levels around the airport are projected to be significantly lower compared to 2000 levels due to the reduction in flight movements and the use of quieter aircraft. Ground capacity can be increased by extending existing piers and/or building new ones.

Regarding the business centre, Brussels Airport is developing office space to big companies in close proximity to the airport. This proximity attracts companies which are dependent upon air connectivity, but also companies that require good intermodal access and other facilities. On the logistics side, the airport is developing its cargo facilities. Brussels Airport was the first to be certified by IATA for the transportation of pharma products. Their specialist knowledge and infrastructure for temperature-controlled transport makes it the world leader in this market. Additionally, DHL has one of their distribution facilities at Brussels Airport.

The ultimate goal is to develop the airport as an intermodal hub to benefit the Belgian population and economy. A goal which will be realised in close coordination with the local community.

Q&A

In your presentation you showed that 5 percent of the traffic at Brussels Airport consists of cross-border traffic. Now that the new Dutch government considers re-introducing a ticket tax, do you plan to target the Dutch market even more?

Clearly a Dutch ticket tax creates an opportunity for Brussels Airport. Although we are aware that competing with Schiphol directly will be difficult, given their supply of routes, we are still optimistic. On the cargo side it is already happening, and on the passenger side we will do our best to attract



those customers.

Regarding the ticket tax, we think it is completely the wrong approach. Back when the Belgian government was contemplating introducing one of their own, we persuaded them not to do so. Passengers will simply fly from elsewhere, which might be detrimental to the environment.

Do you see the takeover of Brussels Airlines by Lufthansa as a potential threat in the sense that they might rationalize their hub strategy, moving routes from Brussels to Frankfurt for instance?

Firstly, we see the takeover as a positive development, since Lufthansa provides Brussels Airlines with the necessary capital to grow. Lufthansa has been a partner for many years now and thus far this has been only positive.

The catchment area of Brussels Airport has stronger demand than around Frankfurt, bigger than Munich and Zurich. They understand this. Lufthansa does not own only Brussels Airlines, but many others such as low-cost airline Eurowings. And interestingly, the CASK (Cost per Average Seat Kilometre) is lower for Brussels Airlines than for Eurowings. So you could argue that Brussels Airlines is already more advanced at offering a hybrid hubbing model than Eurowings does. It was already announced that it will be Brussels Airlines that takes over some of the long-haul routes from Air Berlin, such as the one to New York. So we think that Brussels Airlines does have a know-how or an advantage that will make it beneficial for Lufthansa to continue their business model.

Are there considerations in your plans for unforeseen circumstances that do affect traffic? And how do you work on long term projects with fluctuating political will in Belgium?

What we showed here today is a vision. We know that there will be turbulences and unforeseen events. But what we have also learned is the resilience of the market. Whether it is a bankruptcy or terrorist attacks. The market is there and the demand is there. Of course, unforeseen events could make us change course within 5 years, but as a company we need to have a strategy and nothing in our experience tells us that our vision is unrealistic.

It is this vision that we have put on the table to the Belgian government. It is up to them to decide whether we need an airport in Belgium, given all the competitors around. But we try to make them understand that having an airport is of invaluable strategic importance. And we believe they are starting to understand that. But if they don't, we are a private company, we have other plans as well. But if we do develop an airport, all we need is a stable framework to work with.

Brussels being in the centre of high-speed rail systems, do you consider them a threat or an opportunity?

Both. London went from being our main destination to losing more than half our passengers after the introduction of the Eurostar train. But high-speed rail is important. And although the airport is not linked to the high-speed rail network, we manage to attract passengers through them, such as people living in Paris that use Brussels Airport to fly to Africa.

Do you see being a private company as an advantage or a disadvantage, compared to being publicly owned?

If you ask me whether the privatized model works, I think that it does. Looking beyond Belgium there are many examples that show that it is working. If you are owned by long-term investors it can definitely work, as is the case with us.

When I compare our situation with that of other Belgian airports which are publicly owned, we have the advantage that it is us who decides on investments. It is our money and we do not have



to compete with the post services or the railways. We decide. I see this as very positive. So in my view the model works if you have the right investors.

And it works both ways. Looking at public airports you have to ask yourself: do you really want to invest large sums of public money while there is so much private capital available? I think today is a golden opportunity for governments to privatize their infrastructural assets if they find the right investors for the long term.

How can you be sure that politicians which may come and go will be supportive of your long term views?

The first part of our plan, to increase peak-hour capacity from 74 to 84 movements does not require major investments. The second part to increase it further to 93 movement does take major investments and dialogue with stakeholders, and will be a difficult and political decision. But as we say to the government, doing nothing is not an option.

Airlines want to grow, and if you cannot accommodate that growth they will look for capacity elsewhere. So it is challenge, but I think by talking we will be able to explain what we want to do and the importance of it for Belgium.

The airlines play a major part in this vision for 2040. But what changes do you foresee for them?

From our point of view, we will continue to enable them to make their processes as efficient as possible. But for us it does not necessarily matter which airlines will be there. Whether it is Google Airline or Lufthansa, their needs will not differ nor will the passengers'.