

# Analysis on China's Airport Industry

ResearchInChina  
水清木华研究中心

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## Continuous and stable growth in global civil aviation industry

- In the forthcoming two decades, the world's aviation transportation industry will rise at an average annual speed of 5.2%; in the future, a quarter of the world's aviation loading capacity will be concentrated in Asia, one of the expected regions that grow fastest.

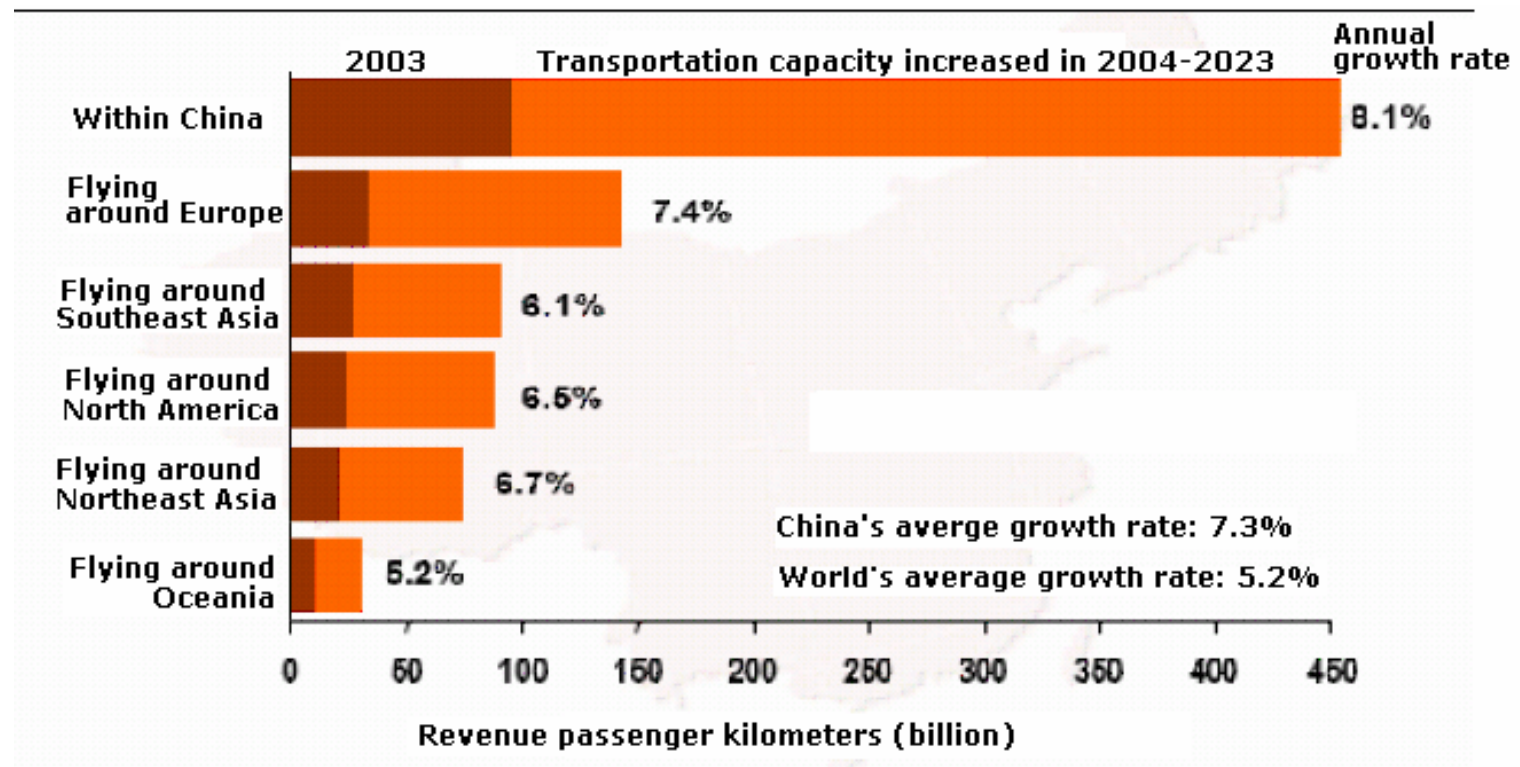
### Comparison of global civil aviation industry, 2006

Region ↕	Asia ↕	Asia/Pacific ↕	Europe ↕	Latin-America ↕	Middle East ↕	North America ↕	The whole industry ↕	China ↕
Passenger traffic ↕	8.60%	5.30% ↕	5.30%	-2.40% ↕	15.40%	5.70% ↕	5.90% ↕	15.40%
Freight turnover ↕	5.90%	4.70% ↕	1.70%	-2.60% ↕	16.10%	6.00% ↕	4.60% ↕	14.90%
Ratio of seat occupied ↕	68.30%	74.60% ↕	77.00%	73.00% ↕	73.40%	80.20%	76.00%	73.20%

## World-leading growth rate of China's civil aviation industry

- In 1996-2006, with the CAGR of around 12.17%, China's aviation passenger turnover increased to 235.961 billion passenger kilometers in 2006 from 74.784 billion of 1996.
- With the CAGR of 13.78%, China's aviation freight turnover ascended to 9.067 billion ton kilometers in 2006 from 2.493 billion of 1996.
- With the CAGR of 14.09%, China's total aviation transportation turnover rose from 301 billion ton kilometers in 2006 from 8.061 billion of 1986.
- Merely in the short period from 2000 to 2005, China's total aviation transportation turnover came to 2nd from the 9th place in the ranking of ICAO members.

# Estimated growth in China's future aviation passenger transport market

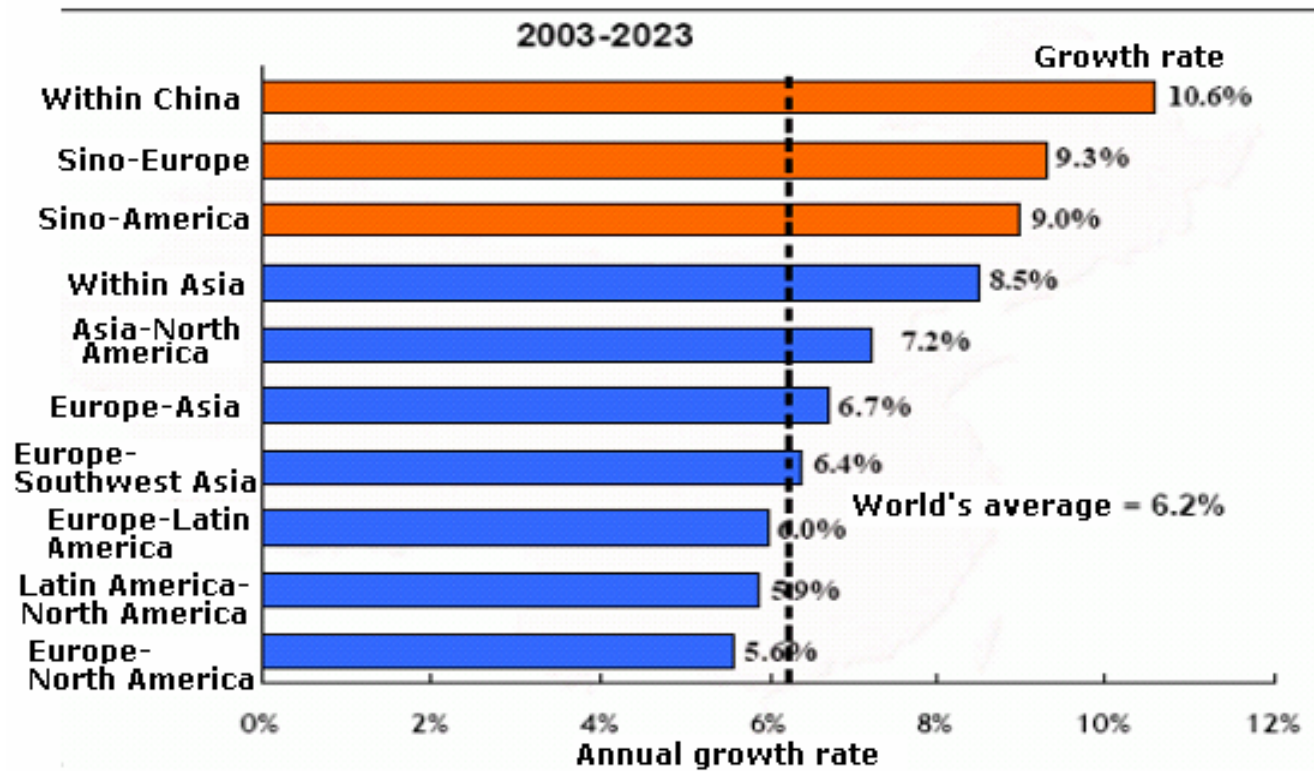


Source: The Boeing Company

## China's civil aviation industry is getting increasingly promising

- Universally speaking, it takes about 3-4 decades for civil aviation industry to enter mature period from growing period, and the CAGR is about 1.5-2.2 times than that of GDP in the same period.
- According to the comparison and analysis of GDP growth rate and total aviation turnover ever since 2000, the CAGR of China's total aviation turnover was about 16.17% in recent years, approximately 1.66 times than that of GDP (9.73%).
- The latest estimation shows that in the forthcoming years, China's GDP growth rate will be not lower than 8.5%, and calculating by this, China's total aviation turnover will rise at around 14.13%, higher than the expected 14% of the 11th Five-Year Plan and still leading globally.

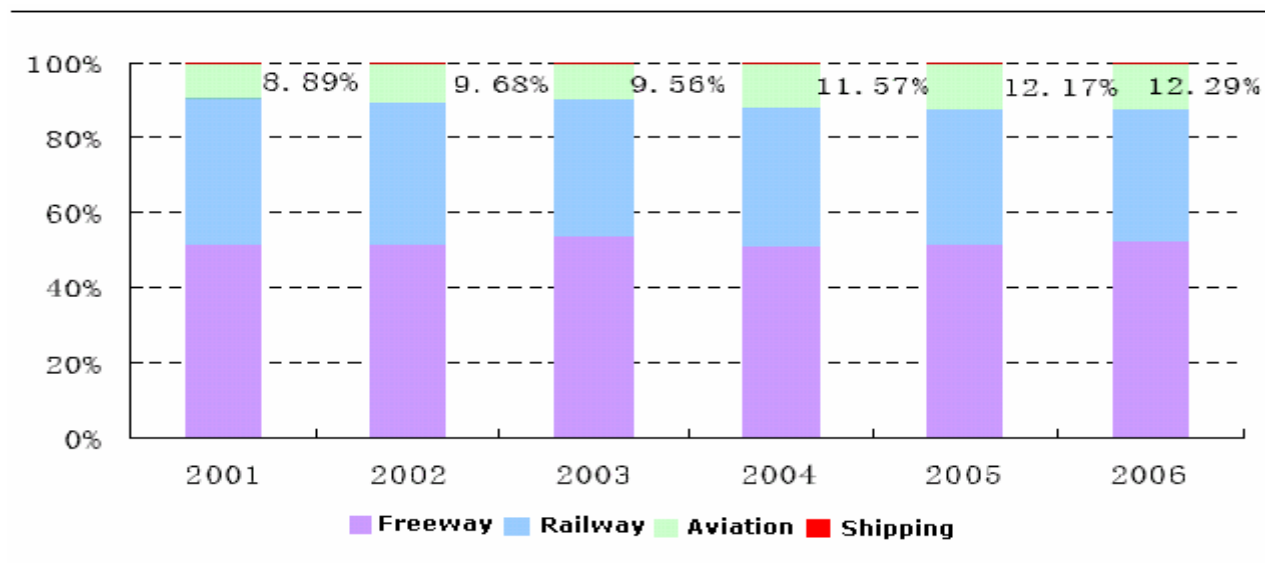
# Estimated growth in China's aviation freight market



Source: The Boeing Company

Due to the consumption upgrade boosted by continuous economic growth, air passengers are sharing an increasingly larger proportion in the comprehensive transport system, thus the traveling structure of aviation passengers is also further transformed.

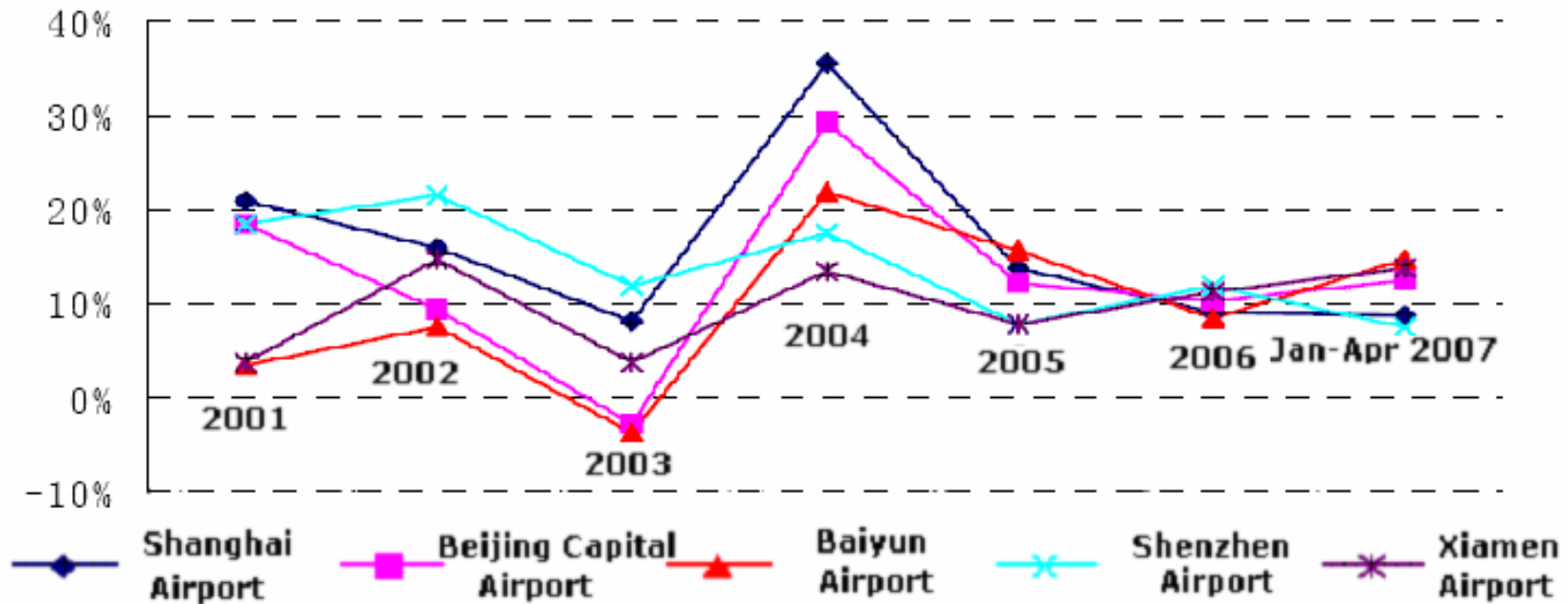
### Passenger turnover structure of major traffic and transportation modes



Source: ResearchInChina

## Growth rate of airplane departure/land mixture capacity

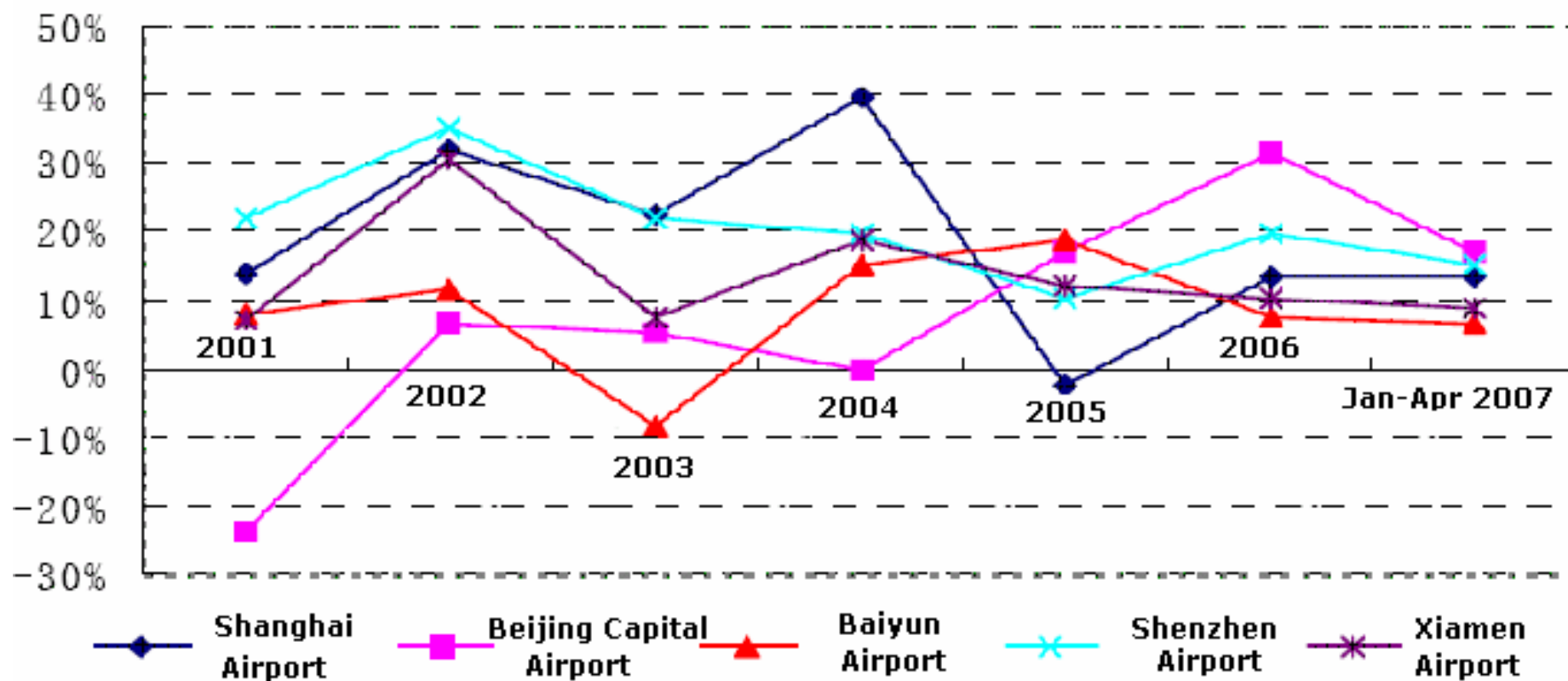
Three operation statistics of China's major airports will hike at 10% minimally.



Source: ResearchInChina

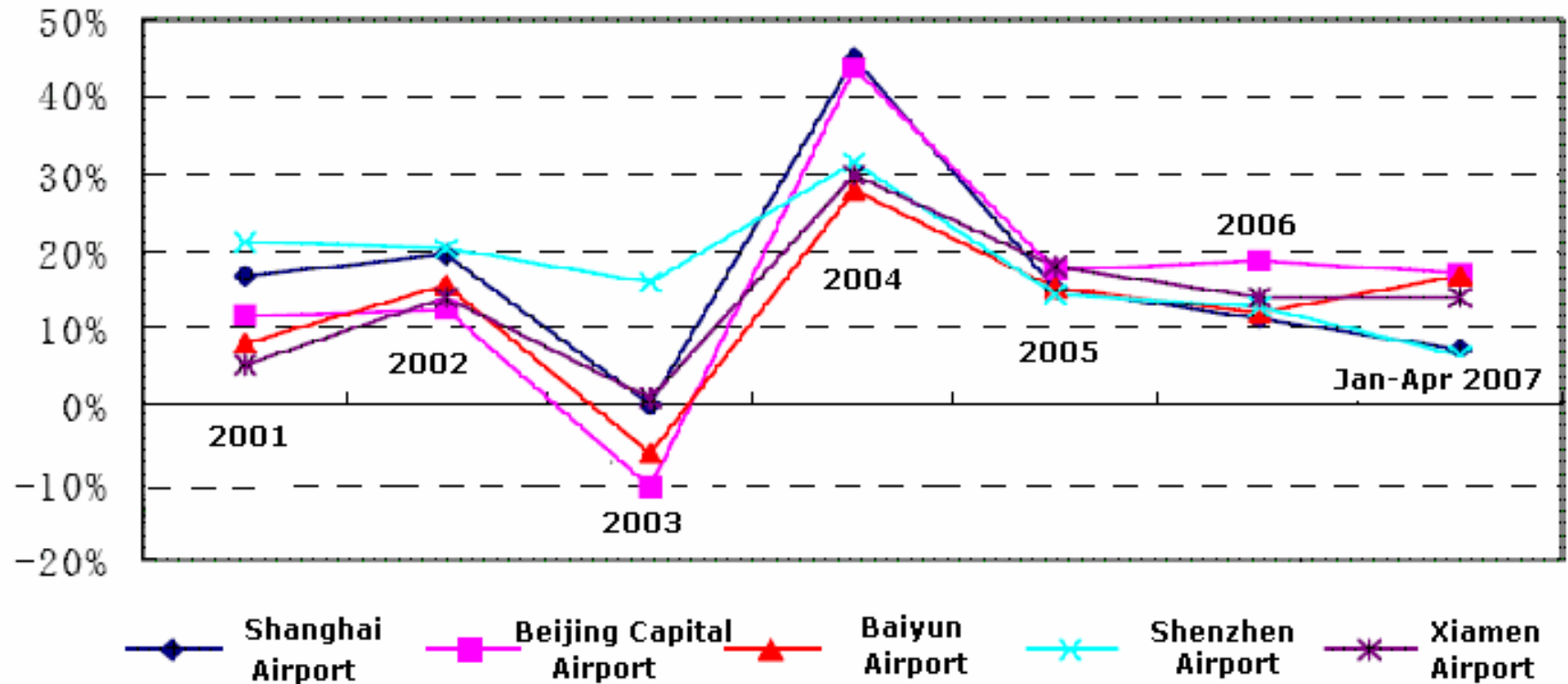


## Growth rate of postal cargo handling capacity



Source: ResearchInChina

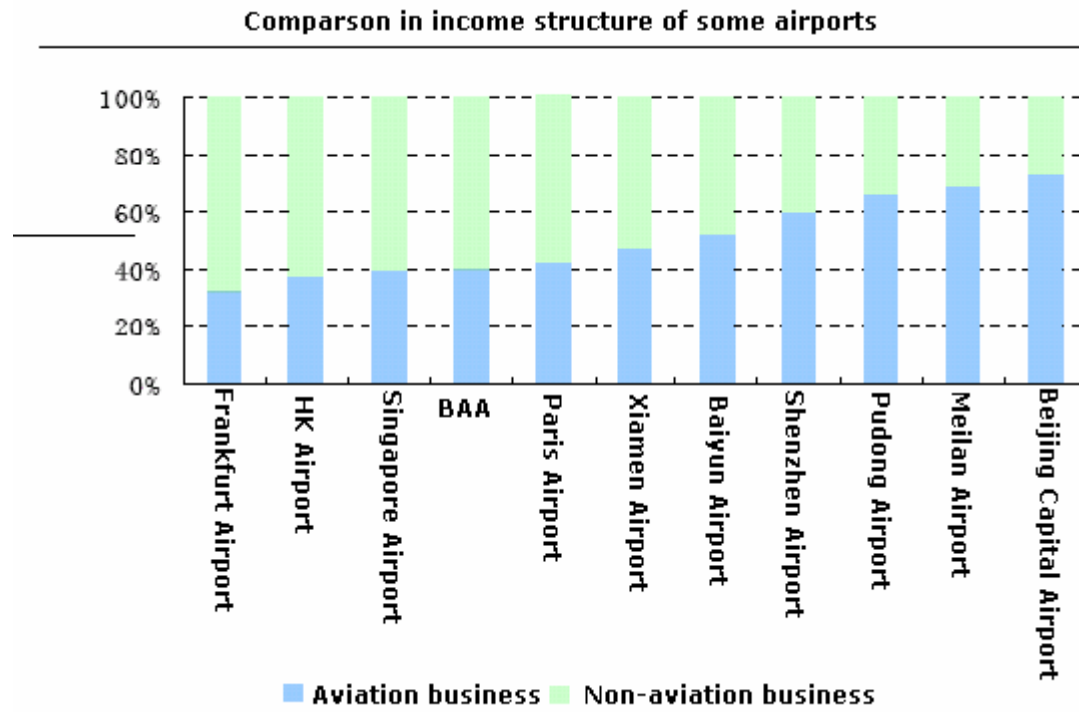
## Growth rate of passenger handling capacity



Source: ResearchInChina

Non-aviation business income has become the major revenue source of international advanced airports.

Income from non-aviation business not only shows an airport's ability in developing its potential resources but also acts as an important part generating profit. The proportions of aviation business and non-aviation business to the airport's total income have become a critical indicator to evaluate the commercialization degree and operation level of an airport.



During the 11th Five-Year Plan period, non-aviation business will realize long-term development and share a larger proportion to the airport income, and will finally become one of the core factors increasingly promoting the investment value of China's hub airports, which can be attributed to the following respects:

- 1) The continuously rising boom degree of aviation transport industry has become a key factor to support the flourish of airport industry, which will benefit the exploitation of non-aviation business;
- 2) China's non-aviation business currently having average operation level will be remarkably improved in profitability along with the promotion of airport management level as well as related recognition degree.
- 3) The reconstruction and expansion of major airports will largely increase the actual area of facilities such as terminal building, freight and warehouse, and then extensively enlarge the scale of non-aviation business.
- 4) Major airports are negotiating about the new commercial rental contracts, and the new contract price will be raised to a large extent; in this case, the profit from non-aviation business will be rapidly promoted within a short period.
- 5) Affected by the policy and operation strategies, such ascription of influential factors in China's airport companies as designated operation rights and exclusive operation rights has remained ambiguous, yet along with the broadening of policies, these rights will enter a sound period.

## The opening of traffic rights will benefit China's airport industry

Time	Event	Content
Jul 2004	Sino-America Agreement on Air Traffic Rights	Passenger flights up by 30% and freight flights up by 100%
Sep 2004	Agreement on Air Traffic Rights of Mainland China and HK	Passenger flights up by 30% and freight flights up by 100%
May 2005	Sino-Canada Agreement on Air Traffic Rights	To triple flight amount
Jul 2005	Agreement signed by UPS and Shanghai Airport	To establish transshipment center
Jul 2005	Agreement signed by FEDEX and Guangzhou Airport	To establish Asia-Pacific transshipment center
Nov 2005	New aviation & transport agreement signed by China and Singapore	To fully open bilateral markets
Jul 2006	Expansion aviation right agreement of Mainland China and HK	To further open the aviation market of HK and Mainland China
May 2007	Expansion aviation right agreement of Mainland China and America	To increase 11 air traffic places, widen the restriction in transport capacity and raise the carrier amount

## The opening of traffic rights will benefit China's airport industry

39 freight flights	Shanghai-America	Guangzhou-America	Qingdao-America
UPS	To increase 6 flights each week	To increase 6 flights each week in 2005	
FeDEX	To increase 6 flights each week		To increase 6 flights each week in 2005
Polar Air Cargo	To increase 9 flights each week		
Northwest Airlines of America	To increase 6 flights each week		

In Apr 2007, related departments issued the *Charging Reform Project of Civil Airports (revised version)* which re-divided and prescribed the charging sorts and items of airports.

Current classification		Classification (Draft script for 2007 revised version)	
Sorts Sort 1	Main airports Beijing Capital Airport, Shanghai Pudong Airport	Sorts Sort 1	Main airports Beijing Capital Airport, Shanghai Pudong Airport
Grade 1 of Sort 2	Chengdu Shuangliu, Shenzhen BaoAn, Shanghai Hongqiao, Guangzhou Baiyun, Nanjing Airport, Zhuhai Airport, Shenyang Airport, Harbin Airport, Urumchi Airport, Kungming Airport, Haikou Airport, Hangzhou Airport, Xiamen Airport	Grade 1 of Sort 2	Baiyun Airport, Hongqiao Airport, Shenzhen Airport, Chengdu Airport, Kunming Airport
Grade 2 of Sort 2	Dalian Airport, Chongqing Airport, Xi'an Airport, Fuzhou Airport, Zhengzhou Airport, Wuhan Airport, Guilin Airport, Tianjin Airport, Sanya Airport, Taiyuan Airport, Jinan Airport, Changsha Airport	Grade 2 of Sort 2	Xi'an Airport, Hangzhou Airport, Xiamen Airport, Chongqing Airport, Nanjing Airport, Qingdao Airport, Dalian Airport, Kaikou Airport, Changsha Airport, Shenyang Airport, Wuhan Airport, Urumchi Airport, Zhengzhou Airport, Fuzhou Airport, Guilin Airport, Sanya Airport, Harbin Airport, Guiyang Airport, Jinan Airport
Sort 3	All the rest civil airports	Sort 3	All the rest civil airports

## Comparison of foreign aviation charging level in revised version and current scheme

	Current scheme	Revised version	Variation range
Landing fees	Free within 2 hours; to charge 15% of the departure/landing fees for every 24 hours; over 2 hours but less than 24 hours is calculated as 24 hours.	Free within 2 hours; to charge 15% of the departure/landing fees for every 24 hours; over 2 hours but less than 24 hours is calculated as 24 hours.	Largely reduced due to the impact from the regulation of departure/landing fees
Passenger bridge fees	Single bridge: 80 dollars per hour; Dual-bridge: 160 dollars per hour	Single bridge: 600 yuan/ an hour for one airplane; 300 yuan/ half an hour for one sortie (after exceeding 1 hour); Dual-bridge: twice those of single bridge	Basically unchanged
Passenger service fees	Free	75 yuan/ passenger; charging by actual departure passenger amount	Largely increased
Fees for safety inspection			
Fees for passenger's luggage	Common planes: 80 dollars/ per sortie; Wide-body planes: 100 dollars/ per sortie	30 yuan/ passenger; charging by actual departure passenger	Calculating by B757-200, fees for safety inspection is raised by 619.3%; calculating by B767-200, fees for passenger's luggage hikes by 515.7%.
Fees for cargo and post	Common planes: 120 dollars/ per sortie; Wide-body planes: 150 dollars/ per sortie	60 yuan/ ton; charging by the weight in indenture	Calculating by B757-200, fees for safety inspection of cargo and post declines by 23.3%; calculating by B767-200, fees for safety inspection of cargo and post declines by 4.9%.



## Influence of revised project on major airports

According to the revised project, the charges for foreign aviation airlines and domestic outbound airlines are to rise, yet the fees for domestic airlines are declined on the whole. Therefore, ResearchInChina regards that the revised version has a positive impact on Shanghai Airport and Beijing Capital Airport in which international flights share larger proportion, but a neutral influence at Baiyun Airport and Shenzhen Airport dominated by domestic flights; likewise, Xiamen Airport where domestic flights predominates doesn't have runway assets currently, so the departure/landing fees are not affected; to the domestic airlines, if the sharp decrease in departure/landing fees is not taken into consideration, the other four charge items are unitarily raised, so the revised project has an positive effect on them.

# Conclusion

- Against the background that the global civil aviation industry keeps recovering, China's aviation industry will maintain a rapid growth. It is estimated that in 2007-2010, the passenger handling capacity of China's airports will be increasing by over 14%, and about 8-10% in the following years, still leading the world's airport industry. In comparatively developed regions like YRD and PRD, the aviation traffic volume will maintain rising at over 10%.
- Continuously benefiting from the increasingly opened strategies of base airline companies, hug airports will become regional or even international aviation & transportation hinges, and will develop by the speed higher than the industrial average level.
- China's current major airports, either being expanded or having expansion plan, will all conduce to the exploitation of aviation and non-aviation business, and then become the key factors to promote the airport's future investment value. The aviation business will continue the rising momentum so as to improve the profitability of hug airports; meanwhile, airports having potential in non-aviation business, freight handling and logistics business are of great investment value and deserves close attention.
- The reform of airport charging policies, opening of traffic rights as well as the loosening of investment policies will benefit the promotion of overall management level and profit of the airport industry, and further boost its sound development.
- Beijing 2008 Olympic Games, Shanghai 2010 Expo as well as the 16<sup>th</sup> Asian Games in Guangzhou will generate abundant international passenger traffic, providing opportunities for China's hug airports to evolve into regional or even international hug airports.

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TEL +86-10-82600828 +86-10-82600862 FAX +86-10-82600829

WEB [www.researchinchina.com](http://www.researchinchina.com) Mail: [weekly@researchinchina.com](mailto:weekly@researchinchina.com)