



ITEM NO. 7a Supp 1

DATE OF
MEETING 6/14/2011

International Air Service Growth Seattle-Tacoma International Airport



**For Port of Seattle
Commission Briefing**
June 14, 2011

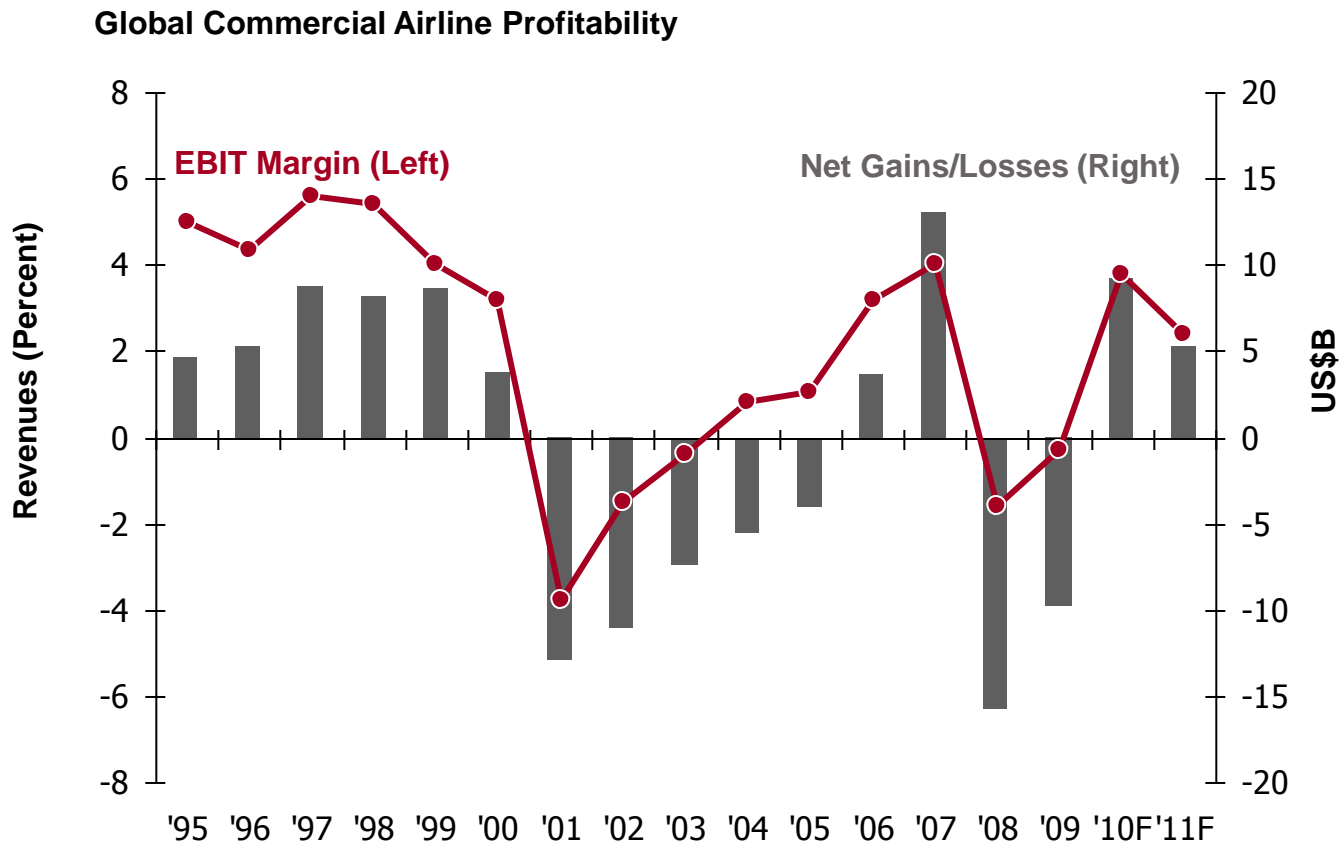
Port 
of Seattle

Focus Issues

- **Industry trend and new competitive landscape:**
 - Why alliances, JV, mergers are needed, and what it means to Seattle.
- **Seattle's International Passenger Growth:**
 - 34% growth since 2006 for Europe and Asia. 2010 success has led to nearly 20% capacity growth in Summer 2011 vs. Summer 2010.
- **Challenges and Opportunities Ahead...**



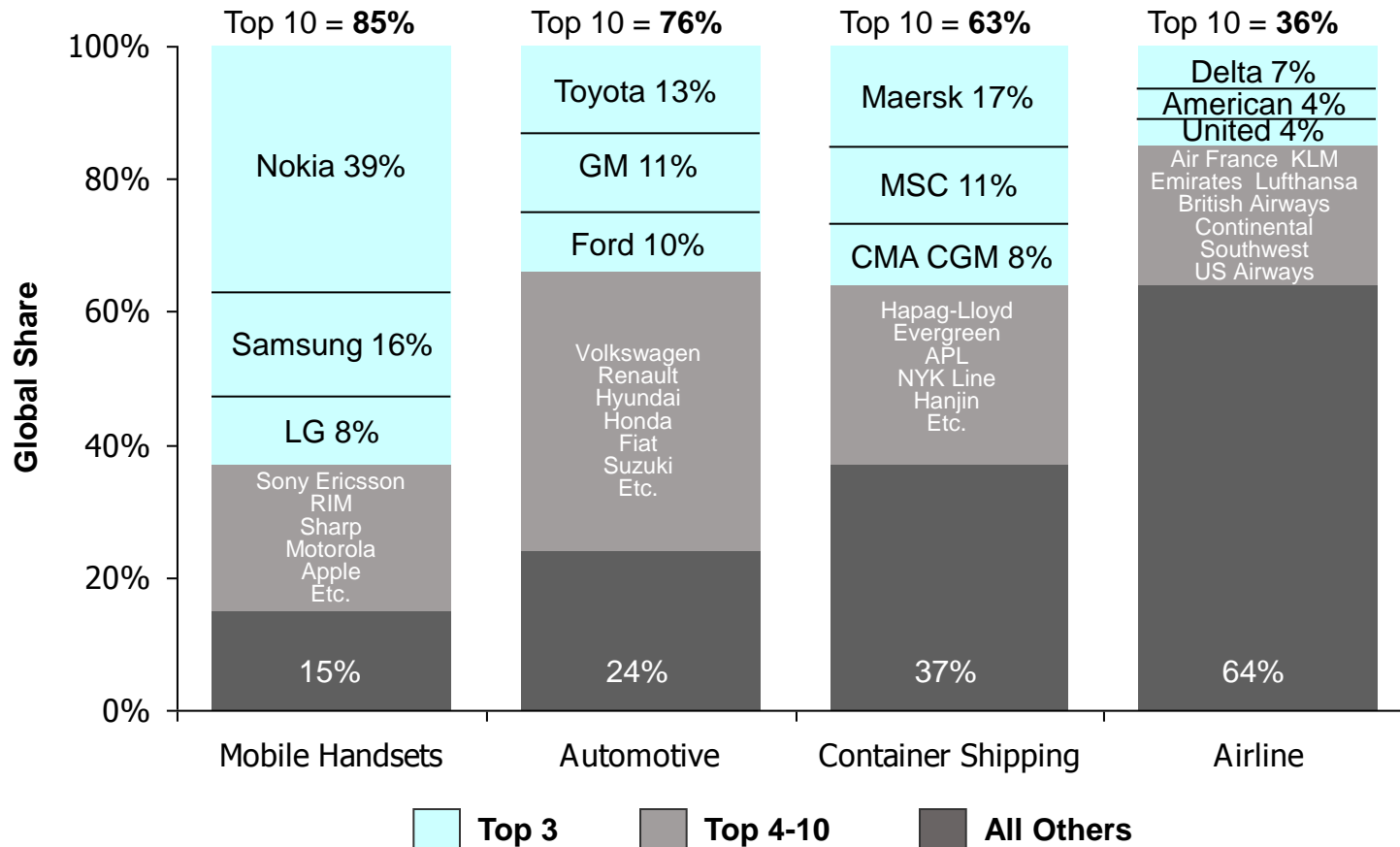
Global Commercial Airline Profitability Is Characterized by Boom-and-Bust Cycle



Airline industry is highly fragmented if compared to other industries

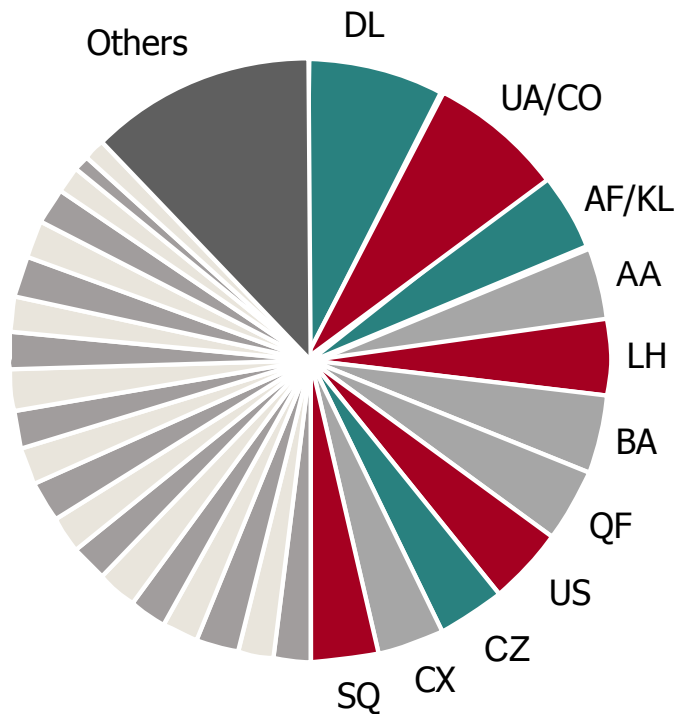
Source: Boston Consulting Group 2010

MIT International Center for Air Transportation

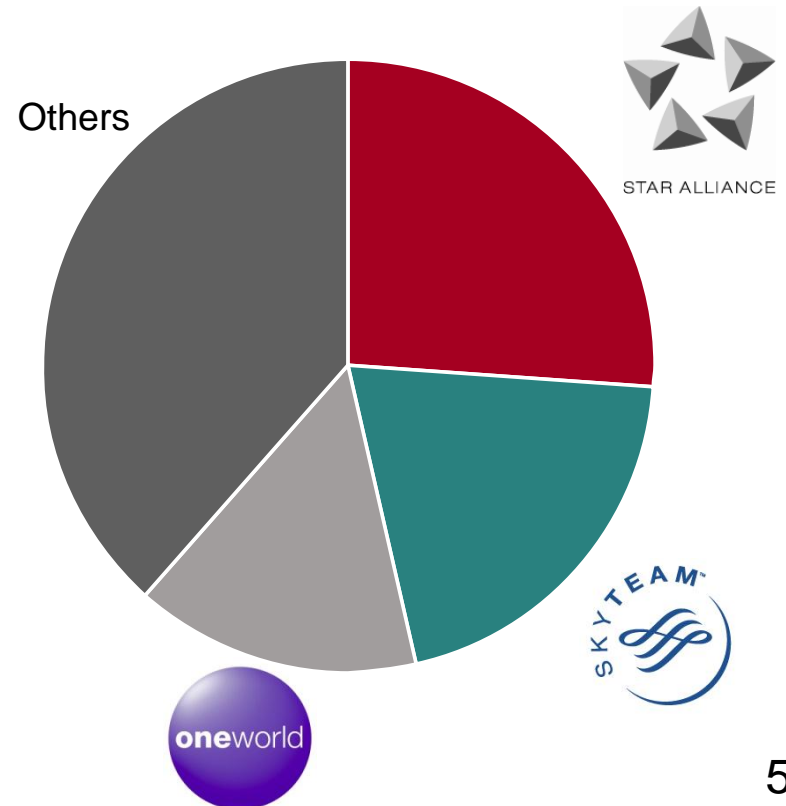


Airline Industry is Highly Fragmented but Aligned by Alliances

The Airline Industry is Highly Fragmented



Alliances Reduce Fragmented Competition



Source: Airline Business 2010/11 Airline ranking by traffic measured in RPK
MIT International Center for Air Transportation

Seattle: Delta's Pacific Gateway

- Delta needs to fill the void in the Western US but does not have many new aircraft on order.
- Partnership with Alaska Airlines allows Delta to substitute organic growth of their own.
- Asia is the growth market, for which Seattle is well-positioned to provide less circuitous routing.
- Delta operates four international routes out of Seattle successfully (Amsterdam, Beijing, Osaka and Tokyo) and has increased its local presence.



Air Service Development

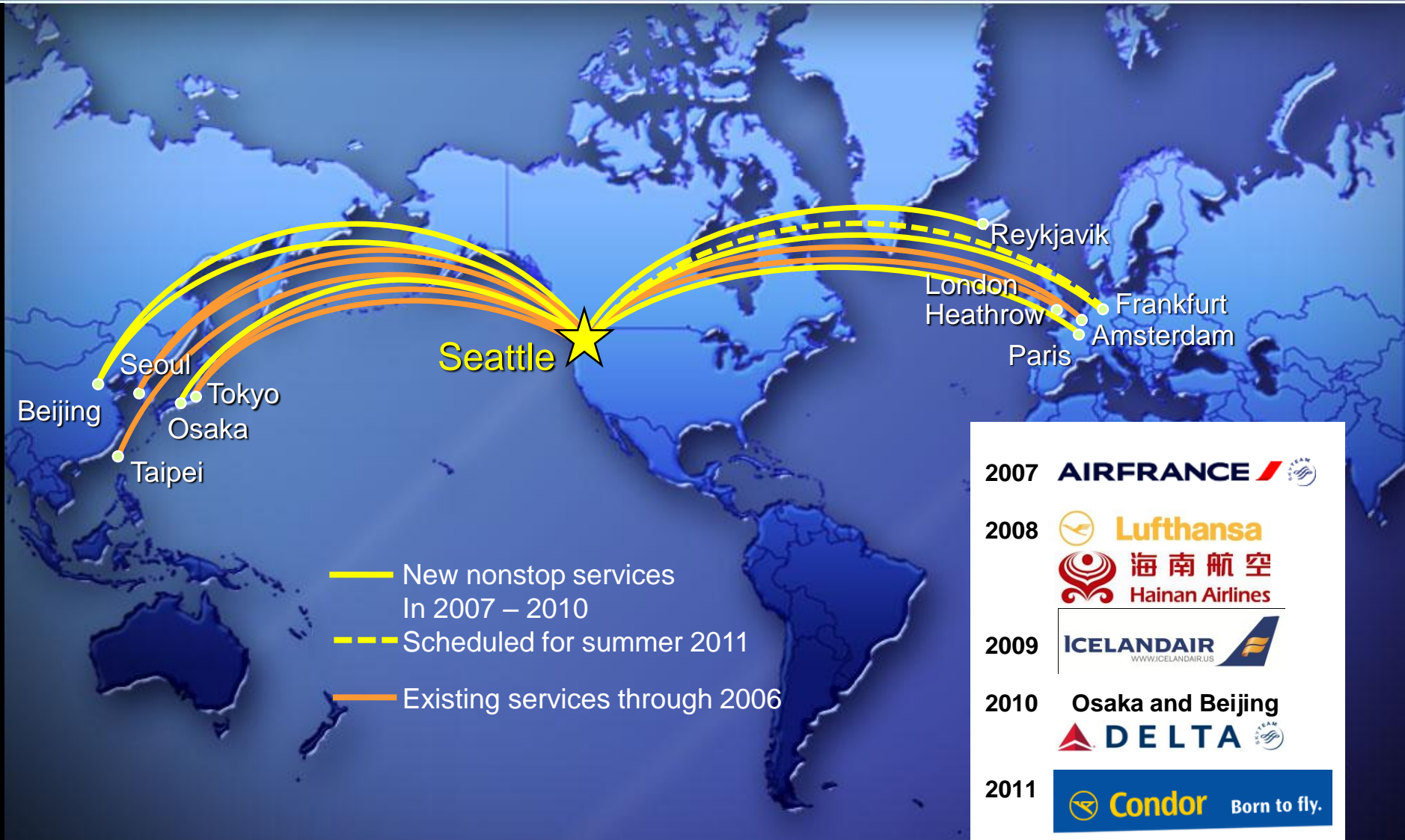
Airlines' goals

- *Immediate – not potential – profitability*
 - *Minimum risk*
- ⇒ Air service development work is highly data-intensive.
- ⇒ Any proposal must be compelled by solid profitability analysis backed by historical traffic data, and not by general economic development discussion.

Direct Revenue to the Port and Regional Economic Benefit

- One international route generates an average of \$1.5 million annually in landing fees and terminal revenues to the Port, plus PFC (Passenger Facilities Charge) revenues.
 - International passengers typically contribute higher amounts in parking, concession and other related passenger revenues.
 - International routes bring additional traffic in domestic routes via new connections.
- *Overarching benefit to the regional economic growth*

Seattle's Nonstop International Services



Growth Trend Continues in 2011

Nearly 20% increase in available seats for the 3rd Quarter 2011 vs. same period 2010

■ Europe

+23% seats in summer 2011, compared to Summer 2010
= almost 2,000 more seats per week one way
= 43 flights per week, up from 36 flights

■ Asia

+16% increase in seats vs. Summer 2010
= +2,000 more seats per week one way
= 51 flights per week, up from 45 flights

→ *Europe and Asia Combined*

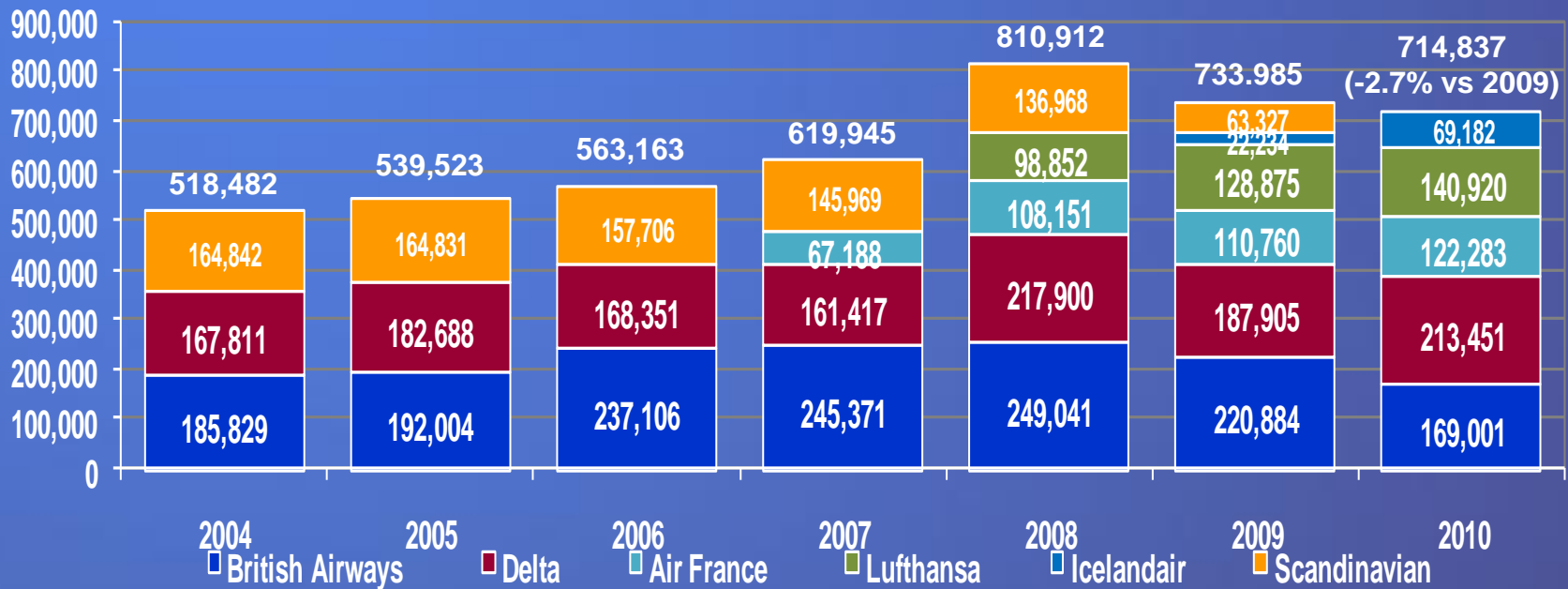
Total 13 additional flights per week, 19% more seats, or 4,000 more seats per week during Jul-Sept

Seattle - Europe Onboard Passengers

2010: Traffic Up 27% from 2006

2011: Up 14% as of April YTD vs. 2010 same period

Annual Scheduled Service Passengers by Carrier



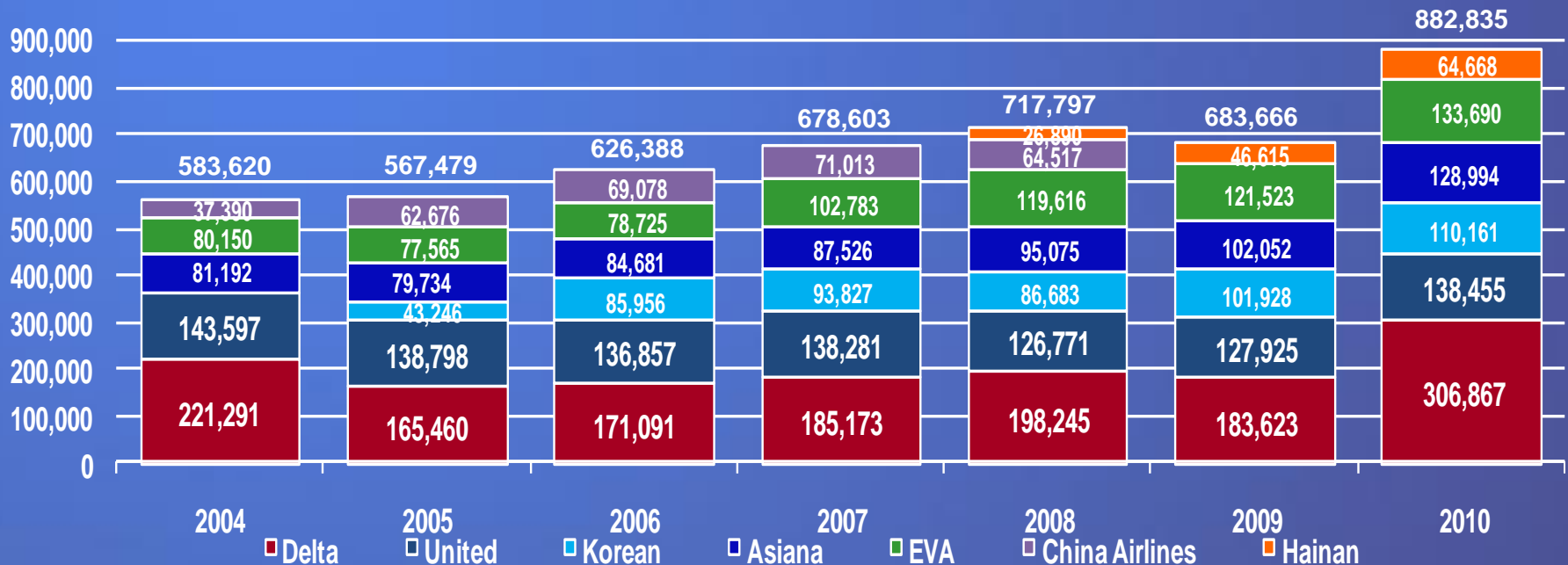
Source: Port of Seattle data, as reported by carriers. Delta passengers combine pre-merger Northwest Airlines passengers. Icelandair started Seattle service in July 2009 and SAS discontinued in July 2009. Northwest (pre-merger Delta) operated Seattle-London Heathrow for six months starting in June 2008.

Seattle - Asia Onboard Passengers

2010: Record year with 29% additional traffic vs. 2009

2011: Up 14% as of April YTD vs. 2010 same period

Annual Scheduled Service Passengers by Carrier



Source: Port of Seattle data and US-DOT Database T100 for EVA and China Airlines in 2003 - 2008. Passengers on EVA and China Airlines are adjusted to exclude Newark and Houston domestic through-passengers for the period. Delta passengers combine pre-merger Northwest Airlines passengers. China Airlines started Taipei service in June 2004 and discontinued in September 2008; Korean Airlines started Seoul in June 2005; Hainan Airlines started Beijing in June 2008; Delta added Beijing and Osaka services in June 2010.

Profitable International Operation Requires Connecting Traffic Feed

- Delta Seattle-Tokyo Route Sample
- Need connecting support on both ends of the line



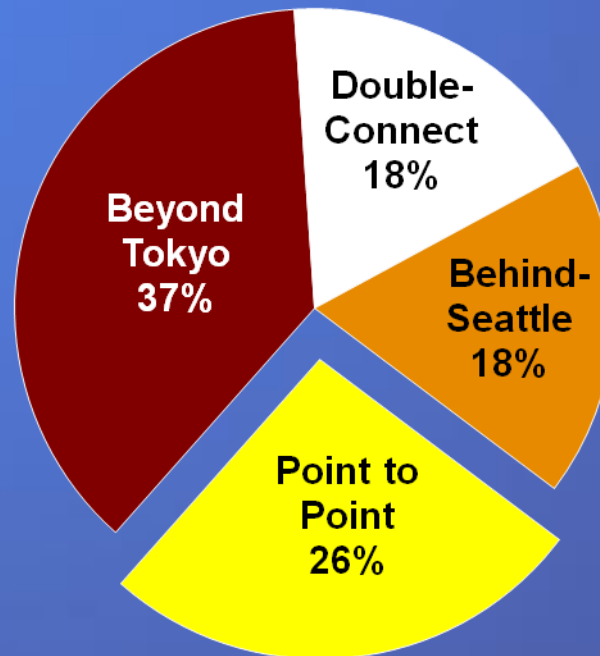
Delta Air Lines Seattle-Tokyo NRT Flight

On-board Passenger Composition

195,000 Estimated On-Board Passengers in CY2010

Top Beyond-Tokyo Cities

- Manila
- Nagoya
- Seoul
- Hong Kong
- Singapore
- Taipei
- Osaka
- Shanghai
- Busan
- Guam



Top Behind-Seattle Cities

- Las Vegas
- Anchorage
- Vancouver
- Salt Lake City
- Fairbanks
- Spokane
- San Diego
- Minneapolis
- Phoenix
- Calgary

Delta Air Lines Seattle-Amsterdam Flight

On-board Passenger Composition

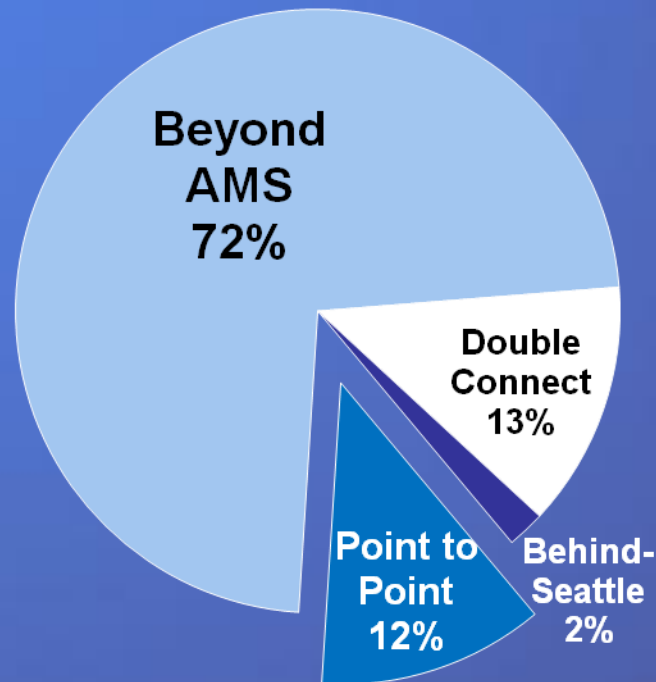
213,000 Estimated On-Board Passengers in CY2010

Top Beyond-Amsterdam Cities

- Delhi
- Kiev
- Nairobi
- Moscow
- Bucharest
- Paris
- Teheran
- Dublin
- Mumbai
- London

Top Behind-Seattle Cities

- Anchorage
- Vancouver, BC
- Spokane
- Portland
- San Francisco
- San Diego
- Victoria
- Pasco
- Eugene
- Sacramento



2011 – 2020 Potential

Fragmentation of the route network is not effective. Reinforcing strong route system with existing carriers or alliance partners leads to more sustainable growth.

Looking ahead for:

- Hong Kong nonstop
- Shanghai nonstop
- Additional reinforcement to large hub markets such as Tokyo, Seoul and London
- Emerging markets of Middle East (which provides effective connections to India) and Southeast Asia

Challenges

- Airlines are cautious of further development in the environment where competition tends to create over-capacity.
- Fuel takes up the highest portion of airlines' cost and its price hike is eroding profitability.
- Peak time scheduling will likely to remain due to our geographical location and optimized connectivity on both ends.



Strategies Going Forward

- Focused efforts need to be made on key markets and key carriers, based on alliance synergy and hub alignment.
- Maximize the benefit of the Commission-approved New Air Service Incentive Program.
- Provide effective and customer-friendly facilities to be the premiere West Coast Gateway of travelers' choice.