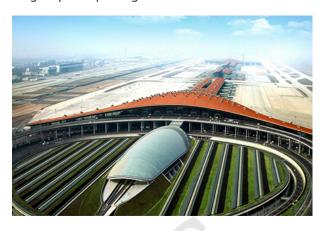
BCIA to be faced with 'new development situation' after Daxing airport opening

Beijing Capital International Airport (BCIA) is to face a 'new development situation' once the new Daxing International Airport (PKX) is fully operational.

In view of the huge capital investment of around \$12bn by parent company Capital Airport Holding (CPH) in the construction of Daxing Airport and relatively large operating and financial pressure facing PKX, it was decided last year that CPH would oversee the non-aeronautical and aeronautical businesses at the new facility, which is due open on 30 September.

Under the terms of the agreement Beijing Capital International Airport Company Limited (BCIAL) retains the option to acquire the assets of PKX, where China Duty Free Group will operate two duty free concessions (liquor, tobacco and food and beauty and fashion) and Lagardere Travel Retail the key fashion contract.



The development of non-aeronautical and aeronautical operations at Beijing Capital International Airport will be impacted by the opening of the new Daxing Airport next month.

BCIAL will focus on the development of non-aeronautical and aeronautical business at BCIA.

## **TRANSITION PERIOD**

Denise Wong, Analyst, Bloomberg Intelligence, Asia Infrastructure told *TRBusiness*: "The government is determined to ensure the new airport is a success as they have spent a significant amount of money building it. BCIA is definitely in a transition period. Until the Daxing Airport capacity is being absorbed, I don't think they will make any major moves.

"BCIAL has the right to purchase the new airport, but I don't think that will happen anytime soon."

As the opening of PKX draws closer, BCIA and BCIAL are preparing for drops in capacity and total air traffic volumes. This is due to the transfer of certain carriers, including British Airways to the new Daxing Airport.

When formulating plans for the new airport, the Chinese government was aware this would be the case so gave BCIAL the option to purchase PKX which will become profitable in a few years.

Speaking as part of the 2018 BCIAL Annual Report, Liu Xuesong, Chairman, Beijing Capital International Airport Company Limited suggests the company is not expecting much impact on traffic volumes at BCIA this year following the opening of the new airport. He does, however, predict a new landscape of one city, two airport and believes BCIA and BCIAL will face a new development situation

"The diversion will mostly occur in 2020 and 2021, after which air traffic volumes at Beijing Capital airport will once again enter a steady growth cycle."



China Eastern Airlines and China Southern Airlines have argued against moving its operations to the new Beijing Daxing Airport, which is due to open on 30 September.

Wong added: "Then traffic loss is not exactly negative for BCIAL because once the airport begins making money, it can look to buy it."

Shedding further light on the relocation of traffic from BCIA to Beijing Daxing, Wong said: "The official projection was that Beijing Airport traffic would drop 34% by 2021. This is because China Eastern and China Southern were ordered to move to the new airport, with Air China and its partners staying put.

"China Southern and China Eastern have since protested against the ruling and *TRBusiness* understands a resolution is close.

"The projected 34% traffic decrease at BCIA is now in doubt. This is because there has been a lot of arguments from China Eastern and China Southern which do not want to move everything to Daxing, as it is further away from the town centre and existing airport.

"Both carriers are worried about losing some of their key business traffic from popular high-frequency routes such as Beijing to Shanghai.

"Business passengers usually want to depart from an airport which is close to them and board a plane as soon as possible to shorten the travel time. Leisure, low-cost, infrequent and transit travellers, however, might be more willing to venture further afield."

Although there remains uncertainty in terms of the final arrangement, an agreement is apparently in the

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offing. "It seems that China Southern and China Eastern will be able to keep some of their existing routes at BCIA and that Air China will have to move some of their flights to the new airport."



CDFG operates various branded stores at Beijing Capital International Airport Terminal 2

## **DF&TR OUTLOOK**

Offering her own perspective on the DF&TR outlook at BCIA over the coming years, Wong believes duty free sales will decrease because passenger numbers will drop at the airport, which generated total non-aeronautical revenues of RMB5,953,104,000m in 2018. Revenues from retailing increased a mammoth 83.2% to RMB2,774,187.000bn

Additionally, *TRBusiness* estimates that actual DF&TR sales, which amounted to \$924m in 2017 climbed around +10% to \$1,016m in 2018.

"This is unavoidable as even if spend per passenger stays flat or increases, this probably won't be enough to offset the decline in traffic. The airport will not suffer as it has the minimum annual guarantee. Ultimately, it will be the duty free operators which are impacted as sales drop."

Looking back on last year, the strong increase in retail revenue was mainly due to the start of the new contracts at BCIA Terminal 2 (*China Duty Free Group*) and Terminal 3 (*Sunrise Duty Free*), effective February 2018. This was on the back of increased international passenger throughout of 7.2% to 23,290,699m from 21,721,29m the previous year.



China Duty Free Group will operate the two duty free concessions at the new Beijing Daxing International Airport.

Such increases are hardly surprising, especially when you take into account the minimum guaranteed revenue of RMB3.03bn associated with the contracts. This is triple the amount the airport received in 2017. Other driving forces include a growth in international passenger throughput with high consumption abilities and promotions across the duty free business.

"These increases are probably in line with expectations due to the extremely high minimum annual guarantees," Wong remarked.

The implementation of the new duty free contracts at BCIA meant the airport's duty free business entered a new business cycle in 2018. Xuesong commented: "During the new contract period, the company's income from the duty free business has increased significantly.

"In addition, the main commercial businesses at Beijing Capital Airport achieved growth and improvement to varying degrees. This was thanks to around 100 non-aeronautical contracts being established or renewed and comprehensive marketing activities throughout the year."