



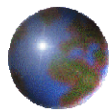
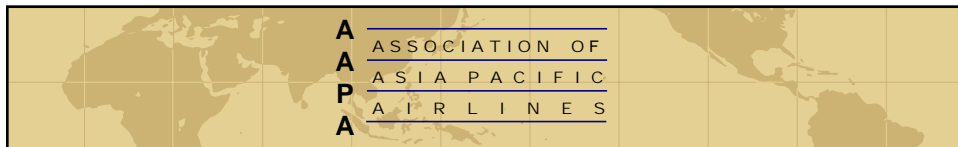
Riding on the Asian Aviation Boom: Be Prepared

Andrew Herdman

Director General

ASSOCIATION OF ASIA PACIFIC AIRLINES

**Asian Airports World 2005
Pan Pacific Hotel, Singapore
28th April 2005**



Presentation Outline

- **Introduction to AAPA**
- **Lessons from 2004**
- **Future Outlook**
- **Competition**
- **Implications for Airports**



AAPA Association of Asia Pacific Airlines

- Regional trade association representing 17 major international airlines based in Asia Pacific
- Committed to promoting sustainable growth of the aviation industry serving both passenger and freight needs
- Work with member airlines, governments, regulators and industry partners on issues of common concern
- Permanent secretariat headquartered in Kuala Lumpur, Malaysia
- Representation in Washington and Brussels



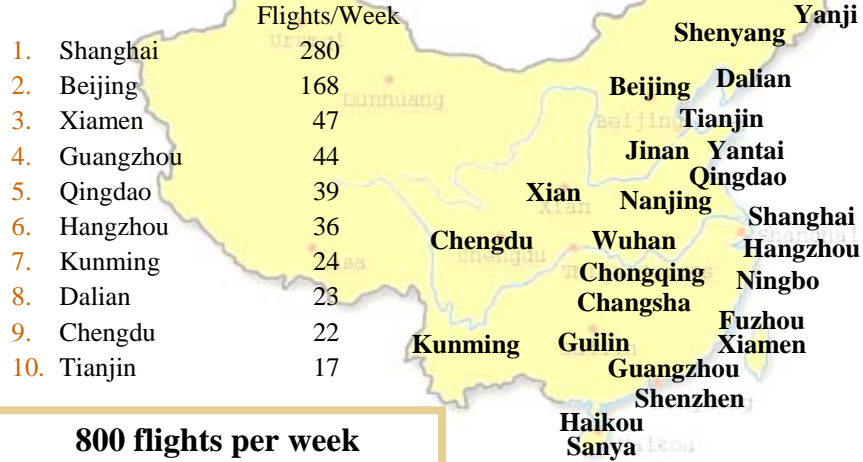
AAPA Association of Asia Pacific Airlines





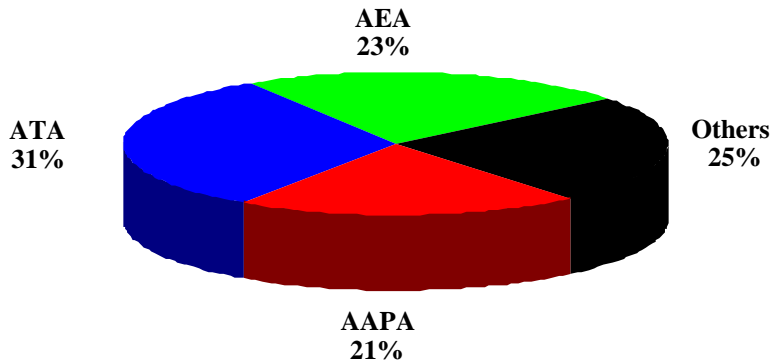
AAPA: Mainland China Destinations

AAPA members serve a total of 27 mainland Chinese cities



AAPA Global Passenger Traffic Share

Scheduled Systemwide Revenue Passenger Kilometres 2003

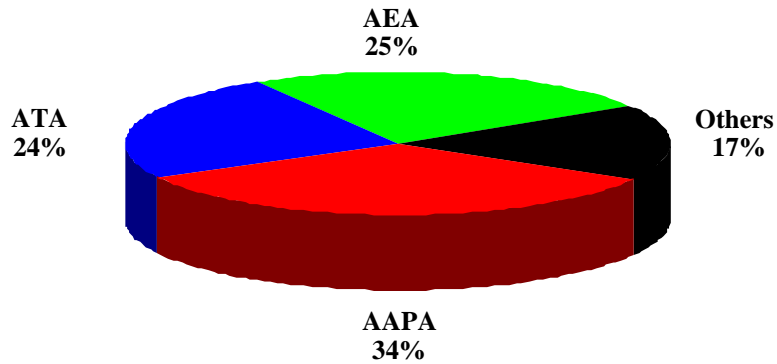


Source: IATA AAPA: Association of Asia Pacific Airlines, ATA: Air Transport Association of America, AEA: Association of European Airlines



AAPA Global Freight Traffic Share

Scheduled Systemwide
Freight Tonne Kilometres 2003

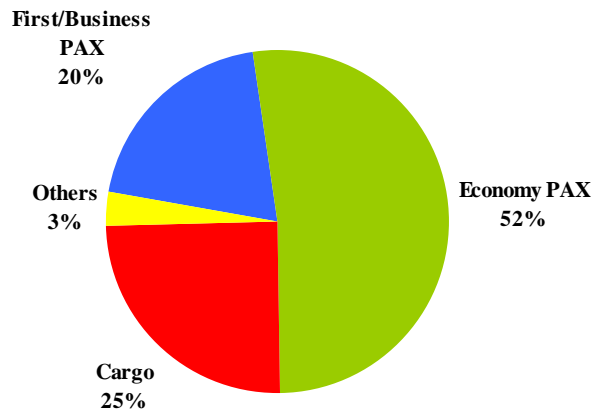


Source: IATA AAPA: Association of Asia Pacific Airlines, ATA: Air Transport Association of America, AEA: Association of European Airlines



AAPA: Int'l Revenue Mix

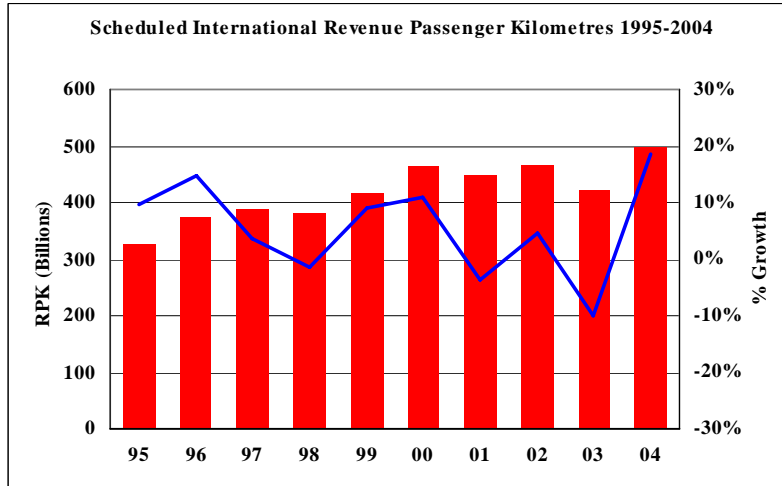
AAPA Source of Operating Revenue FY2004
(International Operations)



Source: AAPA (FY 2004: April 2003 to March 2004)



AAPA Int'l Passenger Traffic 1995 – 2004

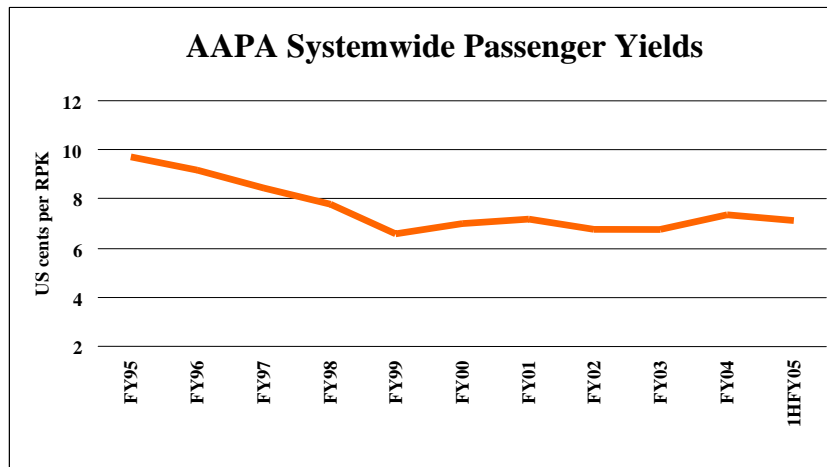


Strong recovery in passenger demand

Source: Association of Asia Pacific Airlines



Yields reflect keen competition

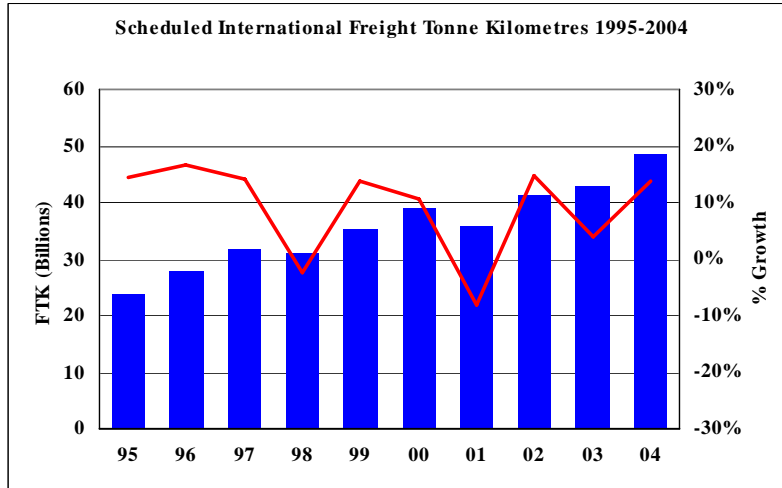


Emphasises need for constant focus on managing unit costs

Source: AAPA (FY04 = April 2003 to March 2004)



AAPA Int'l Freight Traffic 1995 – 2004

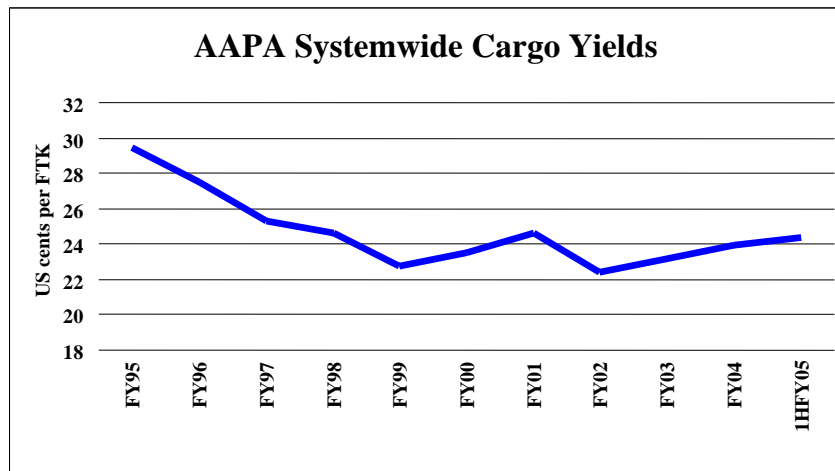


Continued growth in cargo demand

Source: Association of Asia Pacific Airlines



Yields reflect keen competition



Emphasises need for constant focus on managing unit costs

Source: AAPA (FY04 = April 2003 to March 2004)

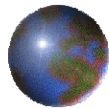


AAPA International Traffic 2004

	2004	% Growth
Passengers Carried (mn.)	117	+22.5%
Revenue Passenger Kilometres (bn.)	500	+18.6%
Available Seat Kilometres (bn.)	682	+12.8%
Passenger Load Factor (%)	73.3%	+3.6 Pts
Freight Tonne Kilometres (bn.)	48	+12.9%
Avail. Freight Tonne-Kilometres (bn.)	72	+12.4%
Freight Load Factor (%)	67.2%	+0.3 Pts

Source: Association of Asia Pacific Airlines

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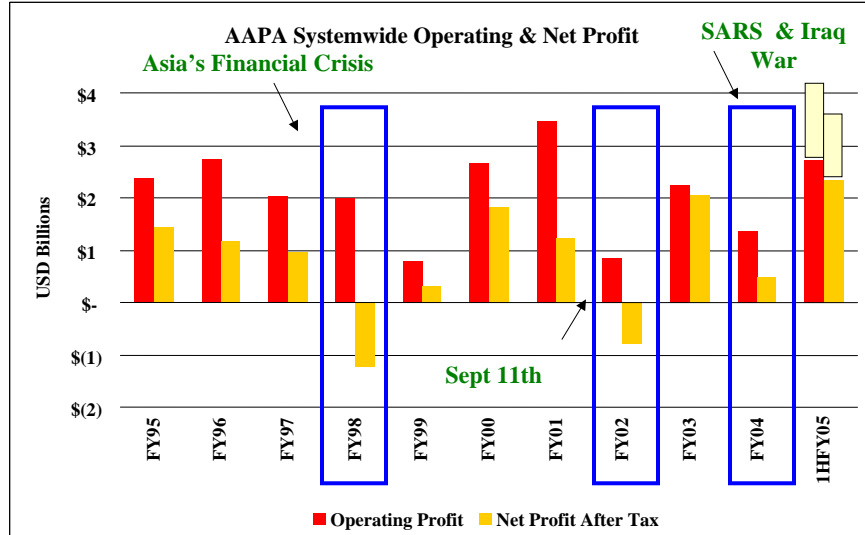


Lessons from 2004

- **Good global economic growth**
- **Strong recovery in passenger demand**
- **Continued growth in cargo demand**
- **High oil prices**
- **Keen competition**
- **Cost management more critical than ever**

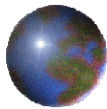


AAPA: Profitability Trends



Source: AAPA (FY04 = April 2003 to March 2004)

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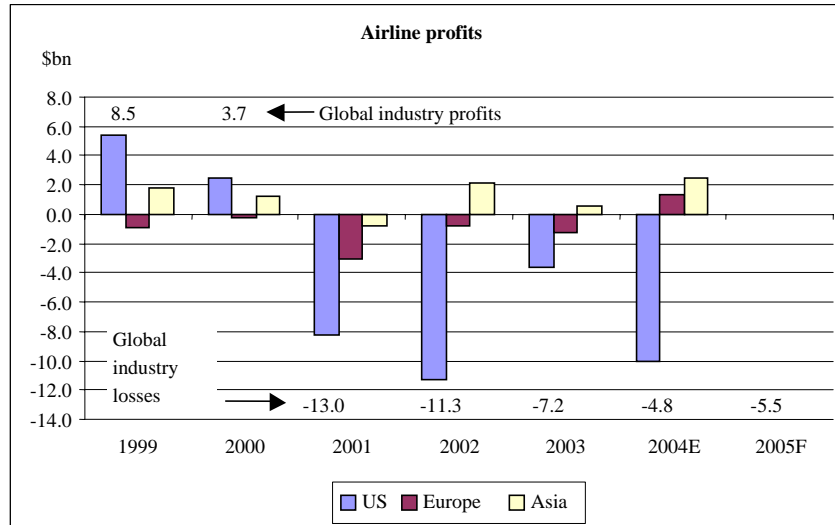


Some global comparisons

- How does airline performance vary in different regions of the world?
- What are the contributory factors which could explain some of the observed variations?



Airline profitability: mixed picture



Source: IATA



Airline performance metrics comparison

FY2003/04	AAPA	AEA	ATA
Average Fare US\$ *	179	203	119
Average Passenger Yield (US cents/RPK)	7.3	9.9	7.3
Unit Revenue (US cents /ATK)	40.8	49.0	40.4
Unit Cost (US cents /ATK)	39.8	50.1	41.1
Passenger Stage Length (km)	2,437	2,048	1,633

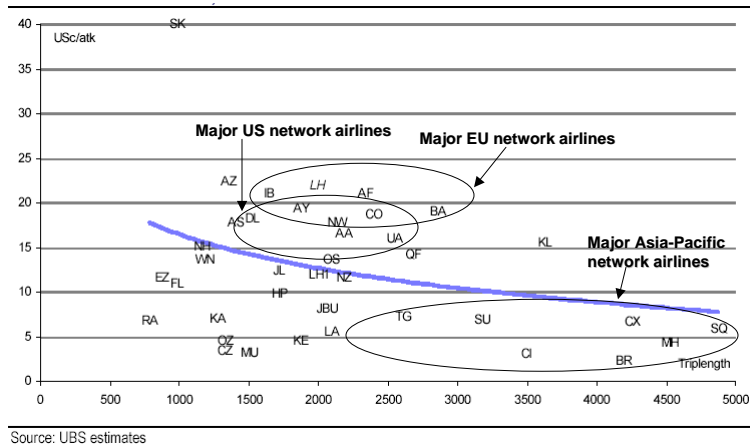
- *Higher yields and costs in Europe partly reflect currency effects*
- *Also note variations in average stage length*

* Includes excess baggage revenue

Source: AAPA, AEA and ATA



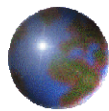
Airlines: relative labour costs



Asia Pacific carriers benefit from competitive labour costs and longer average stage lengths

Source: IATA, UBS

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Future Outlook: 2005

- Slowing global economy
- Asia Pacific should still lead, boosted by dynamic growth of China
- Persistently high oil prices may dampen demand
- Keen competition and more new entrants



Future Growth – Next 20 Years

	Passenger			Freight		
	Boeing	Airbus	IATA	Boeing	Airbus	IATA
	20-Year Forecast	20-Year Forecast	AAGR 2004-08	20-Year Forecast	20-Year Forecast	AAGR 2004-08
World	5.2	5.3	6.0	6.2	5.9	6.0
Asia-North America	6.1	6.3	5.9	7.2	6.1	4.6
Asia-Europe	6.0	5.9	7.1	6.7	6.3	7.0
Intra-Asia	6.1	6.9	8.3	8.5	6.4	6.1
Domestic China	8.1	8.7	-	10.6	10.1	-

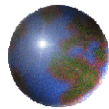


Boeing and Airbus 20-year forecast = 2004 – 2023

Source: Airbus, Boeing, IATA Forecasts

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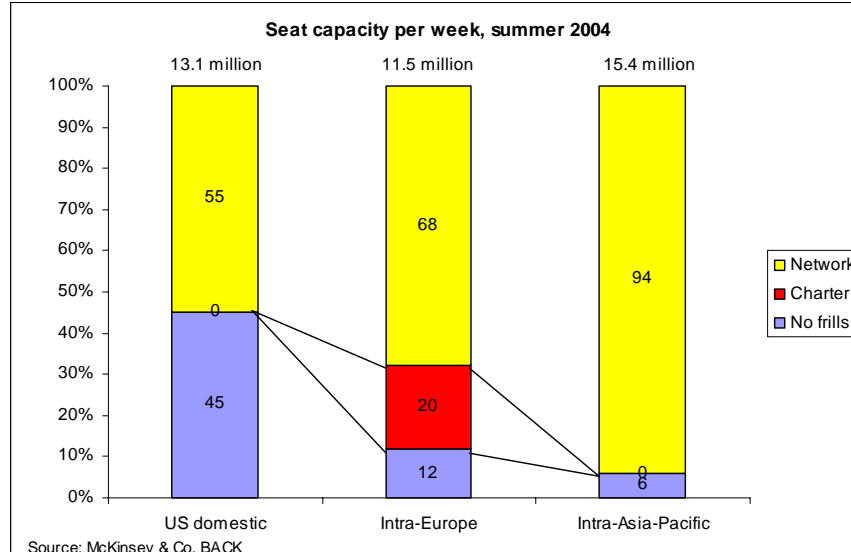


Competition

- **Highly competitive markets**
- **Regional variations**
- **Impact of new entrants in Asia Pacific**



Impact of new entrants



Source: IATA



Proliferation of new entrants in Asia





Proliferation of new entrants in Asia

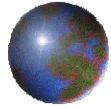
- Some already well established e.g.
 - Virgin Blue (36 B737s)
 - Air Asia (28 B737s, ordered 60 A320s)
- 20 + new carriers
- Serving more than 20 short-haul regional destinations
- Market penetration remains low
- Easy access to capital, but profitability remains elusive for many



Challenges for new entrants

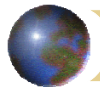
- Established airlines and new entrants competing directly in overlapping market segments
- Face keen competition on established routes
- Marginal costs no longer provide such an edge
 - Higher aircraft leasing costs
 - No surplus of skilled labour
 - Existing carriers already efficient in terms of aircraft utilisation
- Limited opportunities for regulatory arbitrage
- Liberalisation and relaxation of ownership rules encourage new entrants, but could eventually lead to industry consolidation

Established Asian carriers are well placed to compete and continue to grow



Implications for Airports

- Meeting stakeholder expectations
- Managing growth
- Environmental challenges
- Improving competitiveness



Some of the world's best airports

Top Ranked Airports :

1. Hong Kong International Airport
2. Seoul Incheon Airport
3. Singapore Changi Airport
4. KL International Airport
5. Dubai International Airport



.... according to passenger feedback



Source: IATA/ACI 2004 Consumer Survey
of 40 major international airports



Airports: performance criteria

Stakeholder	Expectations
<ul style="list-style-type: none">• Passengers	Service quality
<ul style="list-style-type: none">• Shippers	Service quality
<ul style="list-style-type: none">• Airlines	Efficiency & cost-effectiveness
<ul style="list-style-type: none">• Community	Economic benefit but minimise environmental impact
<ul style="list-style-type: none">• Airports	Growth and return on investment



Airports: growth challenges (1)

Forecasting market demand

Complex interactions:

- Origin & Destination demand
- Hub vs. point-to-point
- Aircraft size vs. frequencies
- Congestion bottlenecks



Airports: growth challenges (2)

- Forecasting market demand
- Ongoing capital investment
- Improving productivity
- Revenue diversification
 - aeronautical
 - non-aeronautical
- Forms of ownership: private/public
- Pricing policies and economic regulation



Airports: environmental challenges

- Despite dramatic efficiency gains, rapid growth is increasing the environmental footprint of aviation
 - Climate change
 - Local air quality
 - Noise
- Pressures to limit the expansion of airports
- Flight restrictions e.g. night curfews
- Threat of additional taxes and charges



Influence of LCCs on Airports

- Simplicity
- Speed
- Low-costs
- Low capital-intensity
- Discounted or promotional pricing of airport services

*Established airlines have similar needs ...
services and pricing must be non-discriminatory*

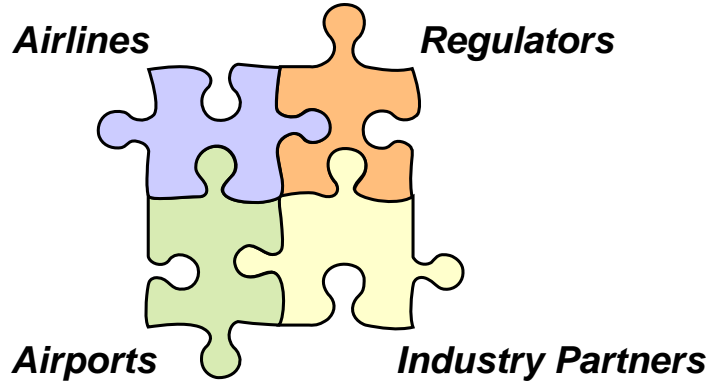


Streamlining Passenger Flows

- Process design
- Integration of Airline, Security, CIQ processes
- Automation
- Biometrics
- Self-service kiosks



Working Together



Importance of establishing mutual trust



Thank You



Andrew Herdman, Director General
ASSOCIATION OF ASIA PACIFIC AIRLINES
herdman@aapa.org.my
www.AAPAirlines.org