AAPA
ASSOCIATION OF ASIA PACIFIC AIRLINES

Asia Pacific Perspectives

July 2008

The global airline industry is reeling from the impact of the continuing surge in oil prices to new highs around $140 a barrel, marking an incredible six-fold increase since 2002. Whilst fuel hedging may offer some temporary relief, the reality is that the cost of travel has risen sharply, threatening to undermine further growth. Just in the past year, airline unit costs are up 30%. Fuel costs alone now account for 45% or more of the average ticket price, compared to 30% in 2007.

To date, Asia Pacific air traffic has been holding up relatively well, but there are worrying signs that the global economy may be reaching a tipping point. Airlines are having to take tough decisions: cutting back unprofitable routes; retiring old equipment whilst maximizing utilization of newer more fuel-efficient aircraft; and reviewing staffing levels in anticipation of slower growth or declining demand. A number of airlines have already failed, with more expected to succumb in the coming months. The effects are also being felt by airports and other aviation service providers. We all need to work together to achieve further efficiency improvements.

A future in which sky-high oil prices are "the new normal" will have far-reaching implications for the structure of the industry. Asset values for older, less fuel-efficient, aircraft are falling. At the same time, demand for new aircraft remains relatively firm, driven by potential fuel savings. But in an era of high cost carbon, the entire industry will need to adjust to expectations of slower long-term growth rates.

Andrew Herdman
Director General

INDUSTRY & REGULATORY ACTIVITY

Aviation Safety

Flying is by far the safest form of travel, and the industry maintained its excellent safety record in 2007, with a hull loss ratio of 0.75 per million flights. However, the Asia Pacific region saw a deterioration in safety performance for the year, reporting seven major accidents with 210 fatalities. The US DOT downgraded both Indonesia and the Philippines to Category 2, and the EU imposed an operational ban on all Indonesian carriers. Remedial action is needed to overhaul national legal and regulatory frameworks, upgrade staffing and strengthen safety management training, to keep pace with the growth in aviation and ensure full compliance with ICAO international standards. Some good progress is being made in 2008, but there is no room for complacency.

AAPA is organising an Asia Pacific Aviation Safety Seminar (APASS 2008) in Bali, Indonesia on 20-21 November 2008, open to all stakeholders. This event, focusing on the region as a whole, will be an opportunity to share in-service experience and lessons learned with leading aviation safety experts from within and outside the region.

Environmental Policies

Aviation is only a small contributor to overall emissions, but despite steady improvements in fuel efficiency, our share is slowly increasing. Speaking at the third Aviation Environment Summit in Geneva in April 2008, AAPA fully endorsed the Climate Change Declaration made by leaders from all sectors of commercial aviation, with a target of achieving carbon-neutral growth.

The industry is working closely with airport operators and air navigation service providers. Within the Asia Pacific region, the US FAA, AirServices Australia and New Zealand have launched the Asia South Pacific Initiative to Reduce Emissions (ASPIRE) project to work together on routings and fuel optimisation.

Longer term, the industry is also actively evaluating the potential use of synthetic kerosene and biofuels, with carriers including Japan Airlines and Air New Zealand conducting experimental test flights using blended fuels.

Notwithstanding these efforts, political momentum is still propelling various new environmental policy initiatives that will have a significant impact on aviation. In Europe, the EU proposal to include international aviation within the EU Emissions Trading Scheme (ETS) from 2012 is moving towards final approval by the European Parliament. However, non-EU governments and airlines have raised strong objections to such a unilateral approach, which is likely to lead to political disputes and protracted legal battles. Similarly, the industry is strongly opposed to other punitive taxes masquerading as environmental initiatives.

Aviation is willing to play its part in contributing to wider efforts to address climate change, provided different sectors are treated in an even-handed way, and the funds raised are directed towards achieving genuine environmental objectives. A number of countries, including Australia and New Zealand, are developing national emissions trading schemes that would include domestic aviation. Nevertheless, international aviation needs a harmonized and global approach, and we look to ICAO and its high level GIACC group to resolve the current political impasse and move the international debate forward.

Passenger Facilitation: US-EXIT

The US Department of Homeland Security (DHS) in April 2008 issued a Notice of Proposed Rulemaking (NPRM) that would require airlines to collect fingerprints from departing foreigners. AAPA has submitted comments in response, arguing strongly that it is inappropriate for private industry to be asked to take over such a border control function, which should rightfully be performed by government officials. Working closely with IATA and other industry associations, we have called on DHS to withdraw this ill-conceived proposal, and to work with industry to find a more workable solution.

Slot Regulation

Growth in travel demand over time is not always matched by corresponding expansion of the necessary supporting infrastructure, including airports and air navigation services, leading to costly and unproductive capacity bottlenecks and congestion. Sometimes the difficulties are political in nature, including protracted planning delays. Most governments recognise the positive economic and social benefits provided by air transport, and the need for proper capacity planning. More shortsighted proposals include the use of controversial economic measures aimed at manipulating the slot allocation process.

The EC recently reaffirmed its commitment to expanding airport capacity, at the same time outlining its thinking on slot regulation, including the independence of slot coordinators; transparency and sharing of scheduling data; provisions for new entrants; and the positive role of secondary slot trading by airlines.

The US DOT has also made proposals to introduce new slot allocation procedures, including auctions, at several congested airports in the New York area. However, this has provoked strong negative reactions from politicians and airlines threatening legal challenges to slot auctioning, as just another form of taxation on an already over-burdened industry.

Fundamentally, AAPA believes governments should focus on the primary policy issue of ensuring that sufficient airport, runway and slot capacity is available to meet demand, rather than unnecessarily interfering in well established slot allocation procedures.

Regulatory Affairs Forum

AAPA and IATA jointly organised the 3rd AAPA-IATA Joint Regulatory Affairs Forum on 9 April 2008 in Kuala Lumpur. Topics discussed included updates on industry trends in the Asia Pacific region; recent regulatory developments; new environmental policy initiatives; aero-political liberalisation and infrastructure development. Given the slow pace of liberalisation of national ownership and control restrictions, it was noted that some airline groups are making more aggressive use of common branding and shared operations.

TRAFFIC UPDATE

Jan-May 2008

For the first five months of the year, AAPA international passenger traffic grew by 3.8% in RPK terms, slightly slower than the 4.2% growth seen in 2007. Capacity also grew by 3.8%, maintaining the passenger load factor at 76.1%. Similarly, AAPA international cargo traffic, measured in freight tonne kilometres, was up by just 2.0%, even more modest than the 2.7% reported for the whole of 2007. The cargo load factor, however, improved 1.5 percentage points on a small reduction in cargo capacity. Expectations of slower economic growth suggest a degree of caution about the outlook for the second half of the year.

AAPA International Traffic

	Jan-May 2008	Jan-May 2007	% Change
Passengers carried (million)	60.2	58.2	+ 3.5%
Revenue Passenger Kilometres (billion)	251.9	242.7	+ 3.8%
Available Seat Kilometres (billion)	330.9	318.9	+ 3.8 %
Passenger Load Factor	76.1%	76.1%	+ 0.0 pp
Freight Tonne Kilometres (billion)	22.6	22.2	+ 2.0%
Available Freight Tonne Kilometres (billion)	34.0	34.1	- 0.4%
Freight Load Factor	66.5%	65.0%	+ 1.5 pp

MARK YOUR CALENDAR

3rd AAPA Aviation Emergency Response Planning Conference
8-9 October 2008, Hong Kong

World Route Development Forum
12-14 October 2008, Kuala Lumpur

MRO ASIA 2008 Conference & Exhibition
14-16 October 2008, Singapore

AAPA 52nd Assembly of Presidents
13-14 November 2008, Taipei

Asia Pacific Aviation Safety Seminar
20-21 November 2008, Bali

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