

Asia Pacific Perspectives

March 2007



Looking back on 2006, the AAPA airlines as group continued to set new records for both passenger and cargo traffic carried, although growth rates were relatively modest. The number of international passengers carried grew by 4.5% to 134 million, while traffic measured in revenue passenger kilometre terms rose 3.9%. Coupled with careful capacity management, the average passenger load factor reached a new high of 75.6%, surpassing the previous mark of 74.8% recorded in 2000.

AAPA international air cargo traffic, expressed in freight tonne kilometres, grew by 5.2% in 2006. Capacity increased by 4.4%, pushing the freight load factor to 66.9%. The year was characterised by a further sharp rise in the cost of jet fuel, adding to pressure on already thin airline profit margins, although the fall in oil prices later in the year provided some relief. Global economic conditions remained stable, while interest rates trended upwards. The structural dynamics of the airline industry continued to evolve, with newer entrants competing strongly for market share on short haul regional routes.

Meanwhile, established airlines responded by trimming their own costs and, in some cases, by establishing low cost subsidiaries or associates of their own. Despite the impact of new entrants, it is worth noting that the AAPA airlines as a group carried 50 million more passengers in 2006 than they did in 2002. In a further clear sign of convergence, some new entrants began widening their appeal by offering value-added services, appealing to business travellers.

Another new development was the emergence of new entrants focusing on long haul operations, although the chosen business models look much more like a conventional full service carrier, using larger wide-body aircraft, operated in a two-class configuration, with belly cargo expected to be an important revenue contributor.

These observations make it clear that the convergence of business models is blurring the traditional categories, and the reality is that all carriers are competing to satisfy overlapping market segments. As always, the challenge for all airlines, no matter which business model you favour, is to not only satisfy growing travel demand but also earn a satisfactory rate of return on invested capital.

INDUSTRY & REGULATORY UPDATES

AAPA has joined the **Tourism Emergency Response Network (TERN)**, a collaboration between travel and tourism organizations preparing for emergencies such as a potential avian influenza pandemic. Other members include the World Tourism Organisation (UNWTO), Pacific Asia Travel Association (PATA), International Federation of Tour Operators (IFTO), Airports Council International (ACI) and the International Air Transport Association (IATA).

The **2nd AAPA Emergency Response Conference** was held in Bangkok on 20-21 September 2006, co-hosted by Thai Airways International, attracting over 170 participants. Amongst the key themes: the definition of "emergency preparedness" for the industry is widening from a focus on aircraft accidents to include business continuity planning and management of other potential crises; the value of corporate/national reputation; the important role of the media in shaping public perceptions; and the need to build strong relationships with other stakeholders.

A joint **AAPA-IATA Regulatory Affairs Forum** was held in Kuala Lumpur on 12 October 2006. Thought provoking discussions were held on various regulatory initiatives emanating from both Europe and the Asia Pacific region; the impact of competition legislation on the airline business; extra-territorial issues; and the progress of aviation liberalization across different regions.

In October 2006, AAPA submitted its comments to the *US Customs and Border Protection's Notice of Proposed Rulemaking (NPRM) on Passenger Manifests*, requiring airlines to submit additional

passenger information. AAPA believes a flexible real-time interactive passenger pre-clearance system, where passengers could be screened and cleared more or less instantaneously, would be more workable, provided the system issues are timely and accurate.

AAPA will continue to urge governments to take care when implementing API requirements to ensure that data requirements are harmonised with international standards whenever possible, and that such systems do not compromise efficient passenger handling.

Aviation safety continues to be a priority for the region. AAPA safety levels are already comparable to our major airline counterparts in Europe and North America, with an average of one accident for every 2.6 million flights. In 2007, AAPA plans to further develop its safety outreach programme in coordination with other regional stakeholders. The aim is to bring the safety record of non-AAPA airlines in the region closer to the worldwide safety target of 0.65 accidents per million departures, or one accident for every 1.5 million flights.

An **AAPA Aviation Safety Seminar** was held in Kuala Lumpur, Malaysia on 10 October 2006. The conference attracted more than 50 safety professionals, industry experts and representatives of airlines operating in the Asia Pacific region. The event provided a good opportunity for the participants to share their expertise and exchange views on safety management, training and the benefits of more harmonized regional regulations.

Airlines continue to experience the repercussions of new security measures restricting liquids in carry on baggage, initiated by the UK, US and Canada in August 2006. The EU issued similar rules that took effect on 6 November 2006. The Council of the International Civil Aviation Organisation (ICAO) issued new interim security control guidelines for the screening of liquids, gels and aerosols applicable for all Contracting States, to be implemented not later than 1 March 2007. As a result, various Asia Pacific governments and regulators are now implementing similar measures. Apart from the inconvenience to passengers, the new rules have caused considerable confusion in relation to duty free sales, particularly for transit passengers. AAPA will continue to press for harmonised and mutually recognised security standards.

AAPA held an **Asia Pacific Aviation Environmental Forum** in Brunei on 28-29 November 2006, co-hosted by Royal Brunei Airlines. The conference attracted more than 120 participants, including international experts and regional representatives from governments, regulators, airports, airlines and academia. Aviation plays an important role in modern economic and social development, but faces a number of distinct issues relating to the environment, including noise, local air quality and global emissions of greenhouse gases. Given the significant role played by Asia Pacific in global aviation, it is essential that the region's views are both heard, and carry proper weight, in this important international debate.

Aviation is often targeted as a growing industry, even though it contributes only 2% of global CO2 emissions, a UN IPCC figure reiterated in the recent Stern report. The European Commission (EC) has recently proposed controversial legislation to include international airlines within the EU emissions trading scheme (ETS) as part of global efforts to respond to climate change. However, such unilateral action, without the mutual acceptance of other governments, would be extraterritorial in nature and in violation of the tenets of the Chicago Convention and existing international aviation agreements and practice. However well intentioned, such an initiative is likely to lead to protracted international disputes. Recognising the danger, the Director General of the AAPA, speaking at the 2nd Aviation & Environment Summit held in Geneva on 25-26 April 2006, had already called for "a global, multi-sector, collaborative response to the threat of climate change", and we will continue to press for closer international cooperation.

AAPA 50th ASSEMBLY OF PRESIDENTS



AAPA and host Japan Airlines together welcomed nearly 200 delegates and guests to the 50th Assembly of Presidents in Osaka, Japan on 17 November 2006. The Assembly opening ceremony was officiated by the Honourable Yoshio Mochizuki, Senior Vice Minister of Land, Infrastructure and Transport, Japan. The mood amongst delegates was positive given the recent pattern of sustained traffic growth. On the other hand, rising costs, particularly for fuel, and slower economic growth, could undermine the generally healthy outlook for the industry. Asia Pacific airlines have historically been successful in maintaining profitability, although margins have been under pressure as a result of fares not keeping pace with the full impact of high fuel costs. Some major airlines in the region are restructuring to adjust to changing competitive conditions. Others are growing fast, yet reporting significant losses

as revenue growth fails to match rising costs. Mr Toshiyuki Shinmachi, Chairman, Japan Airlines, noted that airlines today were facing more and more competitive pressures, as well as various external pressures over which they had little control.

Presentations were made by a number of high-level speakers on various major issues confronting the industry today:

- Mr Olivier Onidi, Head of Unit on Air Transport Agreements, European Commission, provided an interesting and thought-provoking presentation on a wide range of aviation policy issues;
- Ms Ann Zipser, Director of International Affairs, Transportation Security Administration, USA, spoke on the US Government's perspective on aviation security matters; and
- Mr Brian Pearce, Chief Economist, IATA, presented insights into key industry trends and structural challenges.

Following some active discussions at the Assembly, the chief executives of AAPA member airlines issued a number of resolutions calling for collective industry action in a number of areas, including:

- Aviation and the Environment
- Advanced Passenger Information (API) Initiatives
- Fair and Reasonable User Charges
- Safety Oversight
- Aviation Security
- Effective Action against Disruptive Behaviour

The full texts of all AAPA Resolutions are available at www.aapairlines.org

TRAFFIC UPDATE

International Traffic January - December 2006

	Jan-Dec 2006	Jan-Dec 2005	% Change
Passengers Carried (000)	133,771	128,033	+ 4.5%
Revenue Passenger Kilometres (000)	551,743,682	531,052,164	+ 3.9%
Available Seat Kilometres (000)	730,130,799	723,386,103	+ 0.9%
Passenger Load Factor	75.6%	73.4%	+ 2.2 pp
Freight Tonne Kilometres (000)	54,175,443	51,499,871	+ 5.2%
Avail. Freight Tonne Kilometres (000)	80,986,619	77,609,694	+ 4.4%
Freight Load Factor	66.9%	66.4%	+ 0.5 pp

MARK YOUR CALENDAR UPCOMING EVENTS :

Willis Asia Pacific Aviation Insurance Conference 2007
13 - 16 March 2007, Hanoi, Vietnam

Routes Regional Asia Forum
25 - 27 March 2007, Haikou, Hainan, China

Orient Aviation : Greener Skies 2007
29 - 30 March 2007, Hong Kong

AAPA Materials Management Conference 2007
24 - 25 April 2007, Bali, Indonesia