



ASSOCIATION OF ASIA PACIFIC AIRLINES

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Opening Speech of Mr. Andrew Herdman, Director General of the Association of Asia Pacific Airlines

Honourable Yoshio Mochizuki, Senior Vice Minister of Land, Infrastructure and Transport, Japan, Mr. Atsushi Murayama, President, Kansai International Airport, Mr. Yukihiro Hirano, President & CEO, Central Japan International Airport, Mr. Harubumi Kobori, Senior Vice President, Narita International Airport, Mr. Toshiyuki Shinmachi, Chairman of AAPA, Members of EXCO and member airlines, Distinguished guests, Ladies and Gentlemen.

It gives me great pleasure to welcome you to AAPA's Assembly of Presidents meeting here in Osaka, Japan at the kind invitation of Japan Airlines International, our generous hosts.

I am especially pleased to see such a distinguished turnout here today, including CEO's and senior colleagues from member airlines, government and regulatory officials, industry associates, and friends from the media.

In recent years, airlines have been benefiting from robust demand for air travel in line with healthy global economic growth. This pattern has continued into 2006, with both passenger and air cargo volumes setting new records. However, the effects of high energy prices, and rising interest rates, have somewhat overshadowed this generally positive picture. Revenue growth has been flattered to the extent that airlines have been able to pass on an element of the increase in fuel costs. But the underlying growth in traffic demand has been more modest, at around 5%, with indications in recent months of a further slowdown in the rate of growth.

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Cargo is another key revenue contributor for most Asian airlines, generating around a fifth of total revenues, driven by strong exports to the USA and Europe, as well as growing intra-regional trade, boosted by economic recovery in Japan and the rapid development of the Mainland Chinese economy.

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 having to restructure to adjust to changing competitive conditions. Others are growing fast, yet reporting significant losses as revenue growth fails to match rising costs. Thus even in a booming domestic market like Mainland China, whose growth has also been boosting demand for regional travel, airlines are having to work hard to translate growth into profitability.

Meanwhile, new entrant airlines face challenges of their own. Many of the major short haul routes in the Asia Pacific region are already well served, so new airlines are having to search harder for new growth opportunities. Those new entrants that have established a genuine cost advantage and demonstrated an ability to scale up their operations, with newer and more fuel-efficient aircraft, should continue to do well. In more mature markets, some budget carriers are introducing new service options in order to compete more effectively for service conscious customers. We can expect to see further examples of such convergence of business models in the future, particularly now that a number of new entrants have announced plans to operate longer haul international services.

Perhaps I can take this opportunity to emphasize the fact that the AAPA as an association is focused on the successful development of Asia Pacific aviation as a whole, and ensuring that the views of Asia Pacific are both heard, and carry proper weight, in an international context. We therefore welcome the participation of non-member airlines in our various activities, and very much look forward to welcoming some new airlines from the region as full members of the association.

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Let me turn now to say a few words about some of the other challenges we face. Whilst there is a clear trend towards progressive liberalization, outdated restrictions on ownership and control have prevented consolidation in the way that economic logic, and experience with most other global businesses, would dictate. Aviation is the most global of businesses and yet remains unnecessarily fragmented. The need for fresh thinking, strong leadership and policy reform is clear, if meaningful progress is to be achieved.

Aviation remains a highly, many would argue too highly, regulated industry. Airlines are being subjected to a slew of new regulations, both technical and commercial in nature. Many of these originate from the US and EU, but have a significant impact on international carriers. This is one area where AAPA can, and does, play an important and valuable role in ensuring that Asia Pacific's views are heard and are persuasive.

Happily, flying is increasingly recognized as the safest form of travel, and a valued part of everyday life. Closer international cooperation is also the key to ensuring that air travel remains not just safe and secure, but also convenient. However, effective security procedures must be based on objective assessments of threat levels, with governments accepting their full share of the resultant costs imposed on society.

I would also highlight the growing controversy over the environment. Aviation is responsible for only 2% of global CO₂ emissions, and uses technology very efficiently, but the inconvenient fact remains that as an industry we expect demand for air travel to keep on growing rather faster than we can deliver incremental reductions in our emissions. The ICAO Assembly in 2007 therefore marks an important milestone and opportunity for us to show leadership as an industry in contributing towards wider initiatives to address the challenge of global climate change.

As ever, there is no shortage of controversial and challenging issues confronting our industry. But rather than focus too much on our differences, let us remember the benefits of working together in a spirit of co-operation. With that in mind, I look forward to engaging in an active and productive debate in today's meeting.

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Sincere thanks again to Chairman Shinmachi-san for his leadership, and his team at Japan Airlines, for all their efforts in organizing this year's event here in Osaka.

I very much hope you will enjoy the rest of the programme we have ahead of us today.

Ladies and gentlemen, with your continued support and guidance, the AAPA is committed to doing everything we can as an Association to enhance the stature and influence of Asia Pacific aviation, which I am sure will play an increasingly important role in this truly global industry.

Thank you.

Association of Asia Pacific Airlines (AAPA)

The AAPA is the trade association of 17 scheduled international airlines based in the Asia-Pacific region. The AAPA permanent secretariat is headquartered in Kuala Lumpur, Malaysia with international representation in Brussels and Washington, D.C. Collectively, AAPA member airlines carry 270 million passengers and 10 million tonnes of cargo representing approximately one-fifth of global passenger traffic and one-third of global air cargo traffic respectively, and thus play a critically important role in the ongoing development of global aviation.

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