

## PRESS RELEASE

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

Admiral Thira Haocharoen, Minister of Transport, Thailand, General Pairoj Panichsamai, Board of Directors, Thai Airways, Khun Chaisak Saeng-Xuto, Board of Directors, Thai Airways, Flg Off Apinan Sumaneseni, 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 Bangkok, Thailand at the kind invitation of Thai Airways 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, suppliers, industry associates, and friends from the media.

For several years now, airlines have been benefiting from robust demand for air travel in line with healthy global economic growth. This pattern has continued into 2007, with both passenger and air cargo volumes setting new records.

Passenger numbers have seen growth of around 5% this year. Cargo demand is also up, although the 3% growth is rather modest compared to what we have seen in the past, perhaps a reminder of the fact that we are competing with other modes including ocean freight services.

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Overall, the industry is in line to return to profitability in 2007 after several years of heavy losses, as the major US carriers emerged from bankruptcy. Nevertheless, no industry can sustain itself on 1% profit margins, and much more needs to be done if we are to achieve competitive returns on the considerable amounts of capital invested in the business. In the past fiscal year, AAPA member airlines reported profits of 3.4 billion US dollars, which represented a 4% sales margin. Restructuring efforts, as well as investments in new value added products and services are showing results.

Oil prices have continued their relentless rise. The higher fuel bill has of course had to be passed on to our customers in the form of higher airfares, with or without fuel surcharges. Last year, fuel accounted for around 30% of total costs, today fuel could represent 35% or more of your average ticket price.

With the expected growth in traffic, corresponding investments are also needed in ensuring that the right infrastructure is in place to meet demand, whilst improving productivity.

Aviation is still governed by what some see as an outdated regulatory framework of governmental air services agreements. However, progressive liberalisation has been a key factor in supporting the spectacular growth of the industry we have witnessed over past decades. Moving forward, further reforms should help the industry to address and resolve a number of persistent structural problems, whilst opening up new growth opportunities for both established carriers and new entrants, and should therefore be welcomed. 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.

As airlines compete, the distinctions between the different business models are becoming increasingly blurred. Some budget carriers have introduced new service options, appealing to service conscious customers. Overall, healthy competition will determine which business models prevail, based on who can best meet customer expectations.

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Perhaps I can take this opportunity to emphasise the fact that we see a need for AAPA to act as a broadly representative trade association for all the region's international airlines, regardless of business model. In that regard, we actively encourage the participation of non-member airlines in our activities, and are always prepared to welcome new members to the association.

Let me turn now to say a few words about some of the other challenges we face. Aviation remains a highly, many would argue too highly, regulated industry. Airlines are being subjected to a raft 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 given proper weight in international debate.

Air travel has established a position of leadership as the safest form of travel, and the industry is committed to delivering continuous improvements in safety performance. Last year was the safest ever in the history of commercial aviation. AAPA member airlines, as a group, have been maintaining safety levels fully comparable to the very high standards set by our counterparts in Europe and North America, and we are active participants in various regional safety initiatives.

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.

Addressing the impact of climate change has become an important priority for governments around the world. The industry, which accounts for only 2% of global CO<sub>2</sub> emissions, has committed to a comprehensive programme of measures, including investments in modern fuel-efficient engines and aircraft, and steady improvements in infrastructure and operational efficiency. There may also be a role for additional market based measures, including emissions trading. However, a unilateral regional scheme of

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the kind being proposed by the EU and implemented without the mutual consent of other governments, would lead to a protracted international legal and trade dispute. I believe the Asia Pacific region has a legitimate role to play in trying to resolve the current standoff, which must also be viewed in the context of wider efforts to reach a post-Kyoto consensus on tackling climate change.

Looking ahead, the recent turmoil in the financial markets, and related tightening of credit conditions, suggest some caution on prospects for the world economy in 2008. However, the outlook for Asia Pacific region remains generally positive.

Worldwide, over the next two decades ICAO expects the number of flights to double, with passenger growth compounding at around 5% annually, whilst air cargo demand is forecast to grow at 6.6% over the same period.

As tangible evidence of our confidence in the future, AAPA member airlines are at the forefront of industry developments as launch customers for the Airbus A380, which is now in commercial operation, and to be followed next year by the entry into service of the Boeing 787 Dreamliner.

Clearly, 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.

Thanks again to Captain Apinan for his leadership, and his team at Thai Airways International, for all their efforts in organising this year's event in Bangkok.

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, AAPA will remain focused on addressing important industry issues of common concern, and ensuring that the views of the region are given proper weight on the international stage. Aviation is a

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great industry, and we remain confident that we can continue to make a significant contribution to successful growth of the Asia Pacific region and sustainable development of the wider global economy.

Thank you.

#### **Association of Asia Pacific Airlines (AAPA)**

The AAPA is the trade association of major 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, the 17 AAPA member airlines carry 285 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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