

## **OPENING SPEECH OF MR. ANDREW HERDMAN, DIRECTOR GENERAL OF THE ASSOCIATION OF ASIA PACIFIC AIRLINES**

- Mr. Oliver Yu, Administrative Deputy Minister, Ministry of Transportation and Communications,
- Mr. Lee Long-wen, Director General of the Civil Aeronautics Administration,
- Ms Janice Lai, Director General of the Tourism Bureau,
- Mr. James Jeng, President of EVA Airways and 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 Taipei at the kind invitation of EVA Airways, our generous hosts.

We have a very distinguished turnout today, including CEOs and senior colleagues from member airlines, government and regulatory officials, suppliers, industry associates, and friends from the media.

Ladies and Gentlemen, for several years now, airlines have been benefiting from robust demand for air travel in line with healthy global economic growth.

Sadly, this pattern changed abruptly in 2008. Cripplingly high fuel prices in the first half of the year and more recently a slowing global economy have proved extremely challenging for airlines around the world.

The spike in oil prices in the first half, peaking at USD147 a barrel, translated into a hefty 20% increase in unit costs for airlines. As a result, airline profitability evaporated, with AAPA airlines in aggregate barely breaking even in the first half of the year.

The recent fall in the price of oil to 2007 levels provides a measure of relief, but the severity of the global economic downturn is of great concern to carriers in the Asia-Pacific region. The next 12-18 months will be extremely difficult times for airlines worldwide. We have already seen a number of airline failures. Some others won't survive the current crisis.

We have already seen passenger demand softening. This year, passenger numbers worldwide have grown barely 2%, whilst cargo volumes are declining. This is in stark contrast to the record levels of both passenger and cargo traffic seen in 2007.

Going forward, IATA forecasts that global RPKs will decline by 2.2% in 2009 and that the industry will not see growth above 4% until 2011. Cargo FTKs are forecast to fall by 1.5% this year, with a similar rate of decline for 2009.

Clearly, business confidence has also been shaken, as the combination of weakening demand and tightening credit markets pushes up the cost of capital, leading to further caution in terms of planned capacity expansion and investment.

Industry profitability remains extremely fragile. IATA is forecasting overall industry losses of USD 5.2 billion in 2008 and USD 4.1 billion in 2009, with a return to profitability only expected in 2010. Even these figures may prove to be too optimistic.

Indeed, we are going through some turbulent times.

However, as has been the case for past crises, Asia Pacific carriers are responding promptly and effectively to meet the latest series of challenges facing the industry, with careful adjustments to both capacity and route networks, as well as seeking further operational cost savings.

Despite these severe commercial pressures, we have continued to place the highest priority on maintaining safe operations, with ongoing improvements to further enhance the industry's extraordinary safety record.

Nevertheless, there is a need to further strengthen regulatory oversight. Governments around the world need to ensure that they are operating in full compliance with agreed ICAO standards, or face the very real threat of sanctions by other governments if identified deficiencies are not promptly addressed. As part of joint efforts to raise overall standards across the region, AAPA is actively engaging with air transport regulators and other stakeholders to finalise a new safety roadmap aimed at further strengthening regional safety oversight.

Even in good times, airlines are constantly striving to minimise costs and boost overall productivity. Now, more than ever, we need the support of airports, air navigation service providers and other industry stakeholders to achieve further efficiency improvements.

We urge governments to recognize that they also have an important role to play in ensuring that further industry liberalisation allows airlines the freedom to compete like other international businesses, including reviewing the way in which national ownership and control rules inhibit airlines from competing more effectively in a global marketplace.

But we certainly do not need more ill-conceived taxes on aviation, designed to raise revenues for State treasuries without any demonstrable benefit to industry or society at large. I am relieved that a number of European governments have come to their senses and withdrawn earlier plans for new airline passenger taxes. Other governments please take note.

Successful, sustainable growth comes with responsibility. Aviation is widely recognised as a key contributor to economic and social development, nowhere more so than in this part of the world. As an industry, we take our environmental responsibilities very seriously.

AAPA member airlines are leading the industry as launch customers and operators of the latest generation of fuel-efficient and environmentally-friendly aircraft, including the Airbus A380 and Boeing 787 Dreamliner. Fuel price volatility and its impact on airline operating costs mean that airlines already have every incentive to minimise fuel burn and emissions. AAPA is also working with its members to improve operational efficiency, and encouraging air traffic and airport infrastructure providers to undertake environmentally beneficial initiatives.

Whilst aviation only accounts for 2% of global CO<sub>2</sub> emissions, we support the goal of “carbon-neutral growth” for the industry in the medium term and ultimately aspire to a longer term vision of “zero-emissions flying” using non-carbon based fuels.

Together with other industry stakeholders, AAPA call upon governments to work towards globally harmonised policies on aviation and the environment, including backing for environmental research & development programmes; infrastructure improvements to reduce unnecessary carbon emissions; and properly designed market-based measures including emissions trading. However, AAPA is firmly against the unilateral imposition of punitive “green taxes” that in reality do nothing for the environment.

Notwithstanding the gloomy outlook for the global economy, we are positive about prospects for recovery. Overall, we remain confident that Asia Pacific airlines are well positioned to cope with current challenges, and are still investing to take advantage of future growth opportunities.

Worldwide, over the next two decades ICAO expects the number of flights worldwide to double, with passenger growth compounding at around 5% annually, whilst air cargo demand is forecast to grow at 6% over the same period.

May I take this opportunity to emphasise that the AAPA's mission is 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 keen to welcome new members to the association.

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. Within the region, progress towards greater freedom in the movement of passengers and goods within ASEAN, improving cross-straits relations, and greater cooperation on various fronts amongst APEC economies, all remind us of the greater benefits of mutual cooperation and dialogue. With that in mind, I look forward to engaging in an active and productive debate in today's meeting.

Before I end, I'd like to extend my sincere appreciation to Mr. James Jeng for his leadership, and thank his team at EVA Airways, for all their efforts in organizing this year's event in Taipei. I'd also like to thank our sponsors for their generosity and their support of the Association's activities.

Ladies and gentlemen, with your continued support and guidance, AAPA will remain focused on addressing key industry issues of common concern, and ensuring that the views of the Asia Pacific region are given proper weight on the international stage. Aviation is a 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.

Andrew Herdman  
Director General  
Association of Asia Pacific Airlines

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