

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

- Mrs Lim Hwee Hua, Minister (Prime Minister's Office) & Second Minister for Finance & Transport, Singapore
- Mr. Yap Ong Heng, Director General, Civil Aviation Authority of Singapore
- Mr Chew Choon Seng, Chief Executive Officer, Singapore Airlines 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 53rd Assembly of Presidents meeting here in Singapore at the kind invitation of Singapore Airlines, our generous hosts.

I am delighted to see such a distinguished group gathered here 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 airlines, this has undoubtedly been one of the most difficult and turbulent periods in the history of aviation.

We've all experienced the effects of a synchronised global economic slowdown of a severity not seen since the 1930's, with sharp falls in consumer demand for goods and services and a slump in international trade.

As a result, airlines had to endure a painful period of significantly weaker demand for passenger and cargo services. With load factors falling, airline revenues took a double hit from both declining traffic and lower yields.

Air cargo demand dropped precipitously in the fourth quarter of 2008, and bottomed out at year end, shockingly almost 30% down in tonnage terms. 2009 has seen a slow but steady recovery in cargo volumes, regaining much of the lost ground, but rates were severely depressed.

Passenger traffic continued to deteriorate throughout the first half of 2009. It has only recently begun to show some signs of stabilisation. Demand for premium passenger services has been particularly weak, as businesses cut back on travel costs. The swine flu outbreak added a further element of uncertainty.

In response to the crisis, airlines progressively reduced capacity. Some older aircraft were retired, whilst many others were temporarily parked. At the same time, airlines made vigorous efforts to stimulate demand by promoting highly competitive fares and discounted travel packages. The

industry is still adjusting to the loss of at least two years of previously anticipated growth.

Meanwhile, airlines made strenuous efforts to cut costs, without compromising the integrity of the product. Measures were implemented to reduce staff costs including reductions in performance bonuses, unpaid leave schemes and, as a last resort, staff retrenchments. As many of you know from personal experience, in times like this, teamwork and shared sacrifice have often been the key to survival.

In recent months, airlines have seen load factors recover, but low yields mean continuing losses for the industry, and rising oil prices are certainly not helping.

Asia Pacific airlines are expected to report further heavy losses this year: this comes on top of the US\$4.8 billion aggregate loss reported by AAPA carriers in 2008. IATA estimates that the global airline industry will lose US\$11 billion this year.

Hopefully, we are at least through the worst of the downturn. There are some encouraging signs that air traffic is starting to recover. A number of key Asia Pacific economies are leading the world out of recession. The IMF anticipates global GDP growing by 3% in 2010. Faster growth in China and India could see the Asian region achieving 6% growth in the coming year.

Even so, we still do not know whether the nascent recovery will be self-sustaining, given the need for further adjustments and a fundamental rebalancing of the global economy.

Airlines continue to face an extremely challenging operating environment. AAPA leaders have to steer a difficult course over the next year, both tightly managing costs and closely monitoring what may well be a fragile economic recovery. It will take time to nurse battered balance sheets back to full health.

Despite these severe commercial pressures, the industry's number one priority remains unchanged: safety. Flying is the safest mode of travel, with major carriers reporting an accident rate of one major accident for every two million flights. But we cannot be complacent. So far this year, there have been 8 major accidents worldwide, which resulted in 410 fatalities. But our goal is zero accidents and zero fatalities.

Whilst airlines grapple with this multiplicity of commercial and operational challenges, governments appear oblivious to the calls of the industry for less interference and greater efficiency. Restrictive policies and unfair taxation are without doubt undermining recovery. In order for the industry to achieve long term sustainability and growth, it is now time for governments to wake up to the idea of removing policies that have inhibited development for decades.

Instead of fresh thinking, the pace of government regulatory activity has gained pace, not lessened.

Let me give you a flavour of what the industry is up against every day.

- Onerous security procedures for both passengers and cargo that often seem to be driven more by fear than cool reasoning;

- Multiple requirements to provide passenger information to government authorities;
 - - Missed opportunities to streamline the passenger travel experience;
 - - Layer upon layer of ill-conceived and unjustified government taxes, fees, and charges

Even more fundamental is the need for governments to allow greater structural reform. We want a fresh look at restrictions on national ownership and control. They hold back consolidation, and hinder access to international capital markets. Airlines must have the commercial freedom to compete, just like other international businesses.

Next, let's talk about the environment: AAPA fully supports industry targets to deliver improvements in fuel efficiency; carbon neutral growth from 2020; and a halving of net emissions by 2050. These are challenging and ambitious targets, but certainly achievable.

Yet again, the industry is being held back by governments on this critical issue. Climate change negotiations are making very slow progress, on two parallel tracks: the UNFCCC with responsibility for addressing global climate change; and ICAO as the UN body responsible for aviation. Progress within ICAO has been slow. The failure to reach agreement on other issues including market based measures, only highlights the fundamental divisions between developed and developing countries on the broader issue of climate change policies.

As an energy intensive, globally competitive industry, we need to build political support for a global sectoral approach for international civil

aviation. Instead, the industry is being threatened by the imposition of a patchwork of uncoordinated schemes and arbitrary levies by short sighted governments.

Governments are already introducing such measures targeting aviation: look at plans for emissions trading schemes in the EU, Australia, New Zealand, USA, and Japan. Talk of imposing further taxes on aviation, including levies to finance climate change adaptation efforts in developing countries, is a recurrent feature in the UNFCCC climate change negotiations. The extortionate, yes, extortionate – for there is no other word to describe it- the UK Air Passenger Duty scheme, introduced under the guise of an environmental initiative, will do absolutely nothing for the environment. We must strongly resist such proposals.

The Asia Pacific region is home to two-thirds of the world's population, and includes diverse economies representing both developed and developing nations. Any political solution on climate change must address the aspirations of developing nations and principles of equity. We need courageous fresh thinking on ways to overcome these political difficulties. Asia Pacific carriers remain committed to playing a full part in efforts to address these environmental challenges. These are tough words to governments, but these are tough times.

AAPA's mission is to help our industry partners, regulators, other stakeholders, and the public at large, to understand the perspectives of Asia Pacific airlines. With your support, we can maintain a strong and united voice speaking on behalf of the region's airlines. We can engage effectively with governments and regulators around the world on issues that affect us all. 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.

Before I end, I'd like to extend my sincere appreciation to Mr. Chew Choon Seng for his leadership, and thank his team at Singapore Airlines, for all their hard work and efforts in organising this year's superb event in Singapore. I'd also like to thank our sponsors for their generosity and their support of the Association's activities.

To end on a distinctly positive note, the Asia Pacific region is set to become the world's largest aviation market. Progress towards greater freedom in the movement of passengers and goods within ASEAN, improving cross-Straits relations, and greater cooperation amongst APEC economies, can only stand the region in good stead. AAPA and its member airlines will be at the forefront of these developments, playing an important role in shaping the future of the industry whilst serving the wider community.

With that in mind, I look forward to engaging in an active and productive debate in today's meeting.

Thank you.

Andrew Herdman
Director General
Association of Asia Pacific Airlines

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