

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

- Yang Berhormat Datuk Abdul Rahim Bakri, Deputy Minister of Transport, Malaysia
- Yang Berbahagia Dato' Azharuddin Abdul Rahman, Director General, Department of Civil Aviation Malaysia
- Mr. Ahmad Jauhari Yahya, Group Chief Executive Officer, Malaysia Airlines
- Members of the AAPA Executive Committee and Member Airlines
- Distinguished Guests, Ladies and Gentlemen

It gives me great pleasure to welcome you to AAPA's 56th Assembly of Presidents here in Kuala Lumpur at the kind invitation of Malaysia Airlines, our generous hosts. As you all know, Kuala Lumpur is where the Association itself is based, so an especially warm welcome to our home.

I would like to start with a clear message. Aviation is a force for good. You rarely hear this articulated in other parts of the world, but here in Asia, aviation is recognized as an industry that is responsible for fostering business, educational, social and cultural links. And as an industry, we are proud of this distinction.

The Asia Pacific region is home to two thirds of the world's population, but generates only about one third of global economic output. Aviation plays a critically important role, linking continental land masses with sprawling archipelagos.

When we met in Seoul around this time last year, I noted that Asia is at the heart of innovative thinking in our industry, the place where new business models are being refined, new partnerships created, and new service standards implemented.

In fact, the past 12 months has proven to be pivotal for the entire industry, with enterprising Asia Pacific carriers at the forefront of major developments. Groundbreaking deals that would have been unimaginable even a year ago are now turning previous rivals into long term strategic partners.

A year ago, some may have questioned whether the Japanese market was ready to embrace different airline business models. But those new ventures, Japan Airlines together with Jetstar, and All Nippon Airways together with Air Asia, are now operating successfully, giving consumers more choices of service. In other deal making, Singapore Airlines recently took a strategic stake, alongside Etihad, in Virgin Australia, also involving a tie up with Tiger Airways Australia. Qantas ended its decades long joint service agreement with British Airways, in favour of a wide ranging new partnership deal with Emirates.

We welcome this new competitive landscape – a landscape that provides consumers with a vast array of new travel options. A

landscape that adds additional momentum to the heightened stature and influence of Asian carriers in the global industry.

And yet, despite all these exciting developments, you don't need me to tell you just how tough it is to make money in the airline business. Even in a relatively good year, like 2010, the global airline industry profit margin was just 3%. Asian airlines did better, earning margins of around 6% of revenue, and accounted for about half of the industry's global profits. Since then, industry margins have been relentlessly squeezed by high oil prices. For 2012, IATA is forecasting industry profits of just \$4 billion, on revenues of \$630 billion that's a net margin of less than 1%. Put another way, that's a profit of just \$1 per passenger.

The commercial success of Asian airlines has fundamentally changed the competitive business landscape. However, when it comes to making the rules that govern this industry, the US and EU still exert a very strong, some would say dominant, influence. Indeed, there is a growing feeling amongst countries in Asia and elsewhere, that the influence of the US and EU is becoming increasingly disproportionate to the economic and political realities of the modern world. Questions of a similar nature have already been raised with regard to the governance structures of international institutions like the IMF and World Bank.

Clearly, in a multi-polar world, governance and regulatory frameworks must adapt with the times. In our view, the world of aviation needs to see a corresponding rebalancing of the global policy making process. We would like to see further emphasis on the important role played by ICAO in developing global policy standards.

Let me turn now to say a few words about some regulatory challenges facing the industry.

Firstly, the environment.

Aviation takes its environmental responsibilities seriously, and is strongly committed to delivering continuous improvements in fuel efficiency, and controlling emissions.

Unfortunately, Europe's unilateral attempt to impose the EU ETS on foreign carriers, has led to a firestorm of protests and threats of retaliatory measures from other governments. AAPA, on behalf of the region's airlines, has been outspoken in criticising the EU for over-reaching its authority. We will certainly continue to do so. Bulldozing has never proved to be an effective foreign policy tool.

A global industry like aviation needs a coherent global approach, and the place to develop such policies is through ICAO. The alternative would be disastrous - a patchwork of overlapping national schemes and punitive taxes. I must add, however, that in line with the wider debate on climate policy, this is an inherently political process, and one in which the diverse interests of countries large and small, rich and poor, need to be reconciled.

Air travel today is not only extraordinarily safe, but also extremely secure, thanks to close cooperation between governments and industry. But for many passengers, security procedures are cited as the least satisfactory part of the air travel experience. What we have today is nothing short of a Mistrusted Traveller Programme, with 100%

enrolment. Harsher critics have characterised current passenger screening procedures as ritualistic “security theatre”. We need to break free of the current mindset that by default treats every passenger as a potential terrorist. We need proper risk assessments, and intelligence-led, outcome based, security measures. Improving the overall security experience should be our shared objective.

Staying with passenger satisfaction issues, Asian airlines are rightly renowned for our excellent customer service standards. However, all too often, international passengers arrive at their destination only to be confronted by long lines for immigration and customs clearance. Governments keen to promote tourism need to pay closer attention to the experience of the passenger at the point of entry, especially if they want repeat visitors.

The bold initiatives being taken by Asia-Pacific carriers to change the competitive landscape offer great promise to the travelling public, but governments seem oblivious to the counterproductive impact of never ending new regulations and taxes. We call on governments to take a step back, and reflect on the fact that consumer choice is often a much more effective means of shaping what products and services will best meet consumer needs.

The Asia Pacific region is now the single largest aviation market. Half of the world’s future traffic growth over the next two decades will be to, from or within this region.

As the trade association of the region’s airlines, AAPA’s mission is to articulate, to the world at large, the perspectives of Asia Pacific airlines.

With your support, we can engage more effectively with governments and regulators around the world on issues that affect us all.

AAPA will continue to collaborate with other stakeholders on common industry issues. To this point, I am particularly pleased to have our old friend, Tony Tyler, with us here today. AAPA and IATA will work hand in hand to strengthen the voice of the Asian airline industry in global policy debates.

Before I end, I'd like to extend my sincere appreciation to Mr. Ahmad Jauhari Yahya, Group Chief Executive Officer of Malaysia Airlines for his strong leadership as Chairman of AAPA this year. I'd also like to thank his team at Malaysia Airlines, for all their hard work and efforts in organising this year's superb event here in Kuala Lumpur. Grateful thanks also go to our sponsors for their generosity and their wider support of the Association's activities.

Working together, we can bring further benefits to the global community. Asia Pacific airlines and our many partners are committed to playing an important role in shaping the future of this always exciting and dynamic industry.

Thank you.

Andrew Herdman
Director General
Association of Asia Pacific Airlines

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