Asia Pacific Aviation

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Asia Pacific & US Trade Flows

- Asia is the US's largest trading partner in terms of goods traded, valued at US$686 bn in 2003, growth of 7%
- US exports to Asia represent 28% of its total trade
- Imports from Asia represent 37% of total US trade
- Major contributors lead by China US$192 bn and Japan US$173 bn
- Air cargo: 2.4 million tonnes

Source: WTO

Asia-Pacific & US Passenger Flows

- Strong business and leisure traffic flows between Asia-Pacific & USA
- IATA recorded 14.8 million passengers on transpacific routes in 2003
- AAPA recorded 10.9 million passengers on transpacific routes in 2003

Source: AAPA and IATA

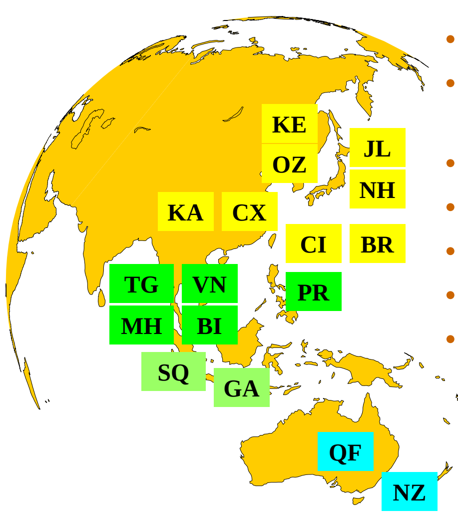
Role of AAPA

- Regional trade association representing 17 major international airlines based in Asia Pacific
- Committed to promoting sustainable growth of the aviation industry serving both passenger and freight needs
- Work with member airlines, governments, regulators and industry partners on issues of common concern
- Permanent secretariat headquartered in Kuala Lumpur, Malaysia
- Representation in Washington and Brussels

AAPA Association of Asia Pacific Airlines

Air New Zealand
Singapore Airlines
Philippine Airlines
Korean Air
Cathay Pacific
JAL
Asiana Airlines
Dragonair 港龍航空
Thai
Qantas
Vietnam Airlines
ANA
A STAR ALLIANCE MEMBER
Garuda Indonesia
China Airlines
malaysia airlines
EVA AIR 長榮航空
Royal Brunei
Giving the world Asia's best

AAPA Combined Strength



- 17 airlines
- US$ 66 billion operating revenue
- US$ 4 billion operating profit
- 255 million passengers
- 10 million tonnes of cargo
- 190,000 employees
- 1,273 aircraft

Global Market Share :

- ~ 21% of global pax traffic
- ~ 34% of global cargo traffic

Source: 2004 Preliminary Estimates

AAPA Fleet Development

- 1,273 aircraft
- 71% of the fleet is wide-body
  - Operating 32% of world's widebody passenger fleet
  - Operating 30% of world's B747F fleet
- 46% of all new wide-body orders for 2004
- 359 aircraft on order for delivery over the next 5 years
- Major customers for new types including A380 & B787

Source: Association of Asia Pacific Airlines & Airclaims' World Fleet May 2004

Mainland China Aviation Market

120 million passengers

Domestic 100 million
&
International 20 million

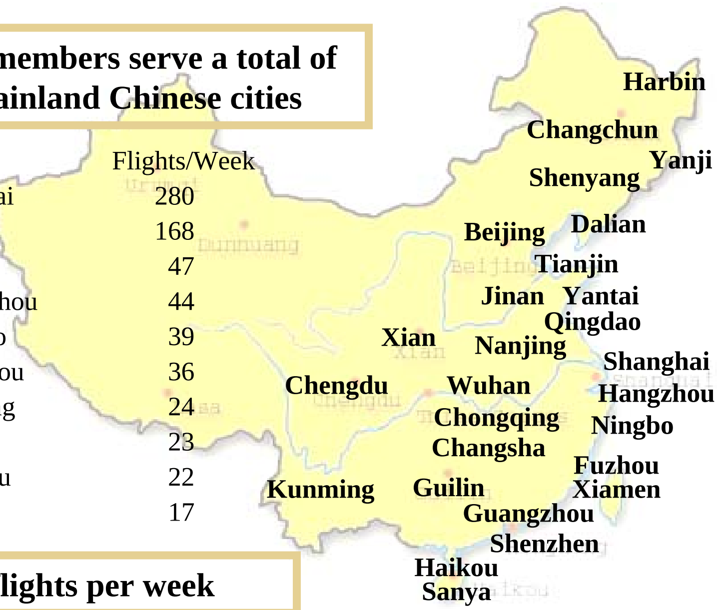
AAPA carriers are key players in serving the rapidly growing Chinese market

Source: CAAC 2004

AAPA: Mainland China Destinations

AAPA members serve a total of 27 mainland Chinese cities

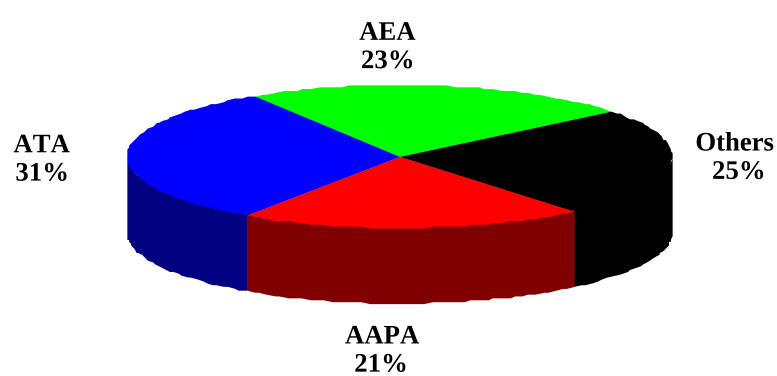
		Flights/Week
1.	Shanghai	280
2.	Beijing	168
3.	Xiamen	47
4.	Guangzhou	44
5.	Qingdao	39
6.	Hangzhou	36
7.	Kunming	24
8.	Dalian	23
9.	Chengdu	22
10.	Tianjin	17



800 flights per week

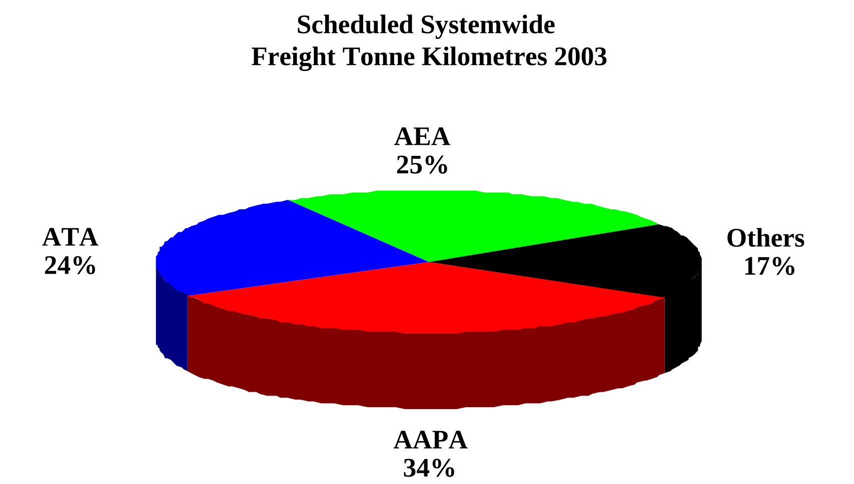
AAPA Global Passenger Traffic Share

Scheduled Systemwide
Revenue Passenger Kilometres 2003



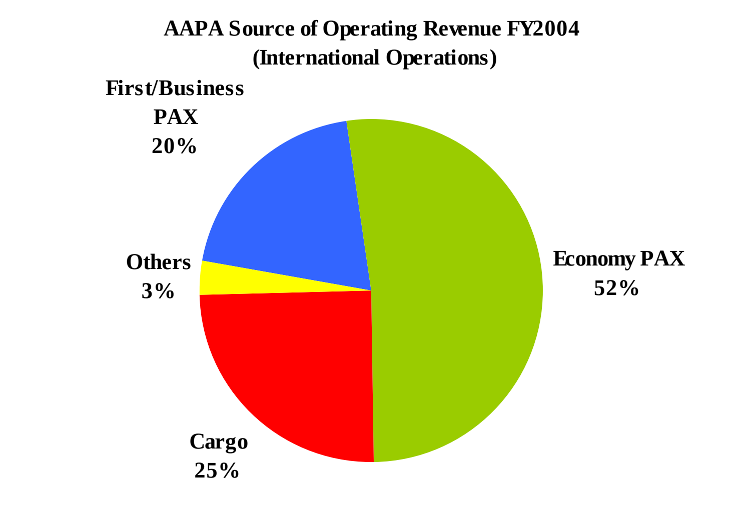
Source: IATA AAPA: Association of Asia Pacific Airlines, ATA: Air Transport Association of America, AEA: Association of European Airlines

AAPA Global Freight Traffic Share



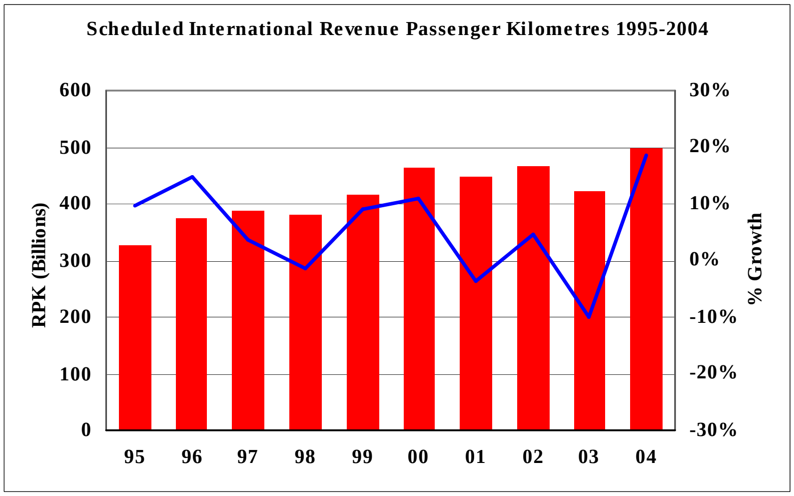
Source: IATA AAPA: Association of Asia Pacific Airlines, ATA: Air Transport Association of America, AEA: Association of European Airlines

AAPA: Int'l Revenue Mix



Source: AAPA (FY 2004: April 2003 to March 2004)

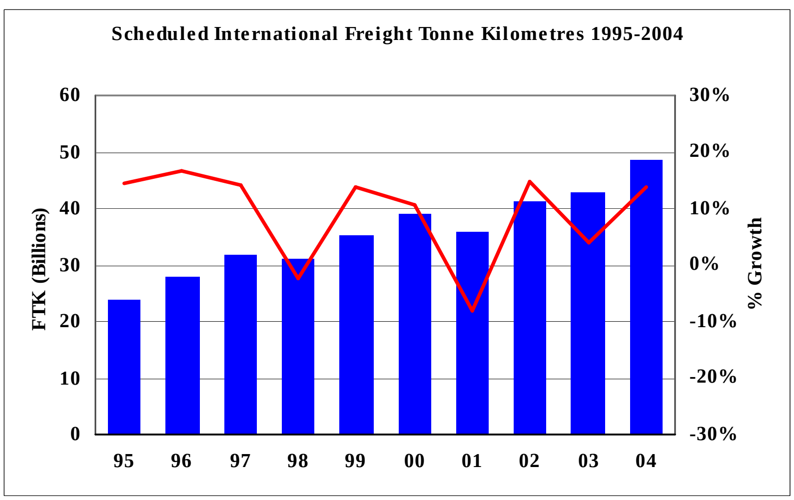
AAPA Int'l Passenger Traffic 1995 – 2004



Strong recovery in passenger demand

Source: Association of Asia Pacific Airlines

AAPA Int'l Freight Traffic 1995 – 2004



Continued growth in cargo demand

Source: Association of Asia Pacific Airlines

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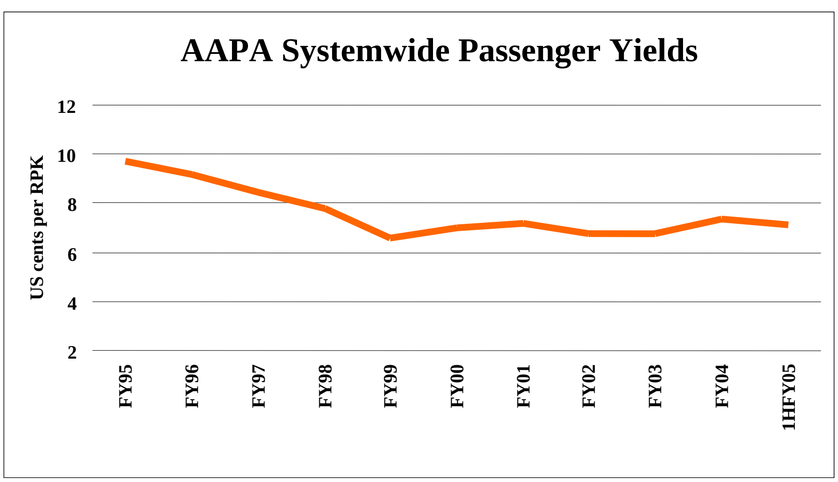
Lessons from 2004

- Good global economic growth
- Strong recovery in passenger demand
- Continued growth in cargo demand
- High oil prices
- Keen competition
- Cost management more critical than ever

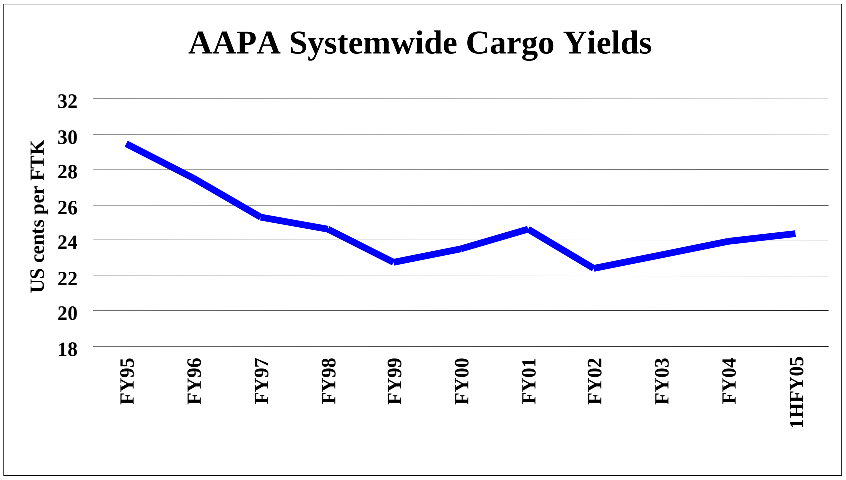
Yields reflect keen competition



Emphasises need for constant focus on managing unit costs

Source: AAPA (FY04 = April 2003 to March 2004)

Yields reflect keen competition



Emphasises need for constant focus on managing unit costs

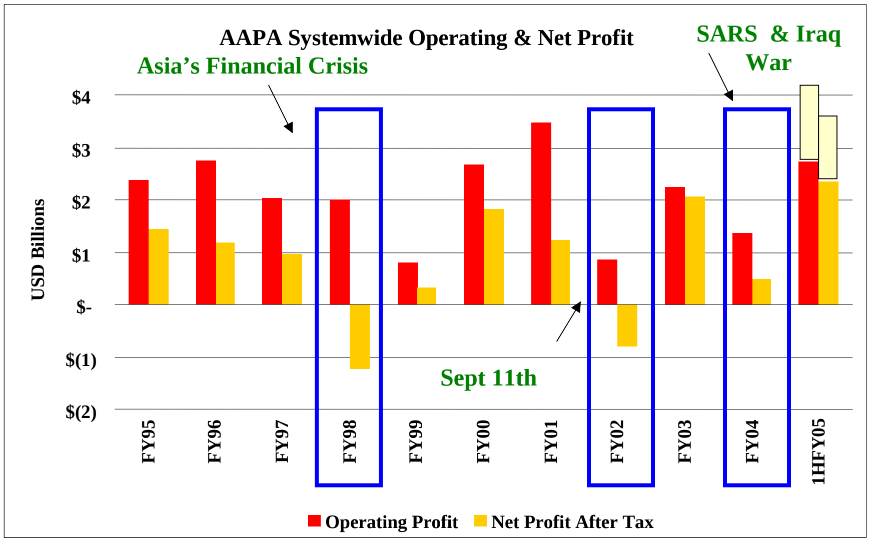
Source: AAPA (FY04 = April 2003 to March 2004)

AAPA International Traffic 2004

	2004	% Growth
Passengers Carried (mn.)	**117**	**+22.5%**
Revenue Passenger Kilometres (bn.)	**500**	**+18.6%**
Available Seat Kilometres (bn.)	**682**	**+12.8%**
Passenger Load Factor (%)	**73.3%**	**+3.6 Pts**
Freight Tonne Kilometres (bn.)	**48**	**+12.9%**
Avail. Freight Tonne-Kilometres (bn.)	**72**	**+12.4%**
Freight Load Factor (%)	**67.2%**	**+0.3 Pts**

Source: Association of Asia Pacific Airlines

AAPA: Profitability Trends



Source: AAPA (FY04 = April 2003 to March 2004)

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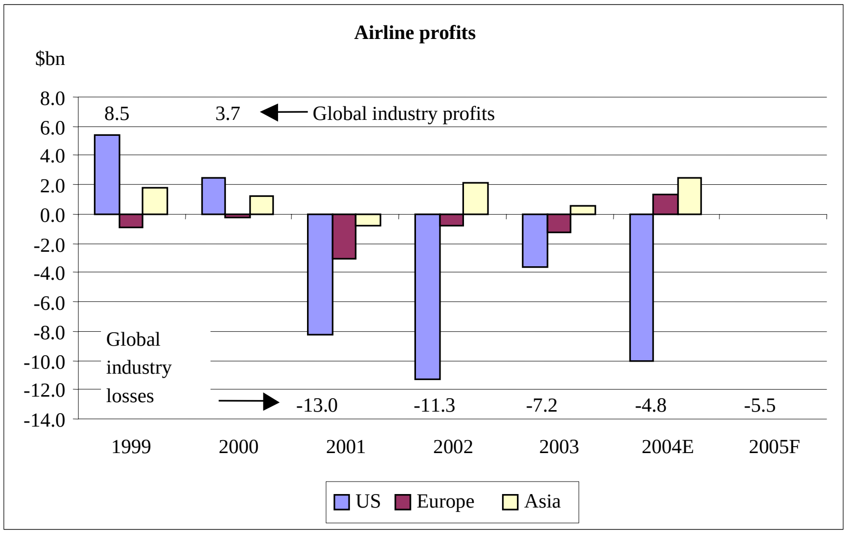
Some global comparisons

- **How does airline performance vary in different regions of the world?**
- **What are the contributory factors which could explain some of the observed variations?**

Industry losses concentrated in US



Source: IATA

Yields & Unit Costs: AAPA, AEA, ATA

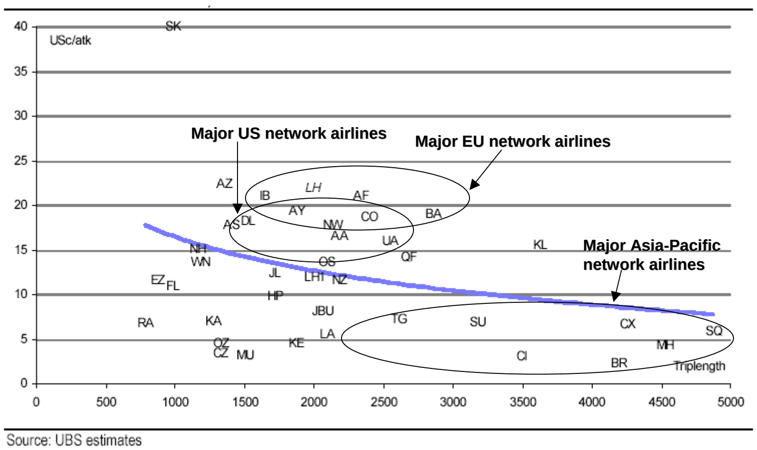
FY2003/04	AAPA	AEA	ATA
Average Fare US$ *	179	203	119
Average Passenger Yield (US cents/RPK)	7.3	9.9	7.3
Unit Revenue (US cents /ATK)	40.8	49.0	40.4
Unit Cost (US cents /ATK)	39.8	50.1	41.1
Passenger Stage Length (km)	2,437	2,048	1,633

- ***Higher yields and costs in Europe may reflect dollar weakness***
- ***Also note variations in average stage length***

* Includes excess baggage revenue

Source: AAPA, AEA and ATA

Airlines: relative labour costs



Asia Pacific carriers benefit from competitive labour costs and longer average stage lengths

Source: IATA, UBS

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Future Outlook

- **Slowing global economy**
- **Asia Pacific should still lead, boosted by dynamic growth of China**
- **Persistently high oil prices may dampen demand**
- **Keen competition and more new entrants**

Future Growth – Next 20 Years

	Passenger			Freight		
	Boeing	Airbus	IATA	Boeing	Airbus	IATA
	20-Year Forecast	20-Year Forecast	AAGR 2004-08	20-Year Forecast	20-Year Forecast	AAGR 2004-08
World	5.2	5.3	6.0	6.2	5.9	6.0
Asia-North America	6.1	6.3	5.9	7.2	6.1	4.6
Asia-Europe	6.0	5.9	7.1	6.7	6.3	7.0
Intra-Asia	6.1	6.9	8.3	8.5	6.4	6.1
Domestic China	8.1	8.7	-	10.6	10.1	-

Boeing and Airbus 20-year forecast = 2004 – 2023

Source: Airbus, Boeing, IATA Forecasts

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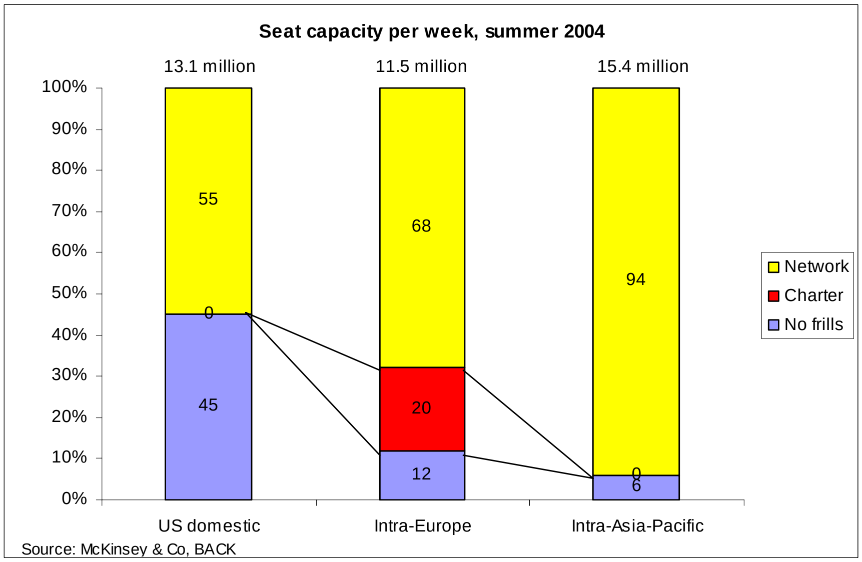
Competition

- Highly competitive markets
- Regional variations
- Impact of new entrants in Asia Pacific

Impact of new entrants



Source: IATA

Proliferation of new entrants in Asia

Proliferation of new entrants in Asia

- Some already well established e.g.
  - Virgin Blue (36 B737s)
  - Air Asia (28 B737s, ordered 60 A320s)
- 20 + new carriers
- Serving more than 20 short-haul regional destinations
- Market penetration remains low
- Easy access to capital, but profitability remains elusive for many

Challenges for new entrants

- Established airlines and new entrants competing directly in overlapping market segments
- Face intense competition on established routes
- Marginal costs no longer provide such an edge
  - Higher aircraft leasing costs
  - No surplus of skilled labour
  - Existing carriers already efficient in terms of aircraft utilisation
- Limited opportunities for regulatory arbitrage
- Liberalisation and relaxation of ownership rules encourage new entrants, but could eventually lead to industry consolidation

Established Asian carriers are well placed to compete and continue to grow

Global industry structure

- Aviation is a mass transport business, and a key element of the modern global economy
- Threats and opportunities from ongoing aeropolitical liberalisation
- Even amongst those preaching liberalisation, protectionist instincts too often still prevail
- Ownership and control restrictions hold back consolidation and competition
- Other forms of protectionism and favoured treatment continue to distort the market

Regulatory Policy Issues

- Continuing onslaught of new regulations
  - Safety
  - Security
  - Environment
  - Consumer rights
  - Taxes and charges
- Unfortunately these initiatives are driven by individual governments and regulatory bodies
- As a result, international airlines are confronted by conflicting and overlapping regulations
- Complexity also compounds the cost impact on the industry and its customers

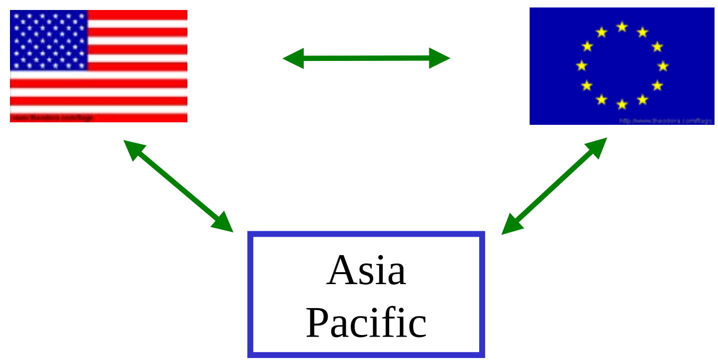
Asia Pacific – Regulatory Perspective

- Highly diverse: multiple governments and regulators
- Need for regional co-operation on multilateral basis
- Positive bias towards consensus, but sometimes slows the process
- Harmonisation is more about sharing best practices before legislating, not about resolving differences after unilaterally imposed regulations

US - Regulatory Perspective

- Mainly driven by US Domestic political concerns
- Insensitivity about extra-territorial impacts
- Where international issues are taken into account, the focus tends to be on US-EU differences
- Insufficient recognition of Asia-Pacific role and views
- Need for better global harmonisation at policy formulation stage

US and EU – the wider impact



Need for better global harmonization and regulatory framework

Future directions

- AAPA is committed to working closely with other industry stakeholders
- Good working relationships with ICAO, IATA, and other trade associations, governments and regulators
- Successful collaboration with FAA in Asia-Pacific on key technical issues
- Keen to engage in dialogue at the policy formulation stage
- Committed to improving regional/global harmonisation in both technical and non-technical regulatory policies

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Thank You

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