



Asia Pacific Aviation: Converging business models

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Presentation Outline

- **AAPA overview**
- **Combined strength**
- **Recent performance**
- **Competition**
- **Safety review**
- **Market outlook**

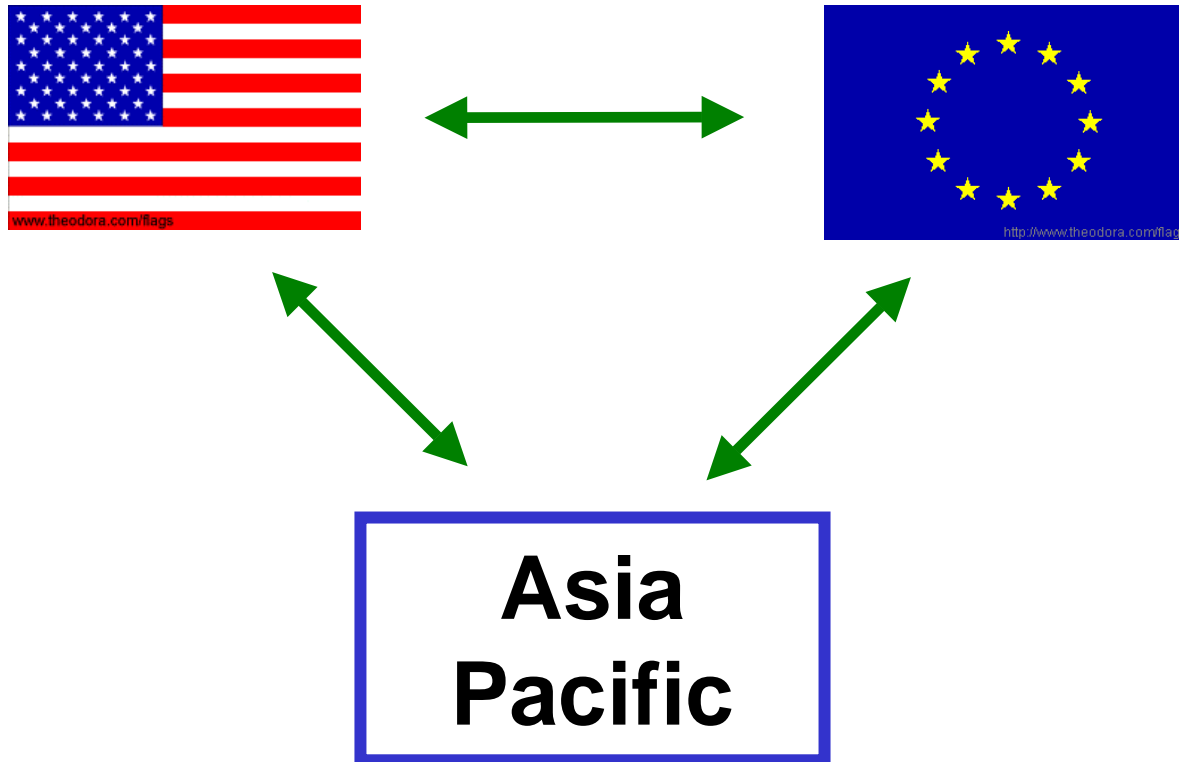
AAPA Association of Asia Pacific Airlines



- Regional trade association representing Asia Pacific based international airlines
- 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

always open to new members

Global regulatory influences



Wider impact of US and EU regulations: need for better global harmonisation

US and EU: regulatory perspectives

- US mainly driven by domestic political concerns
 - Safety, led by FAA
 - Security, led by DHS/TSA
 - Open (your) Skies
- EU also mainly driven by domestic political concerns
 - Safety: EASA, Eurocontrol
 - Consumer rights
 - Environment
 - EC assuming lead role in aero-political process
- Insensitivity about extra-territorial impacts: unilateral actions
- Where international issues are taken into account, the focus tends to be on US-EU differences
- Insufficient recognition of Asia-Pacific role and views

Asia Pacific: regulatory perspectives

- Highly diverse region: multiple governments and regulators
- Need for co-operation on multilateral basis engaging various stakeholders
- Strengthen collaboration to enhance airline safety and security, reliability, economy and efficiency
- Harmonisation is more about sharing best practices before legislating, not about resolving differences after unilaterally imposed regulations
- Positive bias towards consensus, but sometimes slows the process

AAPA current combined strength



17 airlines

US\$ 81 billion operating revenue

US\$ 2.1 billion operating profit

285 million passengers

147 million domestic

138 million international

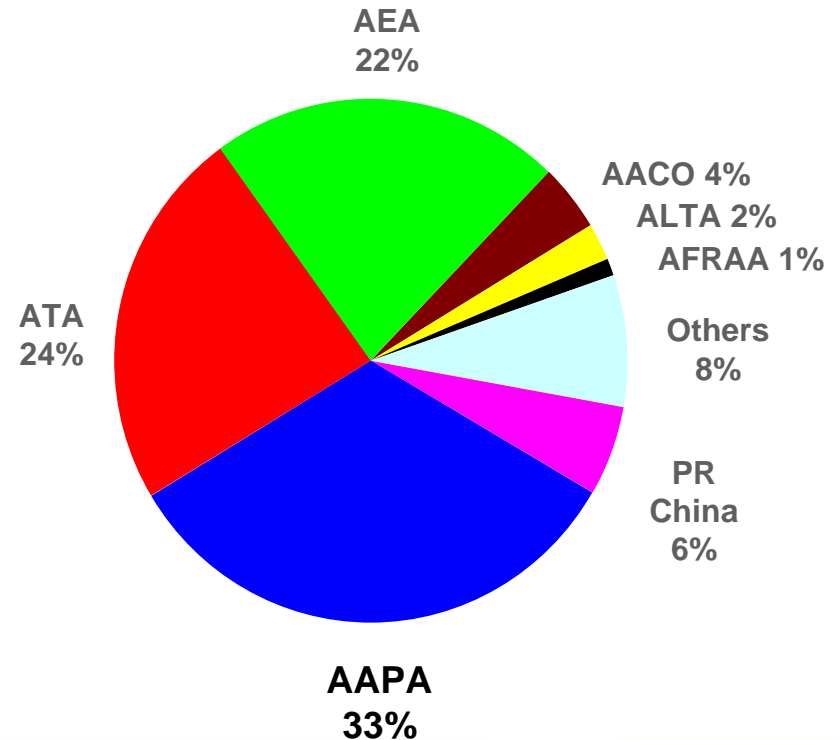
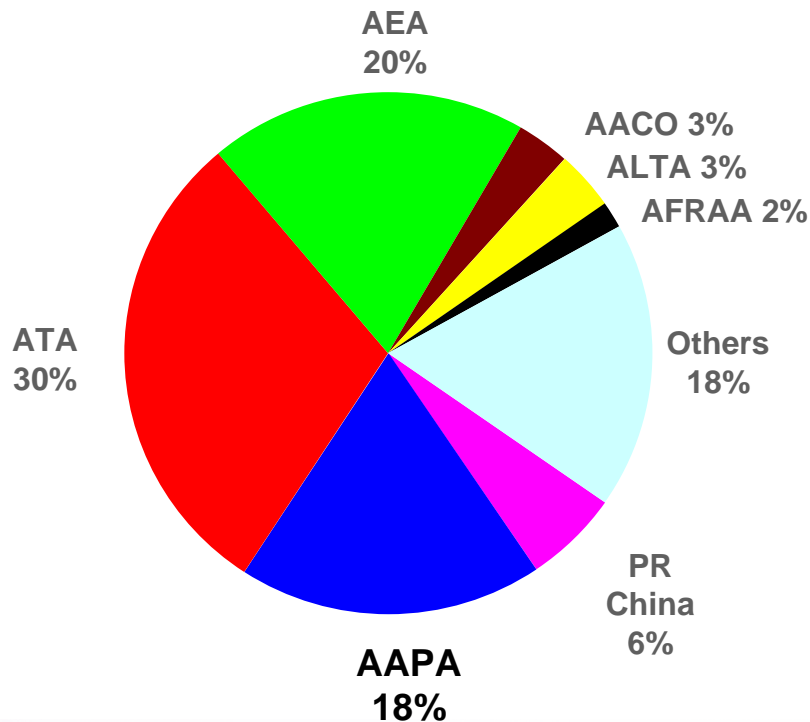
10 million tonnes of cargo

1,370 aircraft

AAPA global traffic share

Revenue Passenger Kilometres
Scheduled Systemwide

Freight Tonne Kilometres
Scheduled Systemwide



Data: 2005

Source: ICAO, IATA, AAPA and various

Asia Pacific Aviation: combined overview



AAPA + non-member airlines

US\$ 110 billion operating revenue

US\$ 2 billion operating profit

510 million passengers

340 million domestic

170 million international

13 million tonnes of cargo

3,270 aircraft

Data: 2005 estimates for combined AAPA + non-AAPA airlines GMT+5 to GMT+12



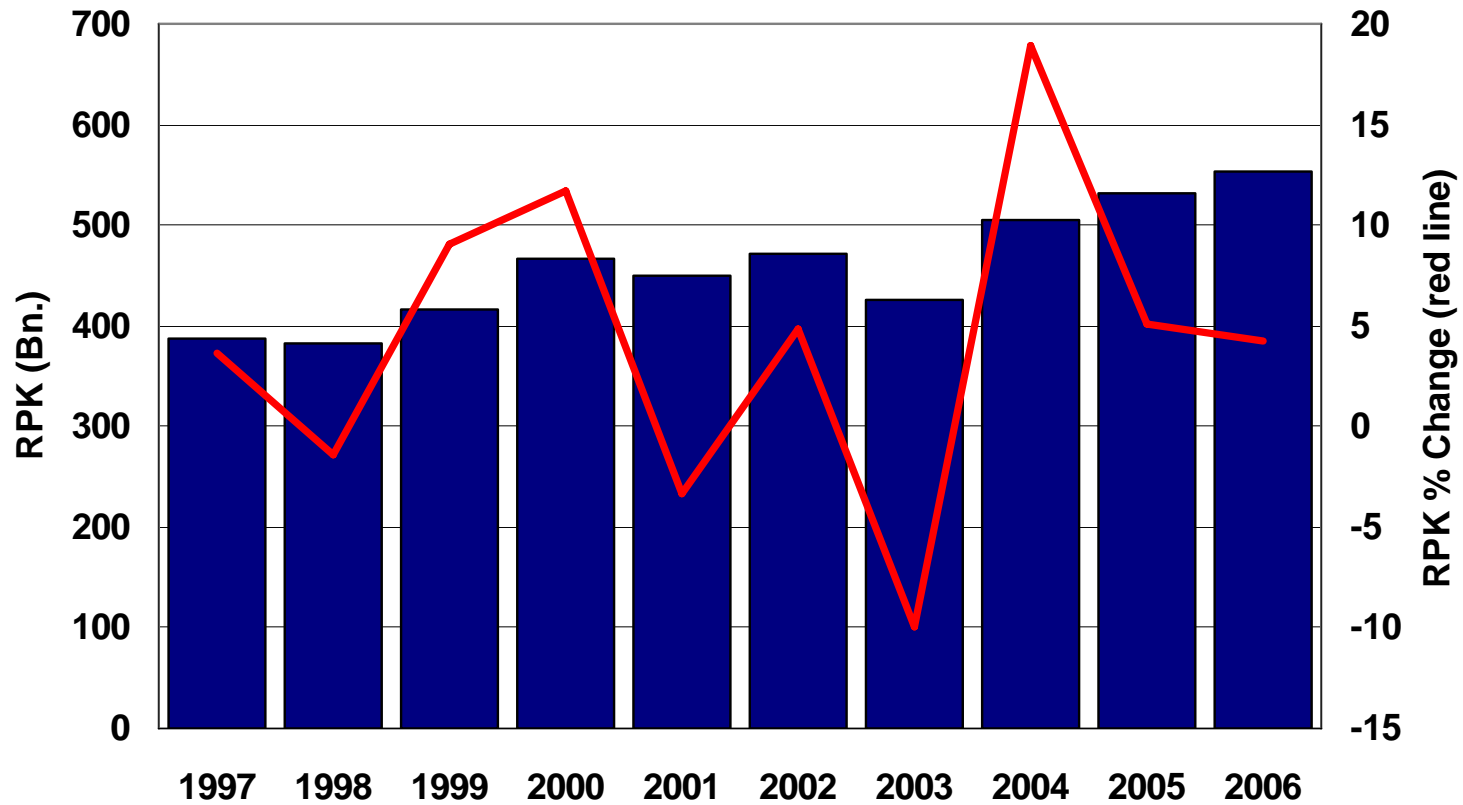
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Recent performance

AAPA international passenger traffic

Scheduled International RPKs 1997-2006



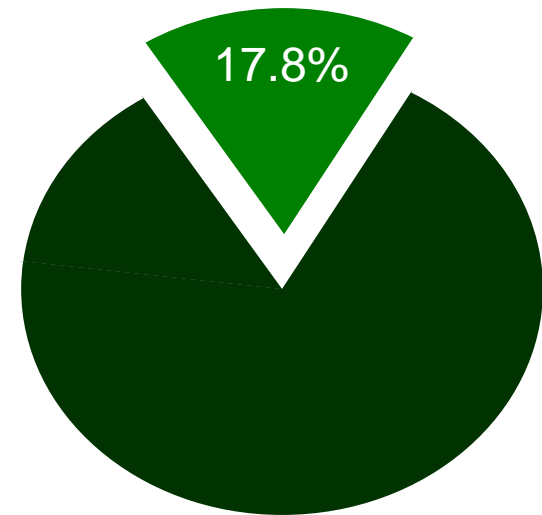
Cargo: a key revenue contributor

- AAPA ~ 33% of global cargo traffic
- US\$ 13.1 billion revenue
- Belly space complemented by 119 freighters



Korean Air is the world's largest international cargo carrier

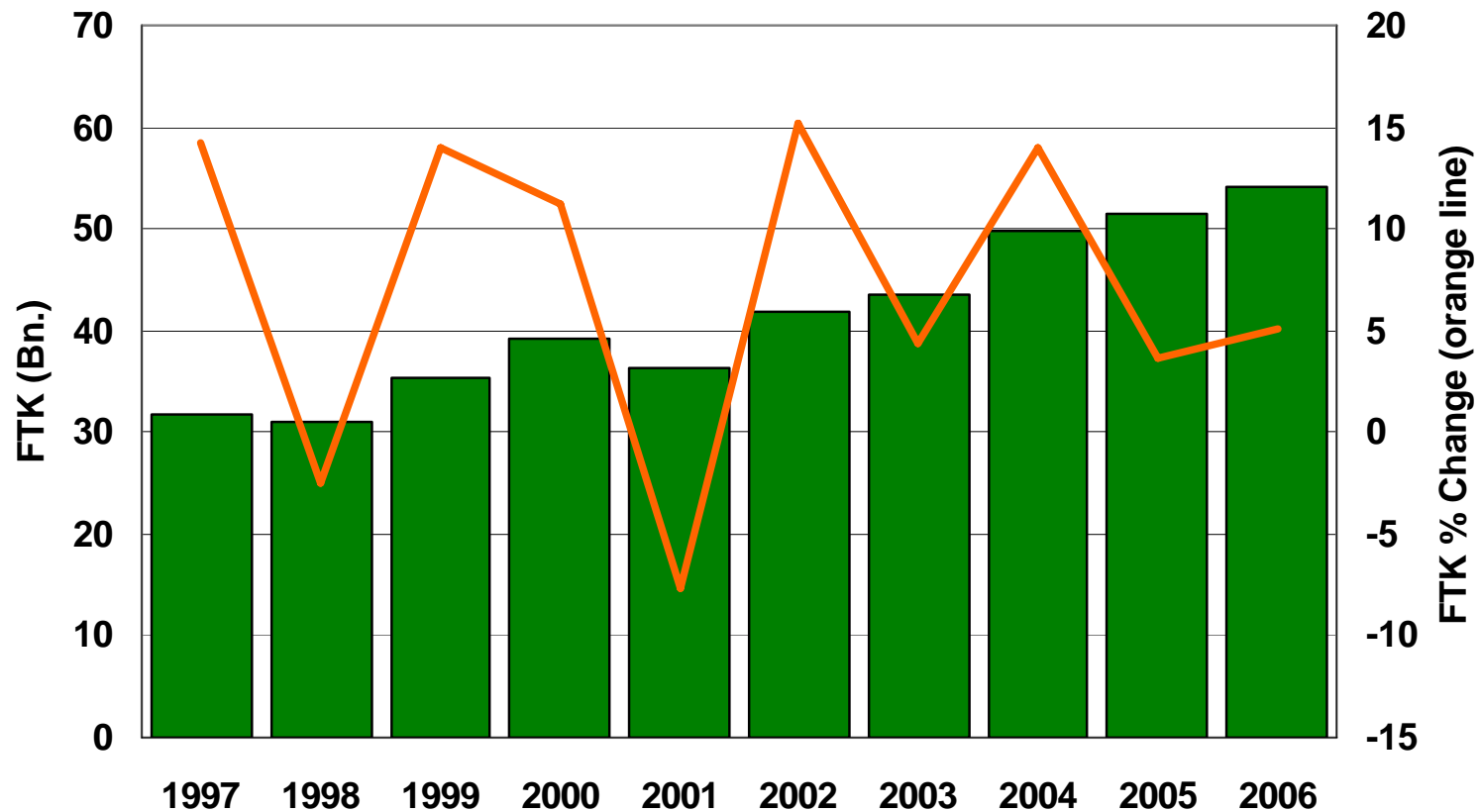
Cargo revenue contribution



Source: AAPA

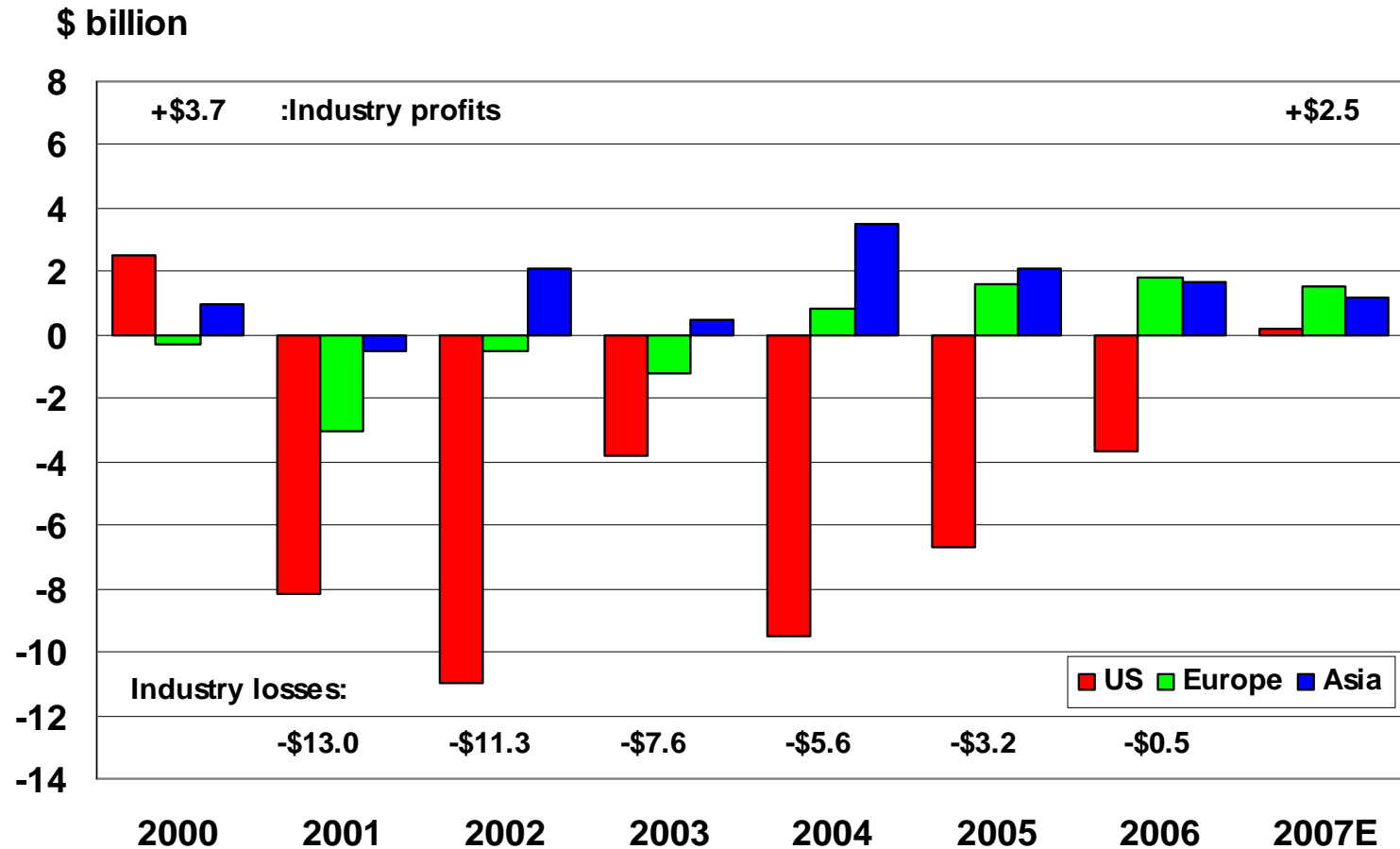
AAPA international cargo traffic

Scheduled International FTKs 1997-2006



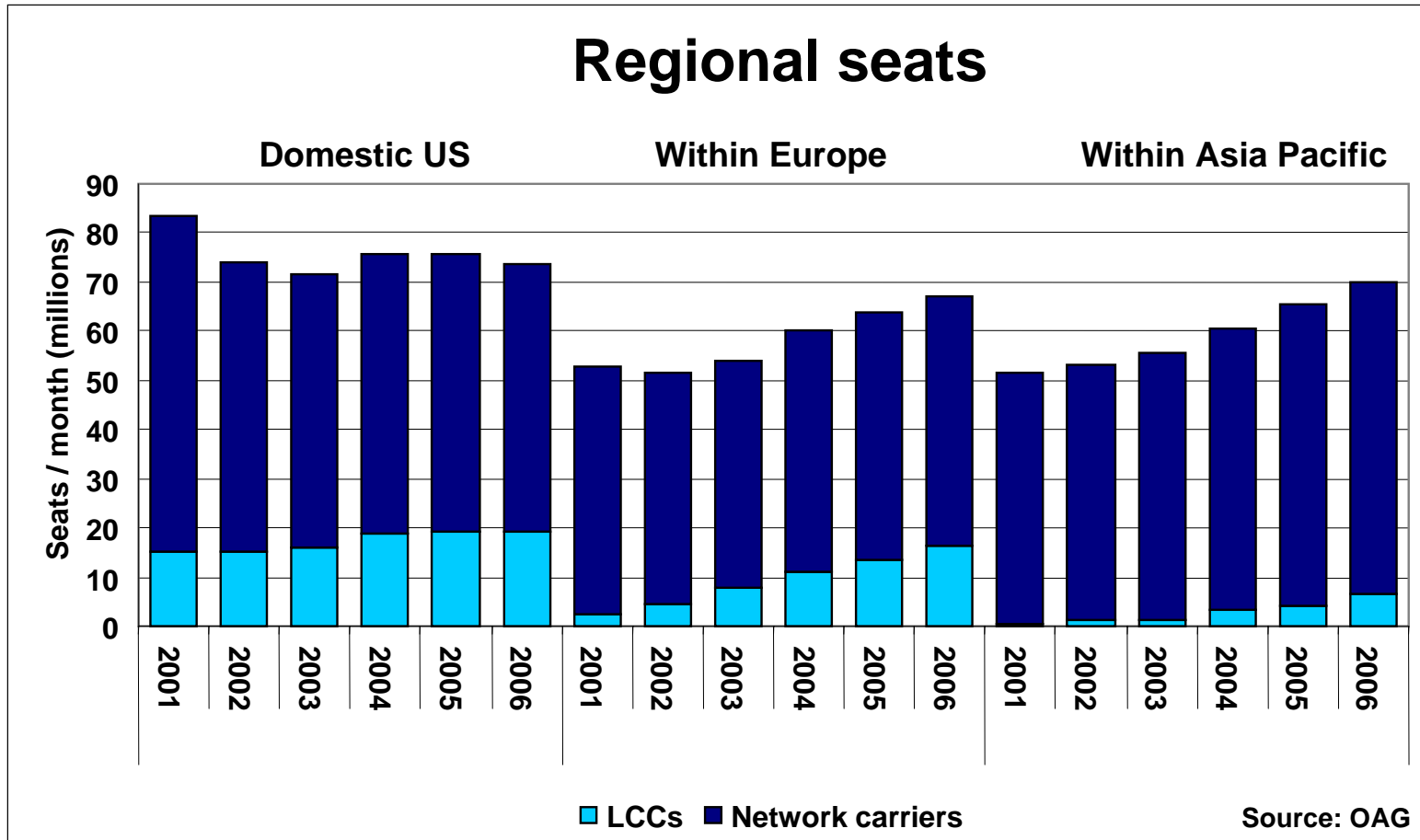
Source: AAPA

Airline profitability: reducing US losses



Competition

Growth of LCCs in short-haul markets



Asia Pacific LCC penetration still only 9%, but growing

Evolving long-haul operations



Convergence of business models is blurring traditional categories

All carriers compete to satisfy overlapping market segments

Asian full service carriers still thriving

AAPA financial and operating results

	FY 2002	FY 2006
Passengers (million)	223	271
RPKs (bn)	560	671
Revenue (US\$ bn)	\$48 bn	\$74 bn
Net Profits (US\$ bn)	-\$0.8 bn	\$1.1 bn

FY 2006 = April 2005 to March 2006

Overall market growth continues

Source: AAPA

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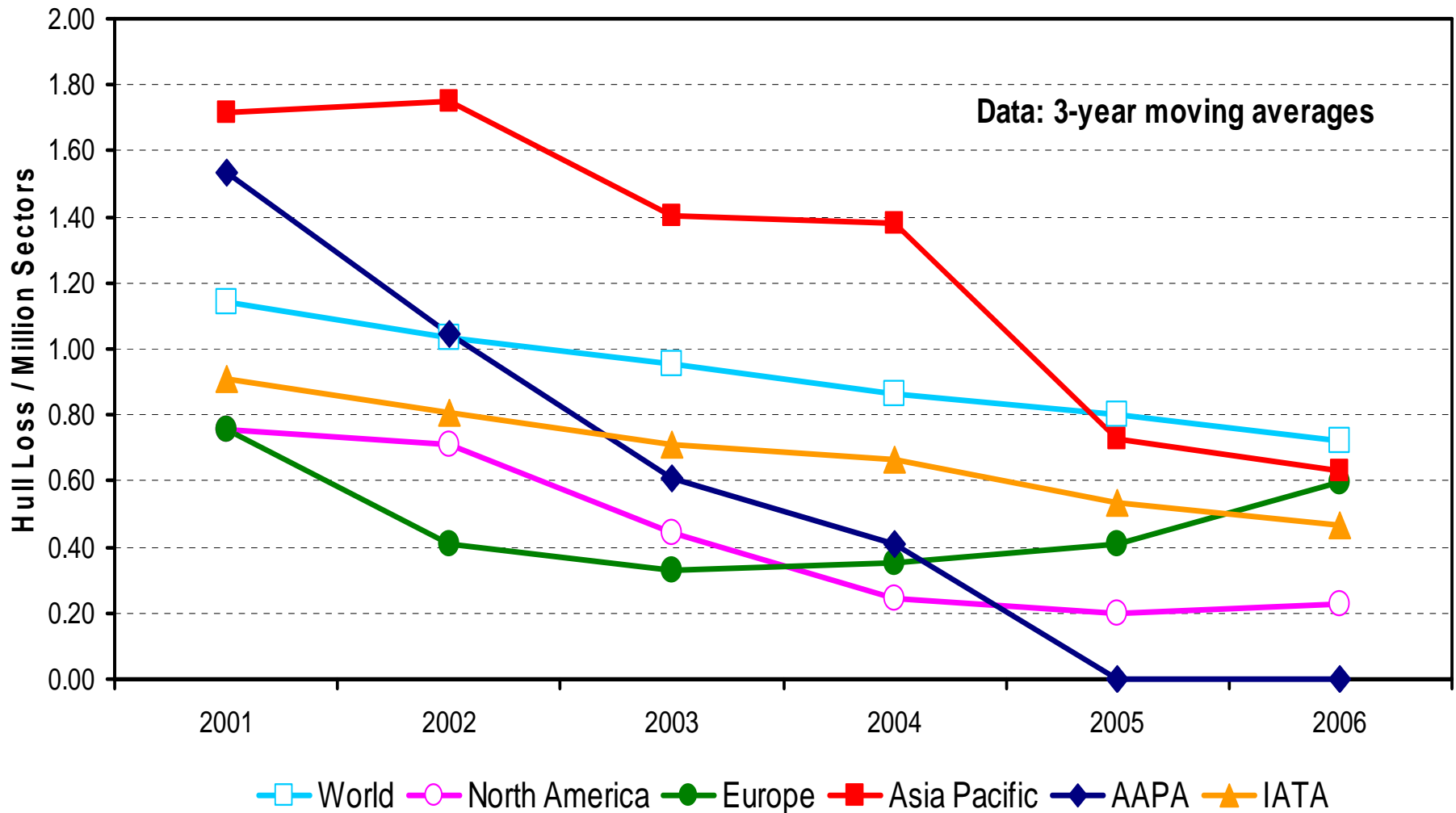
Safety review

AAPA safety management activities

- **Dedicated Safety Working Group**
 - Open forum to all Asia Pacific carriers
 - Safety information exchange
 - Reviews regional safety issues and develops action plans
 - Coordinates safety efforts with other stakeholders
- **Collaboration**
 - ICAO Cooperative development of Operational Safety & Continuing Airworthiness Project - COSCAP North Asia & South East Asia
 - Regulatory Authorities (FAA, EASA & Regional DCA Authorities)
 - Safety Organizations (FSF, IATA, AEA, ATA)
- **Regional Safety Forums**
 - Bi-annual safety forum and other events
 - Human Factors Workshop 2005
 - Multiple Pilot Licence Workshop May 2007

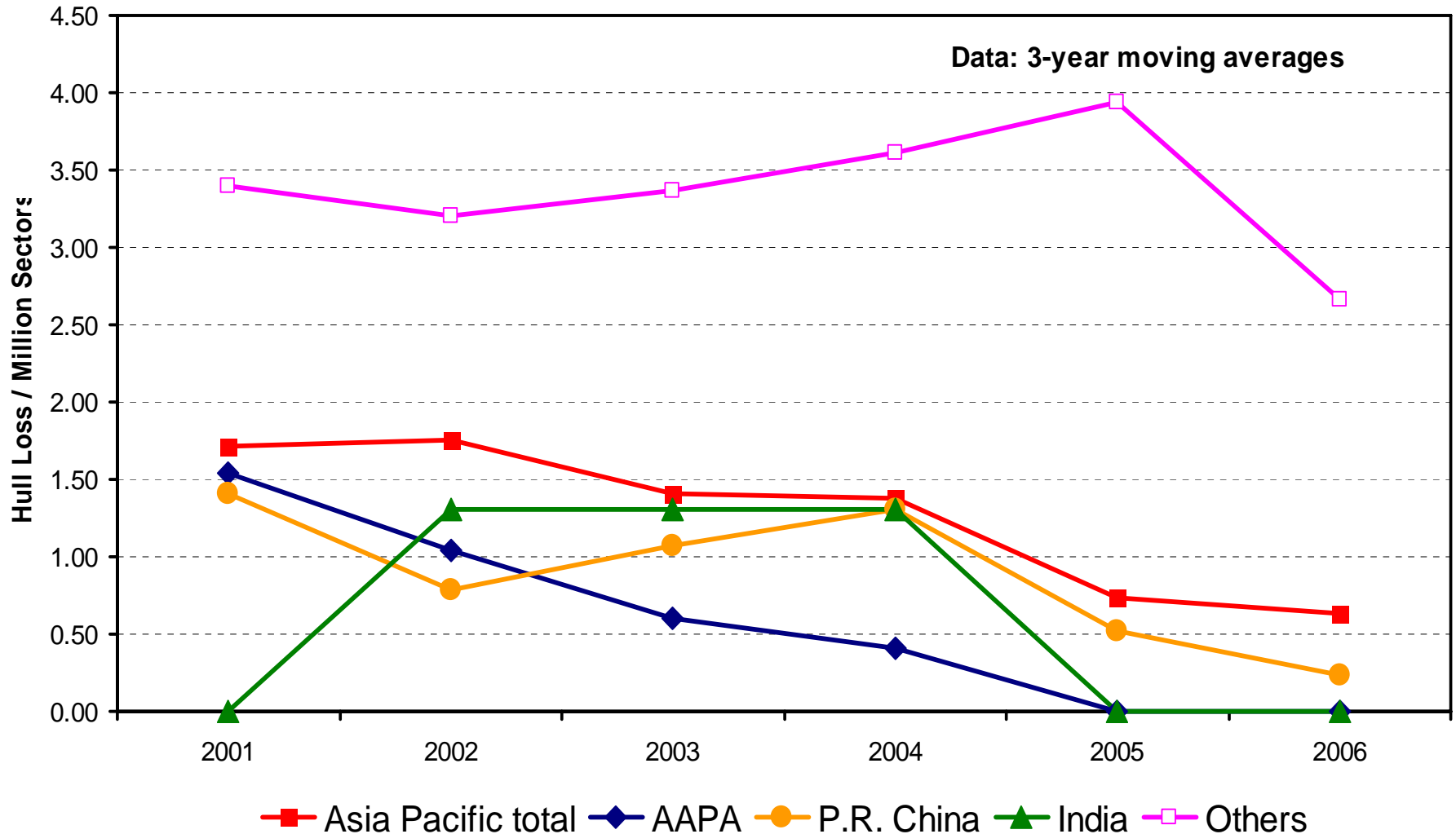
AAPA safety performance review

Western-built Jet Aircraft Hull Loss Rate by Operator Region 2001-2006



AAPA safety performance review

Western-built Jet Aircraft Hull Loss Rate Asia Pacific Regional Breakdown 2001-2006



Strengthening overall risk management

- Ongoing safety enhancement efforts
 - Support wider use of formal Safety Management Systems
 - Increased communication and awareness campaigns
 - Share safety information and best practices
 - Safety outreach program addressing:
 - Safety management deficiencies
 - Flight crew proficiency
 - Maintenance standards
 - Weaknesses in regulatory oversight & enforcement
 - Contribute to better coordinated industry response on safety deficiencies
- Security
 - Passenger
 - Cargo
- Contingency planning
 - Emergency Response Working Group

Market outlook

Lessons and current challenges

- Sustained traffic growth remains positive
- Competitive pressures remain
- Fuel prices expected to remain relatively high, and volatile
- Optimism about the future reflected in firmer lease rates, and record level of orders for new aircraft
- Labour cost inflation, especially skilled pilots and mechanics
- Need for further productivity improvements throughout the value chain
- Progressive liberalisation, but protectionist sentiments persist, notably in a reluctance to modernise national ownership & control provisions

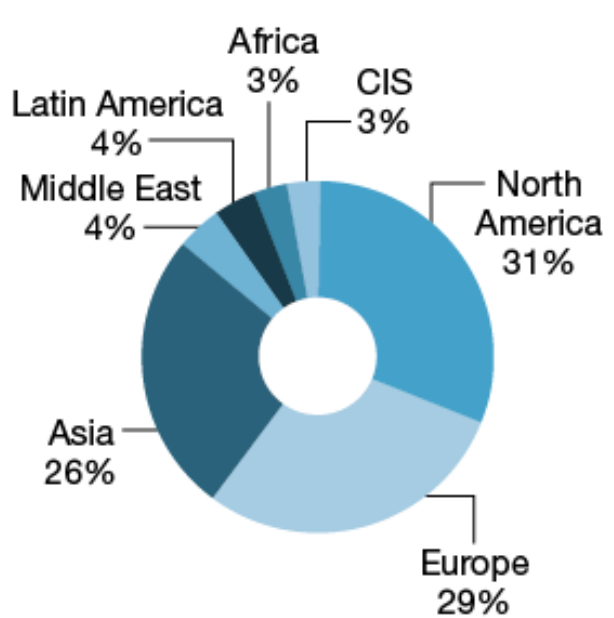
Sustainable long-term growth

Annual % growth	Passenger			Freight		
by region	Boeing	Airbus	IATA	Boeing	Airbus	IATA
	20-Year Forecast	20-Year Forecast	AAGR 2005-09	20-Year Forecast	20-Year Forecast	AAGR 2005-09
World	4.9	4.8	5.6	6.1	6.0	6.3
Asia-North America	5.8	6.2	5.8	7.1	5.2	6.0
Asia-Europe	5.5	5.3	5.9	6.9	5.5	5.7
Intra-Asia	5.4	5.6	6.8	8.6	-	8.5
Domestic China	8.8	8.2	-	10.8	10.9	-

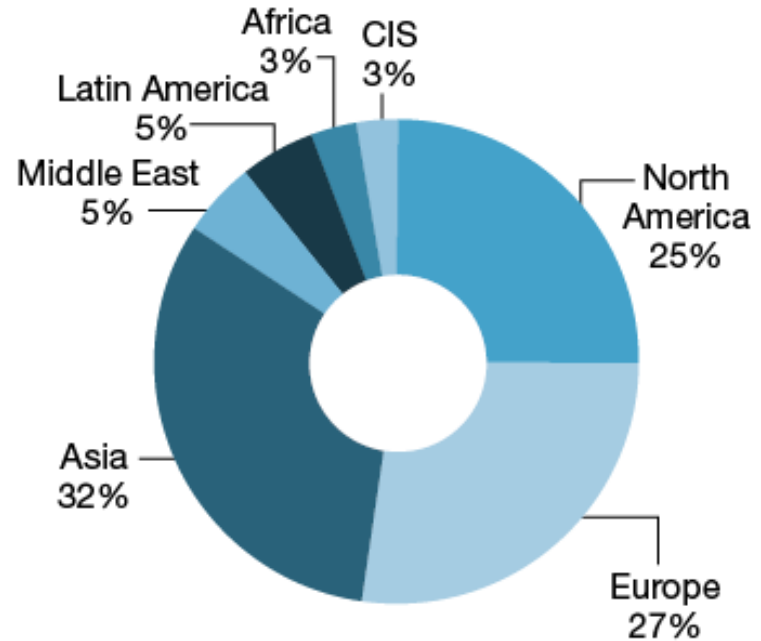
20-year forecast: Airbus and Boeing = 2006-2025

The challenge, as always, is turning growth into profitability

Asia to lead world traffic by 2025



World traffic at end 2005
4.1 trillion RPKs



World traffic at end 2025
10.5 trillion RPKs

Asia's world traffic share to grow to 32% by 2025

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Source: Airbus

***Aviation will continue to be at the heart of
successful economic and social development
of the region ...***

... healthy competition rewards innovation

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