Asia Pacific Aviation

Growth Dynamics & Competitive Challenges

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Aviation: moving the world

- Air travel delivers global mobility
- Over 3 billion passengers
  - 9 million people flying per day
- Carries 35% by value of global trade
- Wider social and economic benefits
- Committed to sustainable growth
- Outstanding safety record

Source: ATAG
Unprecedented tragedies

• Every loss brings human suffering
• Even though, flying is extraordinarily safe, and getting safer still
• Industry is delivering continuous improvements in aviation safety performance
• Asia Pacific safety performance in line with world standards
Safety Performance Trends

Western-built Jet Aircraft Major Accident Rates
by Operator Region 2004 - 2014
3-year moving averages

Passenger confidence in air transport remains high

1 major accident in 1 million flights
1 major accident in 2 million flights
1 major accident in 3 million flights

* 2014 data as of 11 Nov 2014
Overview

• Asia Pacific aviation
• Focusing on competition
• Business innovation
• Global regulatory challenges
Asia Pacific

- Diverse geographic region
- Home to 4 billion people
  - 55% of the world’s population
- Generates 31% of global GDP
- Wide range of income levels
- Dynamic economies still driving global growth
- Aviation widely recognised as a key contributor to economic and social development
- Political diversity remains challenging: need for multilateral cooperation

Asia Pacific Aviation

US$163 billion revenue
US$1.6 billion net profit
1,012 million passengers
715 million domestic
297 million international
19 million tonnes of cargo
5,911 aircraft

Asia Pacific carriers overall market share:
31% of global passenger traffic
38% of global cargo traffic

Data: 2013
Source: Combined AAPA + non-AAPA airlines GMT+5 to GMT+12
Competition in Asia

• Asian regional traffic concentrated on major trunk routes
  • Asia has 7 of the world’s top 10 busiest routes
  • 85% of traffic on routes of 100,000 pax p.a.
• Intensely competitive Asian marketplace
  • 75% of routes served by at least three airlines
  • 27% of routes served by at least five airlines
  • Compare Europe, 45% of routes served by just one or two airlines
• Evolving full service, hybrid and budget carriers

Dynamic business models and service innovation

Source: Amadeus 2013
Global passenger and cargo traffic

Robust growth in passenger travel
Air cargo market now recovering

Source: IATA
Evolving Airline Strategies

• Full Service Network Carriers
  • Still investing heavily in premium services
  • Streamlining short haul operations
  • Establishing LCC subsidiaries and associates

• Point-to-Point LCCs
  • Initially focused on domestic short-haul
  • Expanding into international and longer-haul markets
  • Experimenting with codeshares, connections, adding customer service

• Further signs of convergence
  • Long-haul requires wide body aircraft, cargo operations, two-class passenger configurations, and network feed
  • Development of hybrid partnerships and new ventures

• Consumers decide what represents best value proposition
Oil prices - entering a downtrend?

Average jet fuel price $123 per barrel before recent price declines

Source: US EIA
Global airline industry profitability

Profitability improving but margins remain very thin … around $6 per passenger!
Resurgence of restructured US carriers now generating significant profits
Airline enterprise values by region

North America
- American Airlines - US Airways
- Delta Airlines
- United Continental Airlines
- Southwest Airlines
- Alaska Air Group

Europe
- Ryanair
- International Airline Group
- Lufthansa
- Air France-KLM
- EasyJet
- Air China

Asia Pacific
- China Southern
- Cathay Pacific
- China Eastern
- All Nippon Airways
- Korean Air
- Japan Airlines
- Singapore Airlines

Market capitalisation as of 6 November 2014
Source: AAPA Estimates
Asia Pacific leads world traffic growth

Overall market grows x 2.5 by 2033

Source: Airbus GMF 2014
Infrastructure

- Aviation infrastructure must keep pace with rapid traffic growth
- Chronic congestion and delays already evident in some areas
- Greater focus on operating efficiency, productivity and cost-effectiveness
- Government responsibility to coordinate planning and long term investment required
- Industry ready to play its part

*Infrastructure is a shared responsibility & critically important*
Global Regulatory Challenges

Aviation is subject to intensive regulation

- **Flight Safety**
- **Passenger Facilitation**
- **Environment**
- **Taxation**
- **Health Pandemics**
Global Regulatory Influences

- Wider impact of US and EU regulations
- Asia Pacific needs a unified voice
- Need for harmonised global standards
Flight Safety Information Exchange

• Safe flight depends on close collaboration between governments, airlines and air navigation service providers

• Risk assessment is a shared responsibility and relies on the quality and availability of information and intelligence

• Present NOTAM system works well but could benefit from further enhancements

• Need timely sharing of accurate intelligence and information related to flight safety on a global basis

Governments also need to strengthen laws and conventions governing the usage of military weapons to prevent future attacks on civil aviation
Flight Surveillance

• International civil aviation routinely operates under the direction of ground based air traffic control services
• Recent events highlighted difficulties in tracking and locating aircraft which are lost or in distress
• Industry and Governments working to reinforce:
  • Operational procedures when aircraft lost or in distress
  • Improved location devices and flight data retrieval systems
  • Accelerate implementation of upgraded satellite air navigation systems with global coverage

Making a safe system even safer
Passenger Facilitation

• Growing travel and tourism brings economic and social benefits

• Opportunities to streamline border control procedures

• Governments should be discouraged from introducing barriers to facilitation:
  • Imposition of costly visa requirements
  • Proliferation of contradictory passenger rights regimes

*Balancing national border control objectives and efficient passenger facilitation*
Aviation & Environment

- Aviation delivers continuous improvements in fuel efficiency through technology, operations, infrastructure, and alternative fuels

- ICAO 38th Assembly committed to develop a global MBM by 2016 for implementation in 2020

- Challenges ahead:
  - Reconciling differing perspectives of developed and developing countries
  - Delivering a fair and equitable solution
  - Effective implementation

*Strong political leadership required, industry willing to support*
Taxes: don’t treat aviation as a Cash Cow

- Myth that aviation is under taxed
- Taxes hurt the economy and job creation
- Damage extends to wider travel and tourism sector
- Aviation taxes make travel less affordable

Aviation plays a positive role in economic and social development: a catalyst for growth and job creation
Health Pandemics

- Aviation has a positive role to play in emergency response including public health crises
- WHO recommends prevention & screening measures at source, not travel bans
- But some governments have introduced travel restrictions and inbound screening measures

*Need to avoid reactive measures of limited effectiveness that do disproportionate harm*
Closing Thoughts

• Aviation is at the heart of global economic development
• Regulatory oversight should focus on maintaining consistent global standards on safety, security and ensuring a competitive landscape
• Infrastructure planning is a shared challenge
• Asian airlines are pressing ahead with both customer service and business model innovation
• Airline business strategies are evolving to respond to changes in market demand and consumer preferences
• Asian airlines play an increasingly influential role in the development of global aviation
Responding to challenges, positioning for further growth
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