Asia Pacific Aviation

*Competitive Challenges & Growth Dynamics*

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Association of Asia Pacific Airlines
Overview

• Asia Pacific aviation
• Focusing business trends
• Business challenges
• Global regulatory challenges
Aviation: moving the world

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

Source: ATAG
Asia Pacific

- Diverse geographic region
- Home to 4 billion people
  - 56% of world population
- Generates 31% of global GDP
- Wide range of income levels, strong growth in middle class spending
- Dynamic economies still driving global growth
- Political diversity remains challenging: need for multilateral cooperation
- Aviation widely recognised as a key contributor to economic and social development

Source: IMF 2015
Asia Pacific Aviation 2014

US$176 billion revenue
US$1 billion net loss
1,106 million passengers
791 million domestic
315 million international
20 million tonnes of cargo
6,284 aircraft

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

Data: Financials & Traffic: 2014
Source: Combined AAPA + non-AAPA airlines GMT+5 to GMT+12
Still a two-speed global economy

Comparison of year-on-year GDP growth

Global economic growth:
- 2014: 3.4%
- 2015: 3.1%
- 2016: 3.6%

Source: IMF, World Economic Outlook, Oct 2015
Global passenger and cargo traffic

- Robust growth in passenger demand
- Air cargo markets remain fragile

Source: IATA
Impact of lower oil prices

Jet fuel prices averaging $67 per barrel compared to $113 last year ... reflecting plentiful supply
Global airline industry profitability

Stronger financial performance driven by robust passenger demand and significant drop in fuel prices

Source: IATA
Airline profitability trends by region

Profit recovery led by resurgent US carriers

Regional variations reflect varying competitive dynamics, currency volatility and fuel hedging policies
Airline enterprise values by region

Market capitalisation as of 5 November 2015
Source: AAPA Estimates
Competition in Asia

The world’s busiest international/regional air routes

<table>
<thead>
<tr>
<th>Rank</th>
<th>Route</th>
<th>PAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hong Kong – Taipei</td>
<td>5,069,213</td>
</tr>
<tr>
<td>2</td>
<td>Jakarta – Singapore</td>
<td>3,484,934</td>
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<tr>
<td>3</td>
<td>Hong Kong – Singapore</td>
<td>2,824,402</td>
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<td>4</td>
<td>Hong Kong – Shanghai</td>
<td>2,667,905</td>
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<tr>
<td>5</td>
<td>Hong Kong – Seoul</td>
<td>2,494,169</td>
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<tr>
<td>6</td>
<td>Kuala Lumpur – Singapore</td>
<td>2,446,174</td>
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<tr>
<td>7</td>
<td>Bangkok – Hong Kong</td>
<td>2,350,092</td>
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<td>Bangkok – Singapore</td>
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<td>9</td>
<td>Hong Kong – Beijing</td>
<td>2,008,124</td>
</tr>
<tr>
<td>10</td>
<td>Tokyo-Narita – Taipei</td>
<td>1,998,997</td>
</tr>
</tbody>
</table>

We can see up to a dozen different airlines competing on a single route

Source: IATA 59th WATS, 2014 data
Asia Pacific to lead world traffic growth

Source: Airbus GMF 2015-2034
Airline Business Strategies

• Full Service Network Carriers
  • Still investing heavily in premium services
  • Streamlining short haul operations
  • Evolving multi-brand strategies

• Low Cost Carriers
  • More measured regional expansion
  • Crowded markets see some consolidation
  • Experimenting with codeshares, connections, adding customer service

• Further signs of convergence
  • Network connectivity drives revenue optimisation
  • Long-haul requires wide body aircraft, cargo operations, two-class passenger configurations, and network feed

• Consumers decide what represents best value proposition
• 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 committed and ready to play its part

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

Aviation is subject to intensive regulation

- **Safety**
- **Environment**
- **Air Services**
- **Taxation & Charges**
- **Consumer Protection**
- **Passenger Facilitation**
Global Regulatory Influences

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

• Flying is extraordinarily safe, and getting safer still
• Aviation seen as an industry role model
• Asia Pacific safety performance in line with world standards
• Safety is a collective responsibility and achievement by all stakeholders
• Information sharing and “just culture” approach to organisational learning
• Important role of effective regulatory oversight aligned with agreed ICAO standards as quality assurance
Safety Performance Trends

Passenger confidence in air transport remains high

Western-built Jet Aircraft Major Accident Rates
by Operator Region 2006 - 2015
3-year moving averages

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

Source: AAPA

* 2015 data as of 31 Oct 2015
Sustainable Aviation

- UNFCCC addressing new deal on global climate action
- Aviation is already committed to ambitious targets and is delivering on its commitments

ICAO agreement on a global market based measure key to meeting CNG2020 goal
Air Services Development

- Comprehensive bilateral system governs air services based on historic Chicago Convention
- Ongoing debate on interpretation of ownership & control requirements
- Industry structure reflects work arounds: airline alliances, joint ventures, corporate group structures using single or multiple brands
- Asia Pacific region the seat of experimentation & innovation in airline business models

How will the regulatory framework evolve?
Aviation plays a positive role in economic and social development: a catalyst for growth and job creation

Taxes & Charges

• Taxes and charges make air travel less affordable
• Taxes hurt the economy and job creation, wider travel and tourism sector
• Recent examples include New Zealand bio-security levy, increased UK APD, HK pre-funding charge

Aviation plays a positive role in economic and social development: a catalyst for growth and job creation
Lighter regulation creates incentive for innovation in customer service standards.
Passenger Facilitation

- Challenges of handling 10 million daily passengers
- Long queues at immigration still common sight
- Border control procedures need to evolve to meet demand
  - Use of new technologies
  - E-visa applications
  - Interactive travel authorisations
- Need more efficient passenger facilitation

Balancing national border control objectives and efficient passenger facilitation
Closing Thoughts

• Aviation drives economic and social development
• Flying is safe, and getting even safer
• Regulatory oversight should focus on adherence to global standards
• Infrastructure planning is a shared challenge
• Airline business strategies are responding to changes in market demand and consumer preferences
• Asian airlines will drive the development of global aviation

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