



Asia Pacific Aviation

CHALLENGES & OPPORTUNITIES

Andrew Herdman
Director General
Association of Asia Pacific Airlines



business travel
e-commerce high value, time sensitive deliveries
tourism economic impact investments
urbanisation **Aviation Benefits** innovation
humanitarian aid safe affordable sustainability
job creation trade rapid disaster response growth
connectivity educational opportunities
economic & social development
leisure travel
secure

Overview

- **Asia Pacific aviation**
- **Industry trends & outlook**
- **Evolving business strategies**
- **Global regulatory challenges**
- **Future growth**



Aviation: delivering global mobility

- Safely connecting people and business
- Wider social and economic benefits
- Outstanding safety record
- Committed to sustainable growth

4.4 billion

passengers

12 million daily

35%

by value of global trade

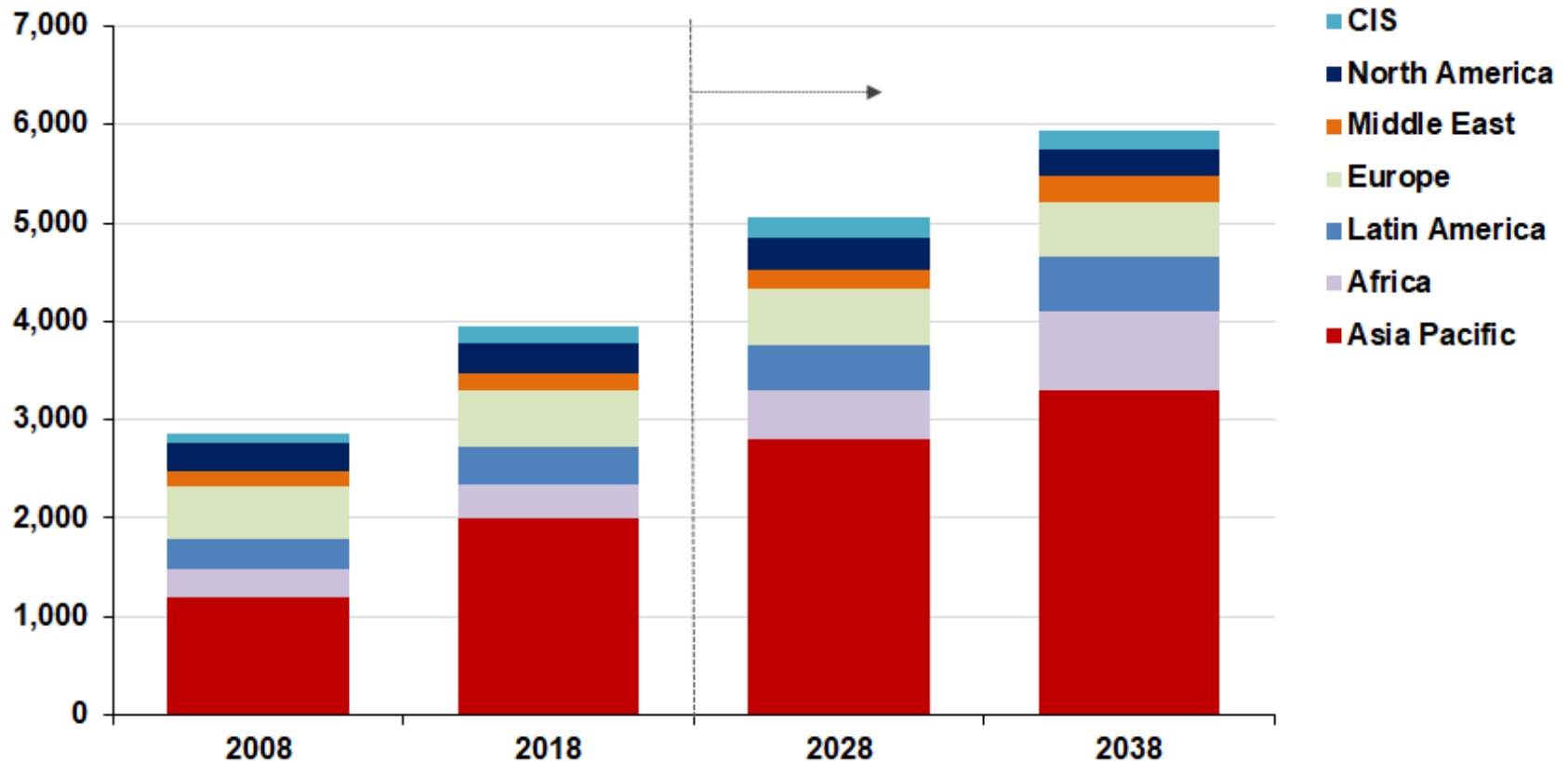
Goods worth US\$6.8 trillion

Asia Pacific

- **Diverse geographic region**
- **Home to more than 4 billion people**
- **Wide range of income levels, rapidly growing middle class**
- **Dynamic economies generate 35% of global GDP**
- **Aviation widely recognised as a key contributor to economic and social development**
 - *Supports 30 million jobs and US\$684 billion in GDP*

Growth of Asian middle class consumers

Middle Class (millions)



Rising demand for goods & services including air travel

Source: Airbus GMF 2019, Oxford Economics

Households with yearly income between \$20,000 and \$150,000 at PPP in constant 2015 prices

Asia Pacific Aviation



US\$248 billion revenue

US\$8 billion net profit

1,623 million passengers

1,155 million domestic

468 million international

23 million tonnes of cargo

8,448 aircraft

Asia Pacific carriers overall market share:

34% of global passenger traffic

35% of global cargo traffic



Global Aviation Route Network



Over 20,000 city pairs

World's ten busiest domestic routes



Rank	Route	PAX (million)	No. of operating carriers
1	Jeju – Seoul	14.5	7
2	Fukuoka - Tokyo	7.6	4
3	Melbourne – Sydney	7.6	4
4	Sapporo – Tokyo	7.3	4
5	Beijing – Shanghai	6.4	7
6	Hanoi – Ho Chi Minh City	6.2	4
7	Delhi – Mumbai	5.9	7
8	Tokyo – Okinawa	4.9	3
9	Jeddah – Riyadh	4.8	5
10	Beijing – Chengdu	4.8	6

Almost all in Asia Pacific

Source: IATA WATS 2019 (2018 data), Google Flights, Skyscanner



World's ten busiest non-domestic routes



Rank	Route	PAX (million)	No. of operating carriers
1	Hong Kong - Taipei	5.4	5
2	Dublin – London	3.4	3
3	Bangkok – Hong Kong	3.4	7
4	Jakarta - Singapore	3.2	7
5	Seoul - Osaka	2.9	8
6	Kuala Lumpur - Singapore	2.8	8
7	Hong Kong - Seoul	2.8	8
8	Tokyo – Taipei	2.7	9
9	Hong Kong - Shanghai	2.7	6
10	London- New York	2.7	5

Almost all in Asia Pacific

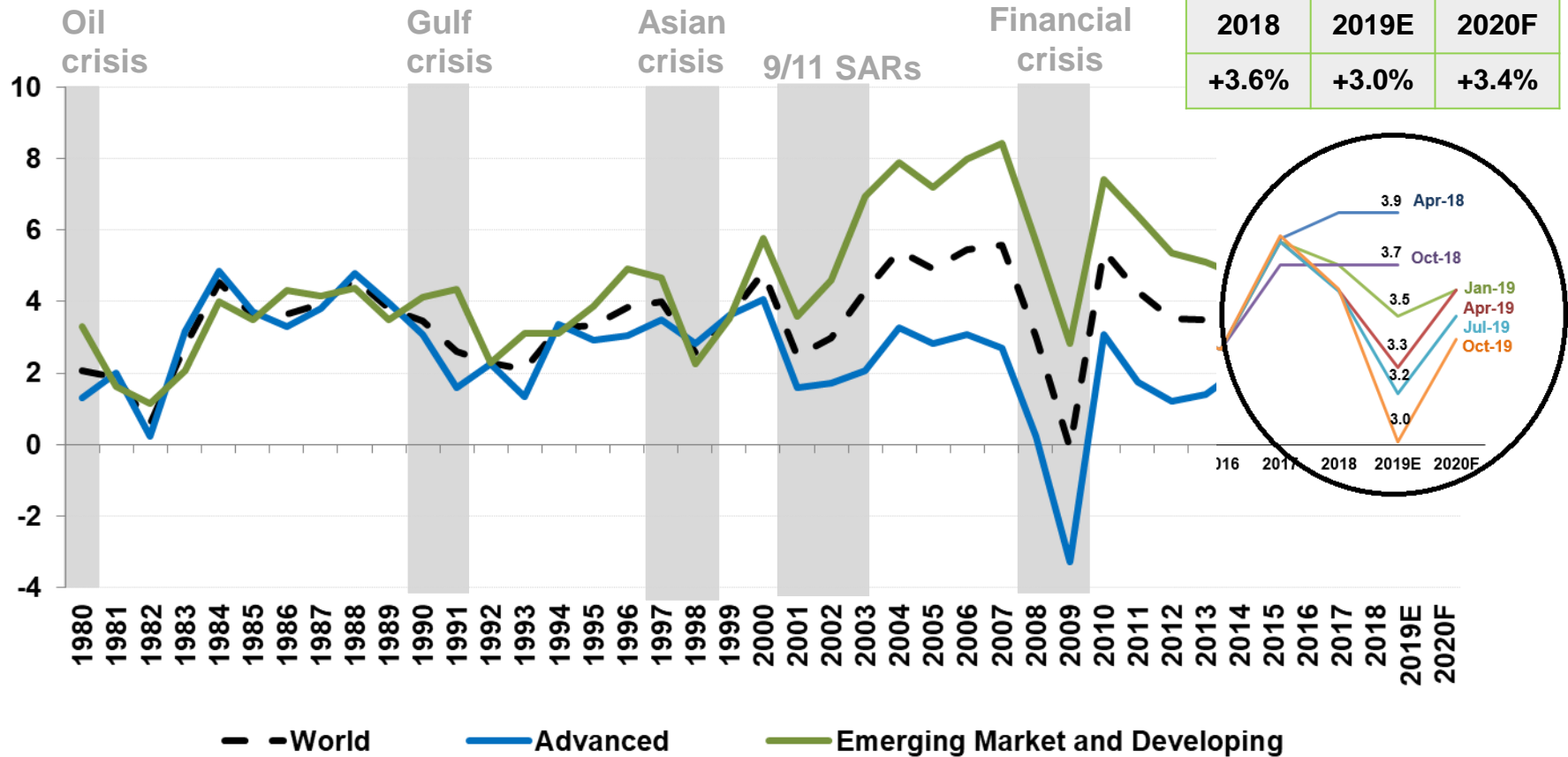
Source: IATA WATS 2019 (2018 data), Google Flights, Skyscanner



Industry Outlook

Global economic trends

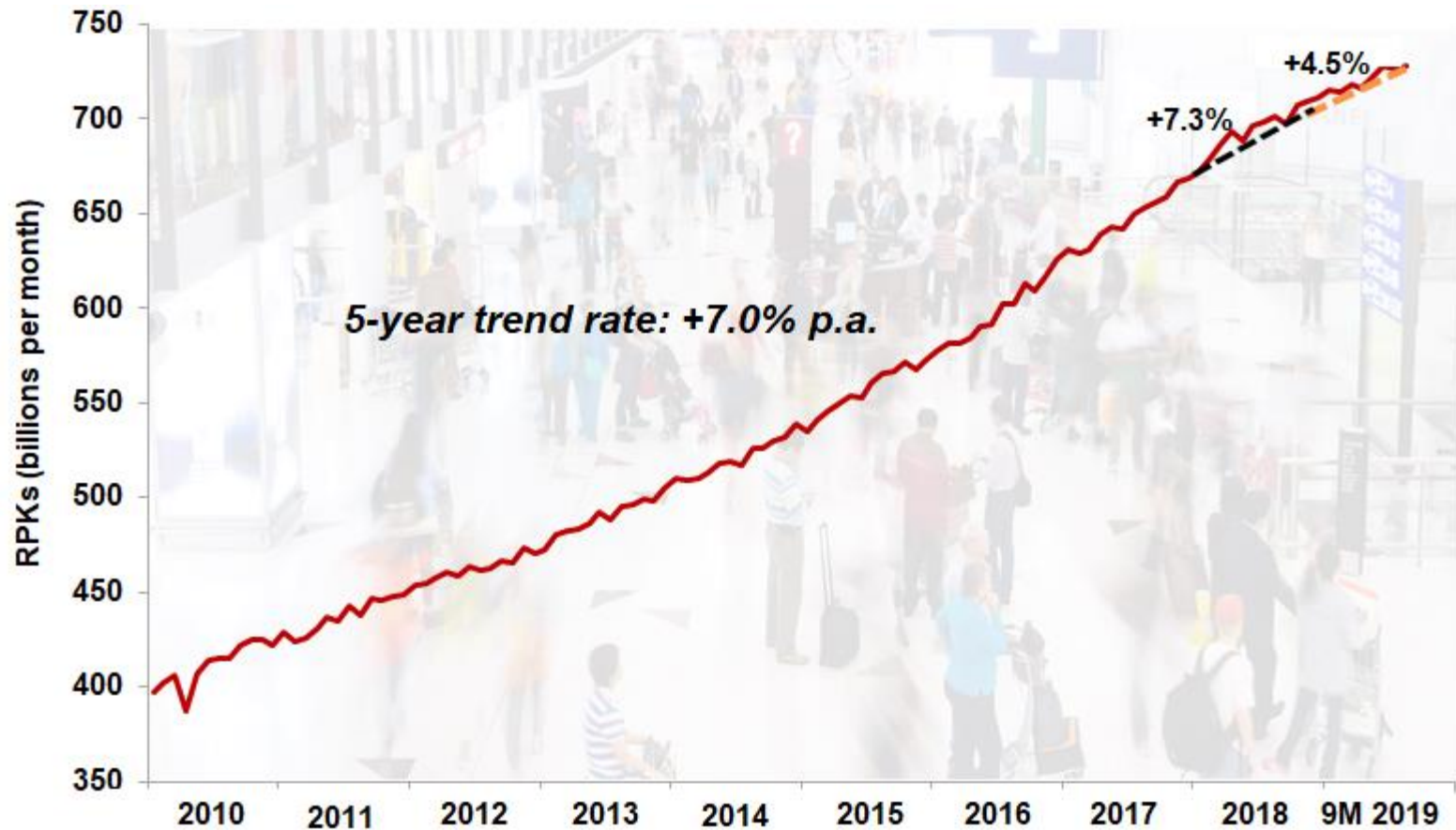
Annual % change



- *Trade tensions undermine confidence*
- *Slowing growth*

Source: IMF WEO October 2019

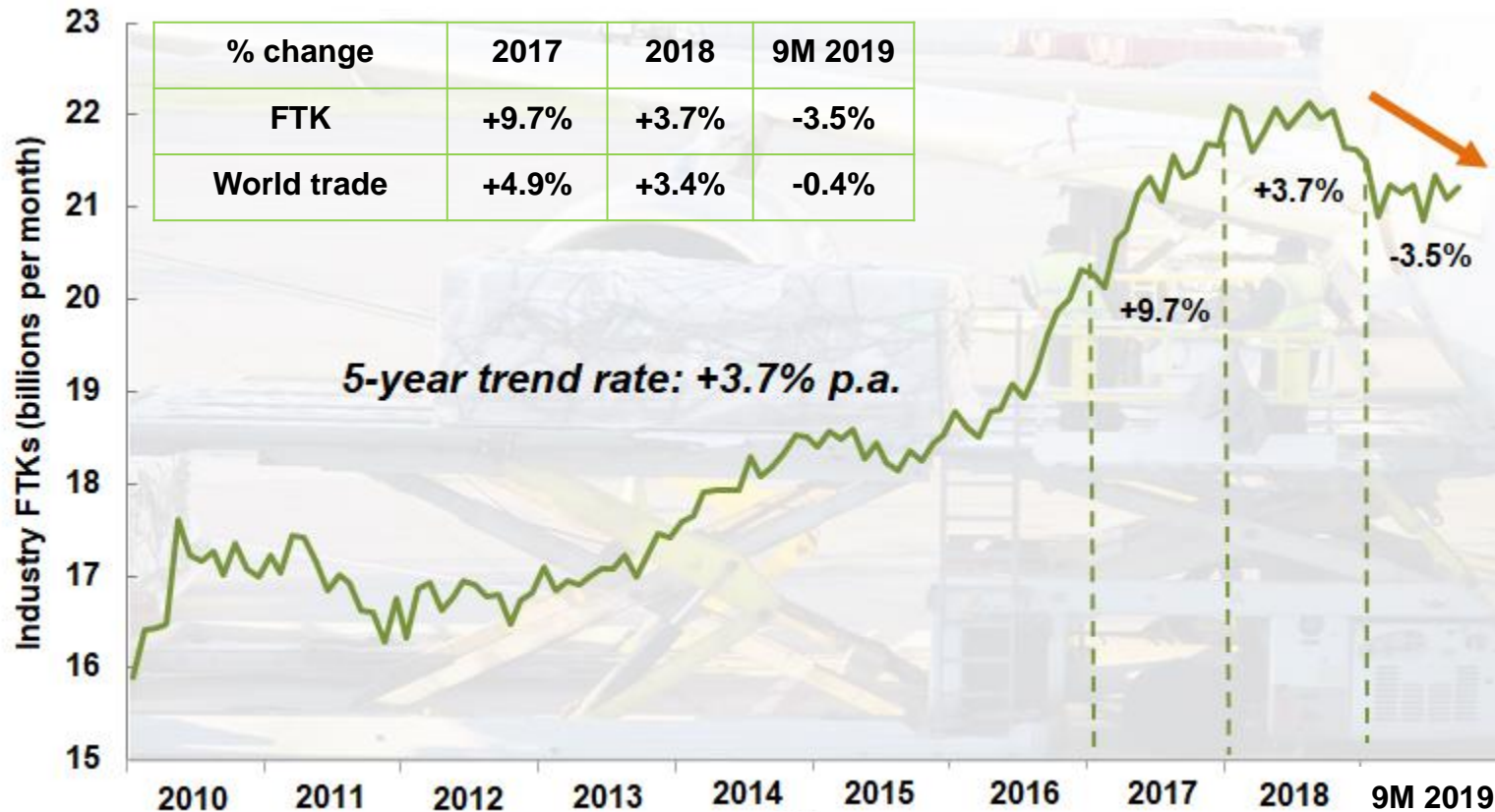
Global passenger traffic



Remarkable period of sustained strong growth

Source: IATA
RPKs seasonally adjusted

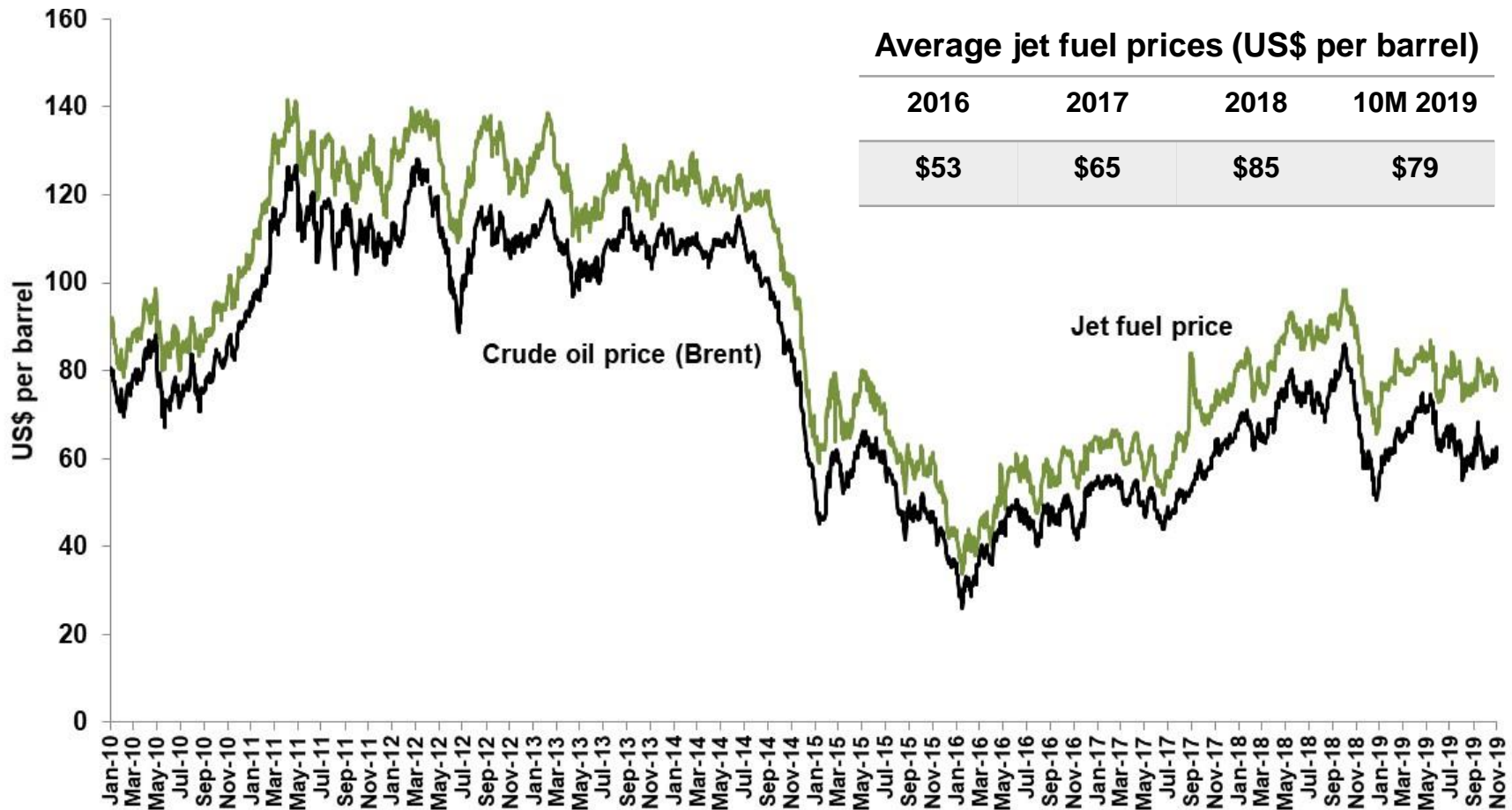
Global cargo traffic



***Air cargo buffeted by trade tensions
disrupting global supply chains***

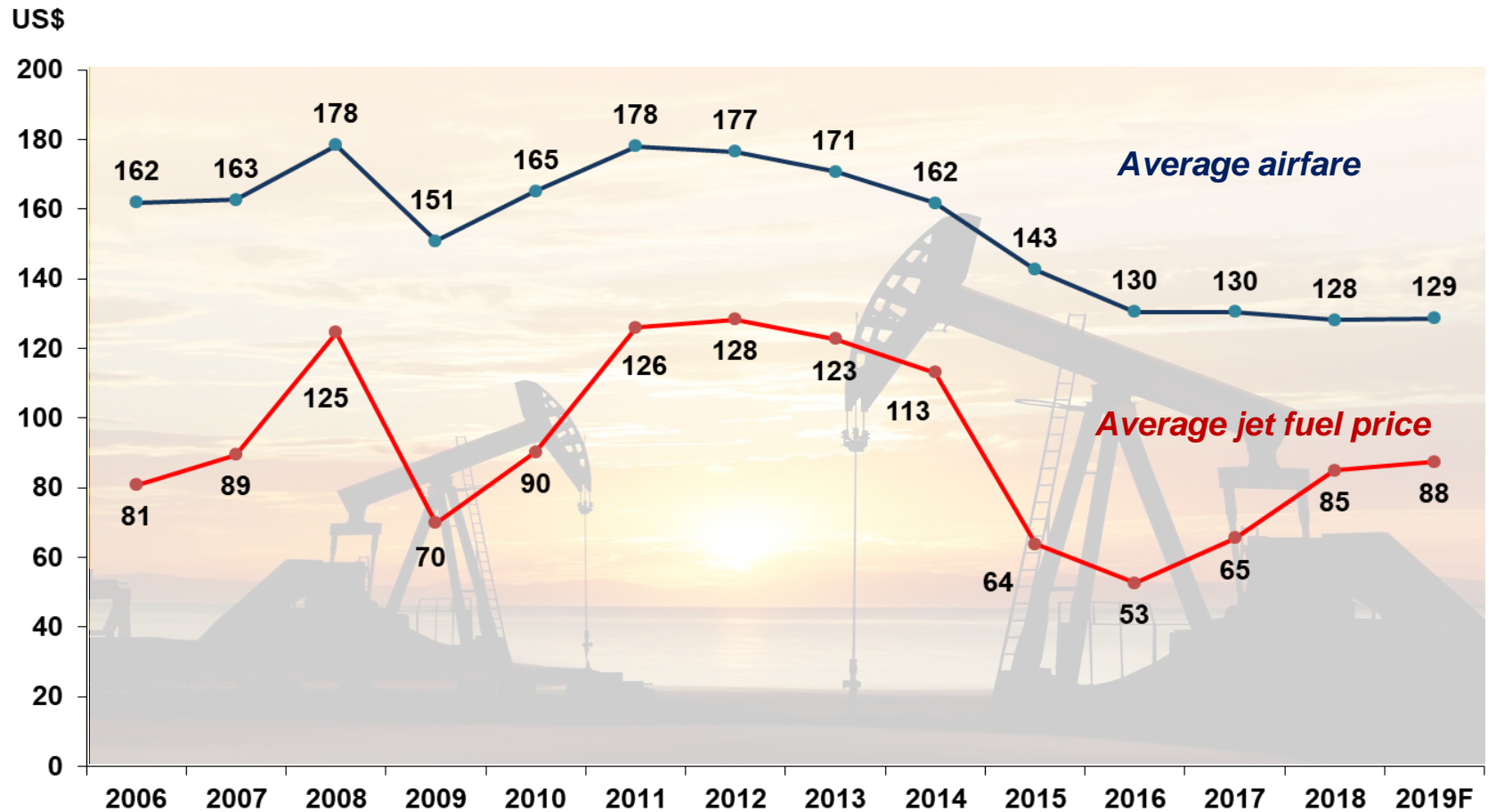
Source: IATA
FTKs seasonally adjusted

Oil prices range-bound



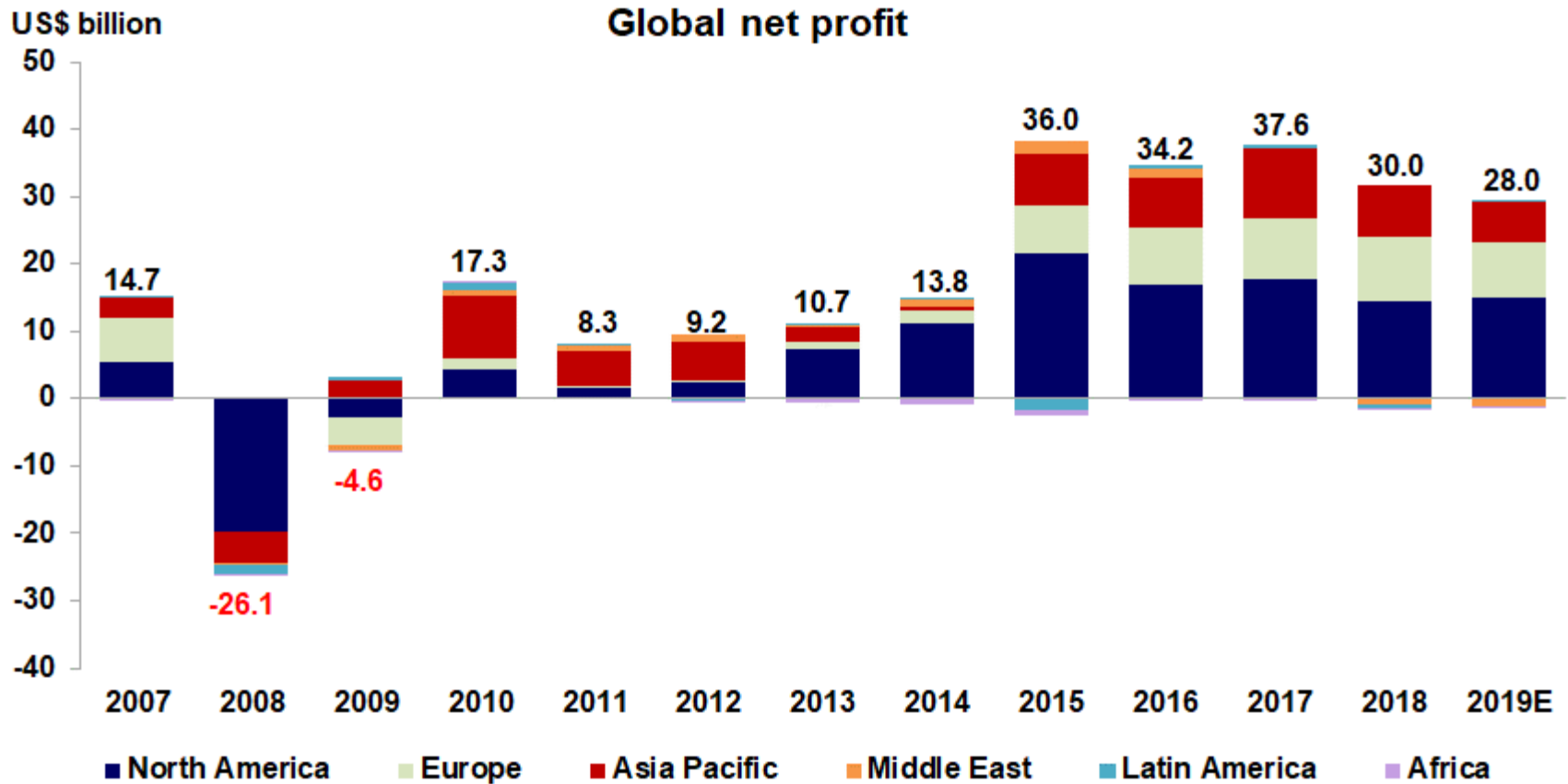
Source: US Energy Information Administration

Airfares tracking changes in oil prices



- *Airfares remain highly competitive*
- *Margins being squeezed*

Global airline profitability trends



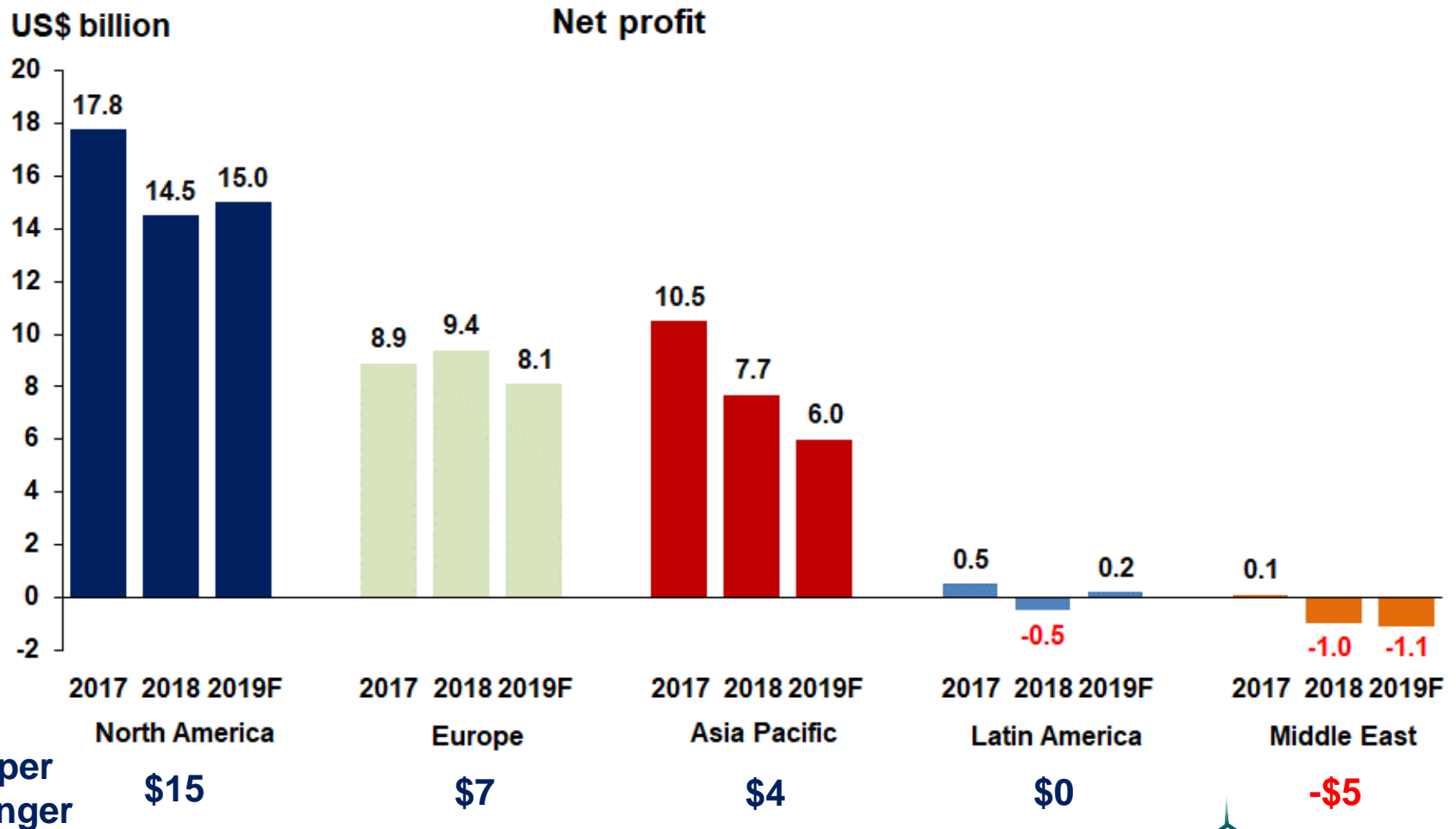
- *Period of sustained profitability*
- *Airline profits average US\$6 per passenger*
- *Narrow profit margins ~ 3%*



AAPA

63rd ASSEMBLY OF PRESIDENTS 2019

Profitability trends by region

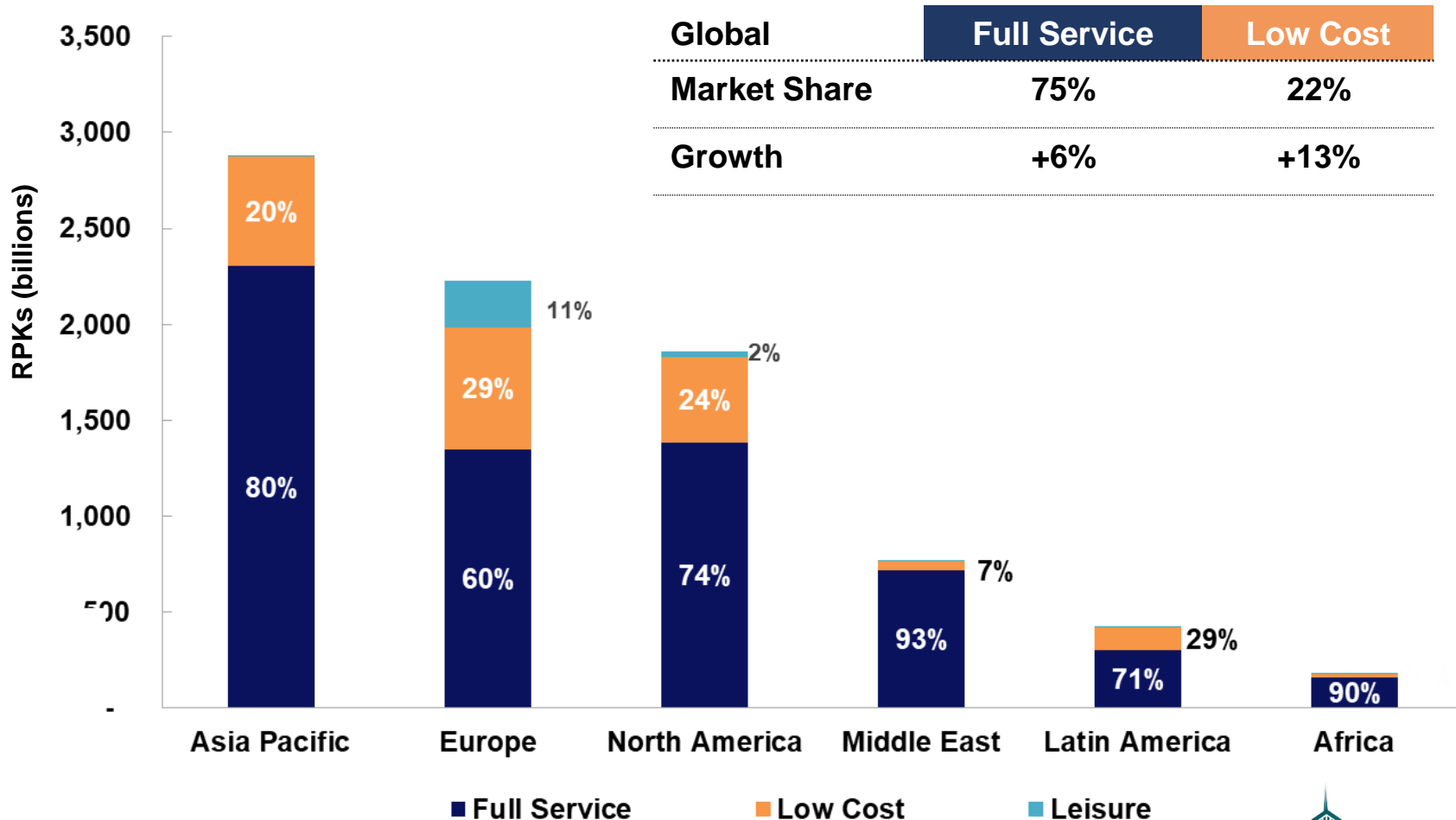


Wide variations in profitability across regions



Evolving Business Strategies

Airline business model share by region



Full service network carrier model still prevalent

Source: IATA WATS 2019, 2018 data

Digitalising the passenger experience

- Benefits of streamlining processes
- Biometrics implementation at various stages
- Increasing individual autonomy on travel choices, solutions at fingertips
- High willingness to exchange biometric data for fast, seamless journey
- Robust privacy policies and security protocols needed to safeguard personal data and assure travelling public

Challenge of harnessing new technologies to deliver a better passenger experience



Global Regulatory Challenges

Global Regulatory Influences



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

Global Regulatory Challenges

Aviation is subject to intensive regulation

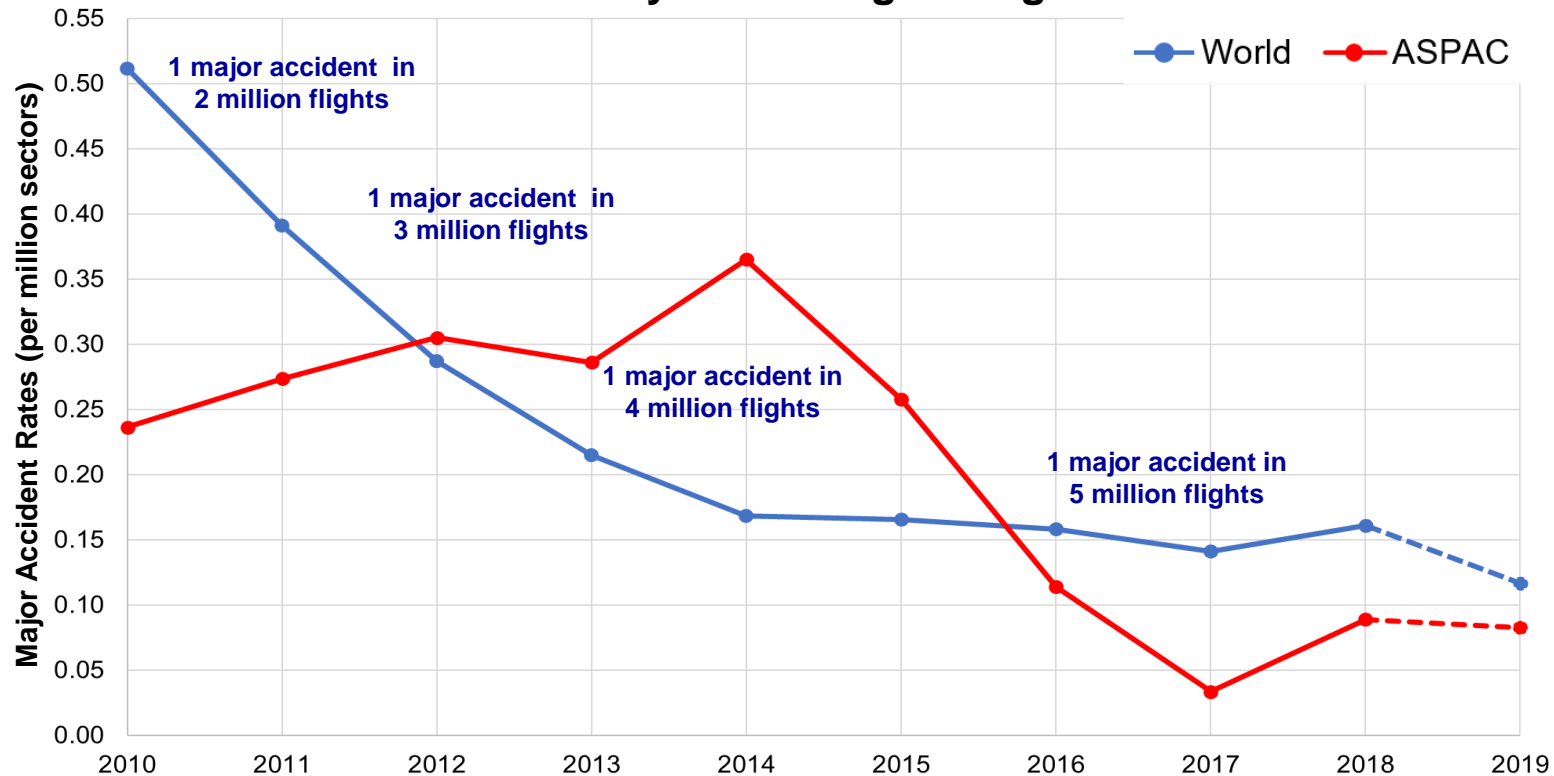
- **Safety**
- **Security**
- **Sustainability**
- **Passenger Facilitation**
- **Accessibility**
- **Infrastructure**
- **Slot Management**
- **Taxes & Charges**



Aviation Safety Performance



Western-built Jet Aircraft Major Accident Rates by Operator Region 2010-2019
3-year moving averages



***Flying is extraordinarily safe based on
collective commitment and cooperation***

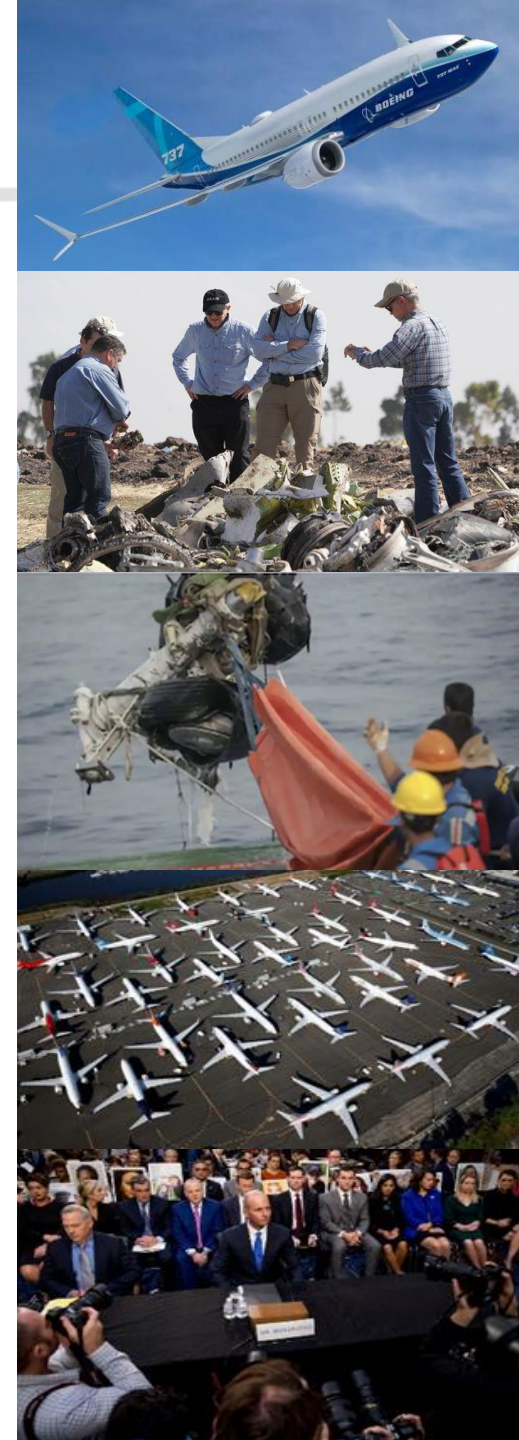
Source: AAPA

*Data as of 24 October 2019



Maintaining Public Trust

- Industry-wide commitment to safety, working within long-established international framework of regulatory oversight
- B737 MAX accidents have raised doubts over design and certification procedures, flight operations & training standards
- Comprehensive international efforts to address identified deficiencies
- Major logistics challenge ahead managing B737MAX return to service
- Wider task of rebuilding public trust and confidence in the overall integrity of the global system of regulatory oversight



Aviation Security



- Aviation remains highly secure despite perceived risks
- Evolving threats and challenges: no room for complacency
- Comprehensive threat assessment and balanced risk management key to ensuring good security
- Regulatory measures need to be proportionate, fit for purpose, cost-effective and sustainable
- Shared global concern requires close international cooperation

Aviation security is built on a network of trusted relationships



Cybersecurity



- Universal digitalisation increases interdependency and associated vulnerabilities
- Threats include operational disruption as well as theft of information for political, financial or other motivations
 - *Cyberwarfare by State actors*
 - *Cybertheft by criminal elements*
- Robust cybersecurity involves technical, policy and regulatory measures
- Absence of global standards and protocols
- Proliferation of national cyber regulations
- Need to focus on wider aviation ecosystem and strengthening resilience

Requires trust and cooperative efforts

- **ICAO 40th Assembly reaffirms CORSIA as the only global market based measure**
 - *Emissions reporting for all operators: 2019*
 - *Carbon offsetting obligations: 2021 onwards*
 - *Some developing countries oppose CORSIA*
- **ICAO to explore long-term CO₂ global aspirational goal**
- **Aviation under pressure in Europe**
 - *Increased activism: 'Flight Shame' movement*
 - *Calls for net zero emissions by 2050*
 - *Additional taxes & levies*
- **Need to strengthen industry advocacy and communications**

Aviation continues to pursue an ambitious environmental strategy

Passenger Facilitation



- Challenges of processing 12 million passengers daily
- Rethink service processes using new digital technologies
- Need for harmonised passenger data standards
- Overlapping national rules and contradictory regulations create confusion for travellers
- Mass disruption events call for flexibility & coordinated responses

Focus on improving the overall passenger experience

Accessibility



- **Estimated 120 million travellers with disabilities worldwide**
- **Need to ensure services delivered to passengers with genuine need**
- **Emerging trend of accessibility-specific regulations, disparate requirements and implementation**
- **Greater industry engagement required to ensure policies match operational realities**

Industry committed to provide safe and accessible travel

- Consistent global approach on slot management key to optimising overall efficiency of the air transport system***



Taxes & Charges



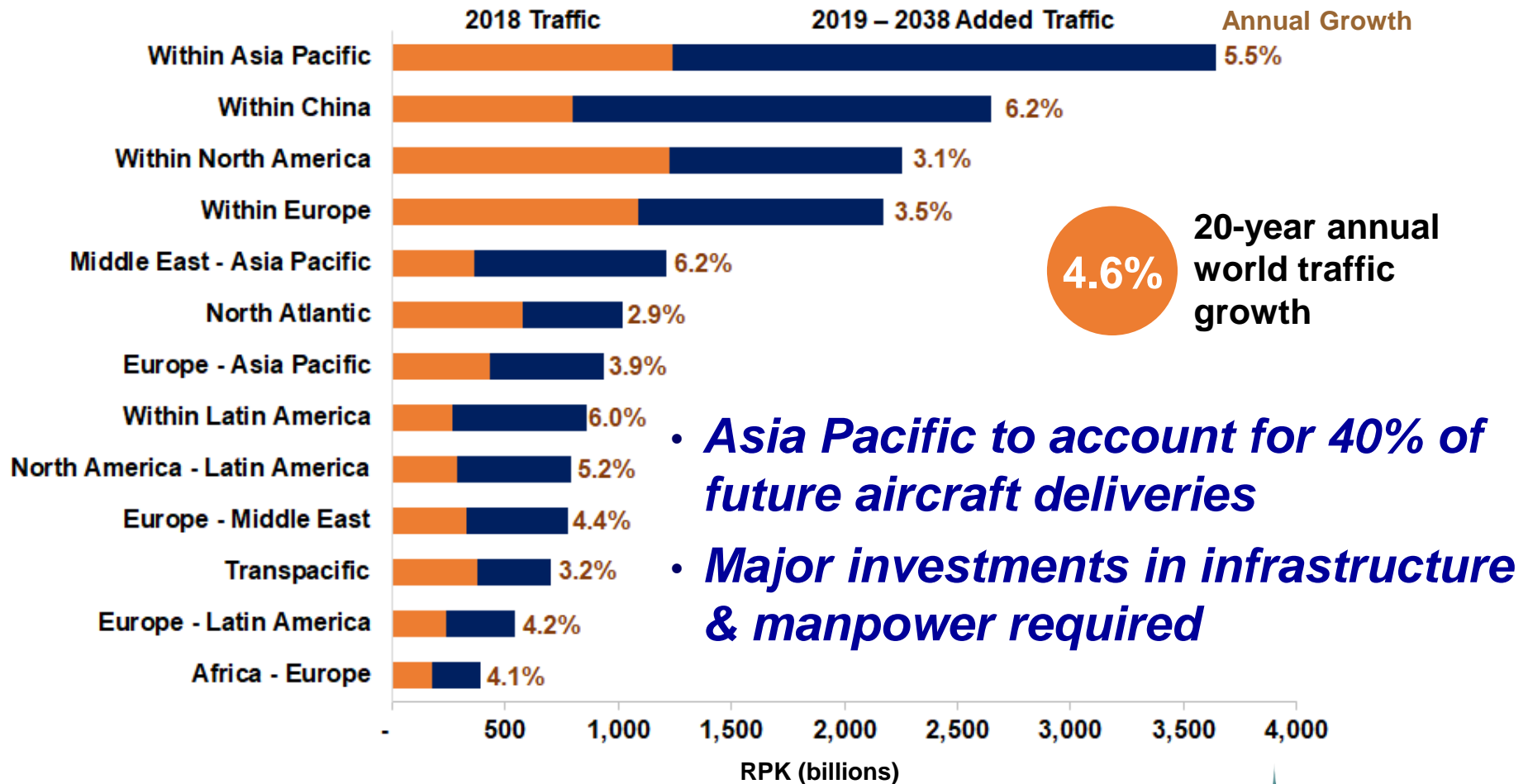
- Aviation is integral to the world economy & connects communities
- Opportunistic taxes undermine economic development & hinder job creation
- User charges must be transparent, cost-related, non-discriminatory & for current use
- Difficulties in regulating monopoly service providers

Aviation is a catalyst for growth, jobs & social development



Future Growth

Asian markets drive growth



Source: Boeing Commercial Market Outlook 2019

*Does not include travel within China

Infrastructure



- **Airport capacity**
 - *Long-term planning & coordination*
 - *Capital investments along with cost prudence*
 - *Slot management not permanent solution*
- **Various forms of public and private sector involvement**
 - *User consultation critical in shaping future developments*
- **Economic regulation & oversight**
 - *Balancing interests of airlines, airports and travelling public*
- **Aviation Workforce**
 - *Opportunities for talented individuals*

Governments need to coordinate infrastructure planning & regulatory oversight

Closing thoughts



- Aviation is a key driver of global economic and social development
- Infrastructure planning is critical
- Airline strategies evolving in response to changing market dynamics and consumer preferences
- Regulatory oversight should focus on maintaining consistent global standards on safety, security and ensuring a competitive landscape
- Aviation committed to sustainable long term growth

Asia Pacific airlines remain at the forefront of global air transport development

