



# **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

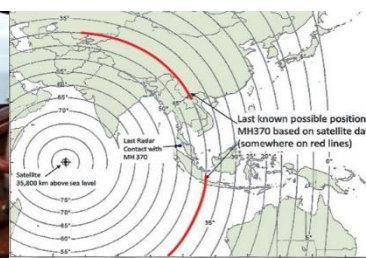
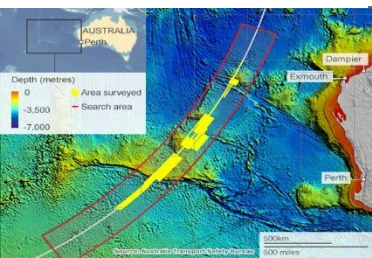
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# Unprecedented tragedies

- 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

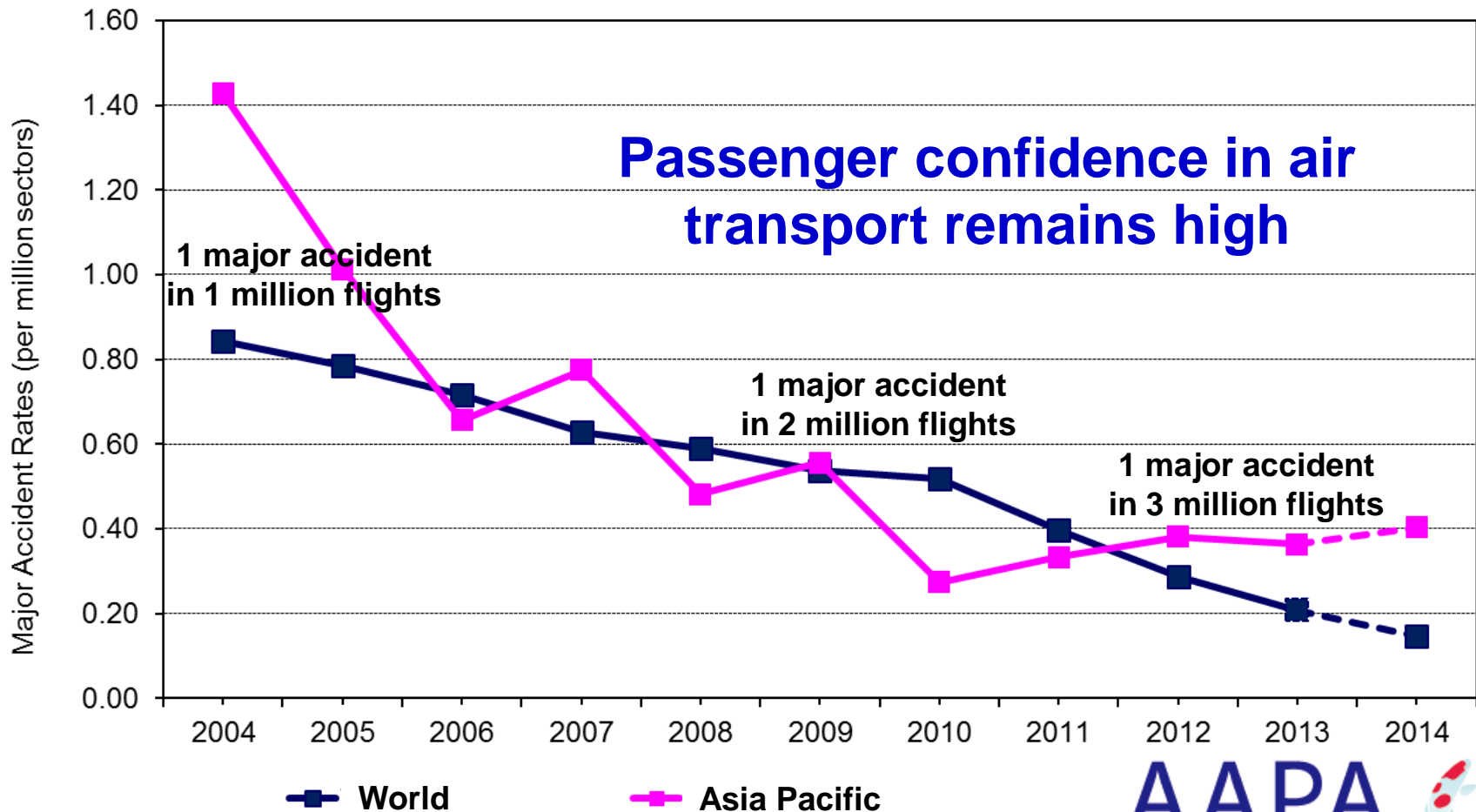


# Safety Performance Trends



## Western-built Jet Aircraft Major Accident Rates

by Operator Region 2004 - 2014  
3-year moving averages



\* 2014 data as of 11 Nov 2014

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# 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

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# 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***

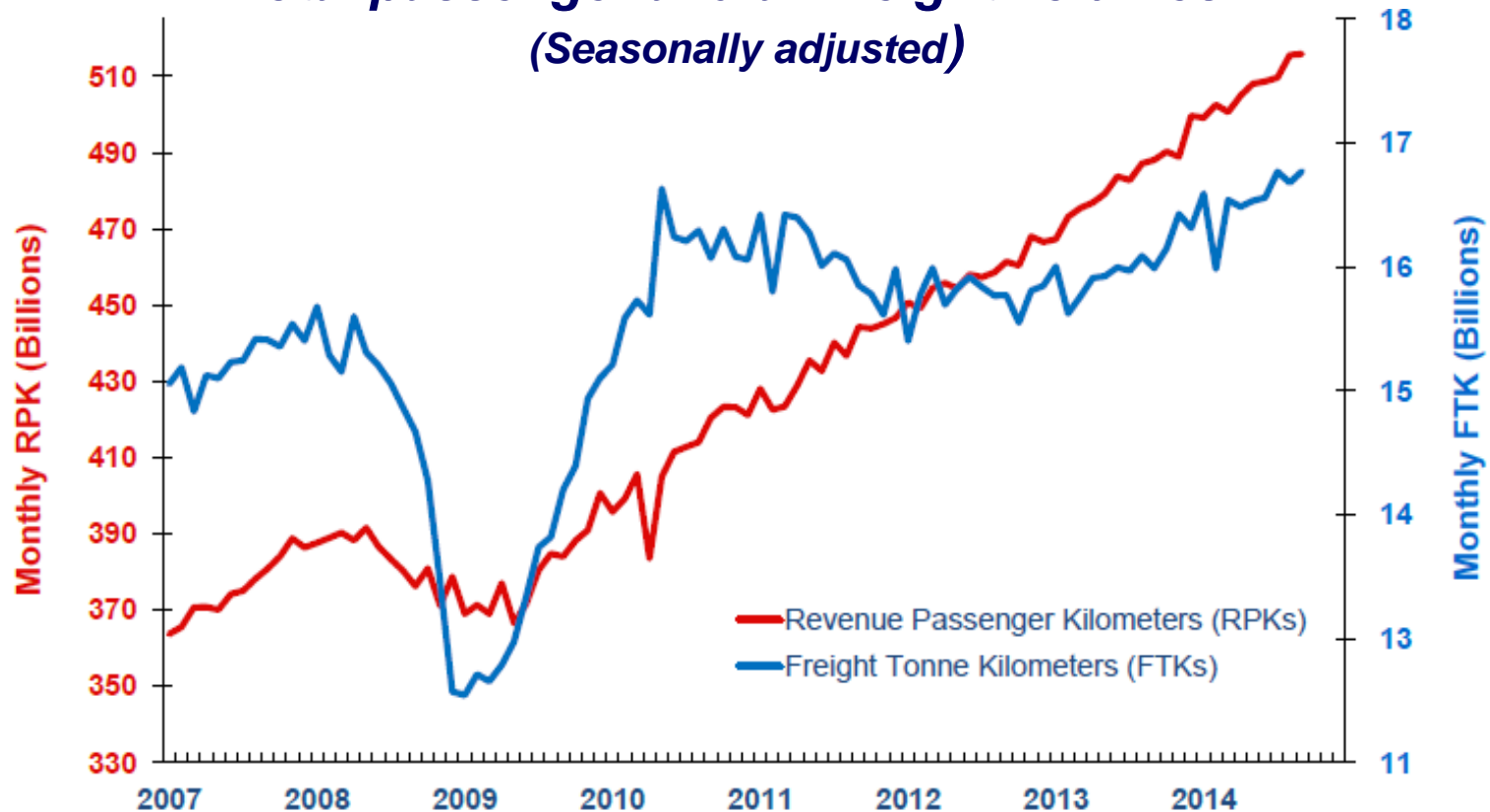
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# Global passenger and cargo traffic



*Total passenger and air freight volumes  
(Seasonally adjusted)*



Source: IATA

- *Robust growth in passenger travel*
- *Air cargo market now recovering*

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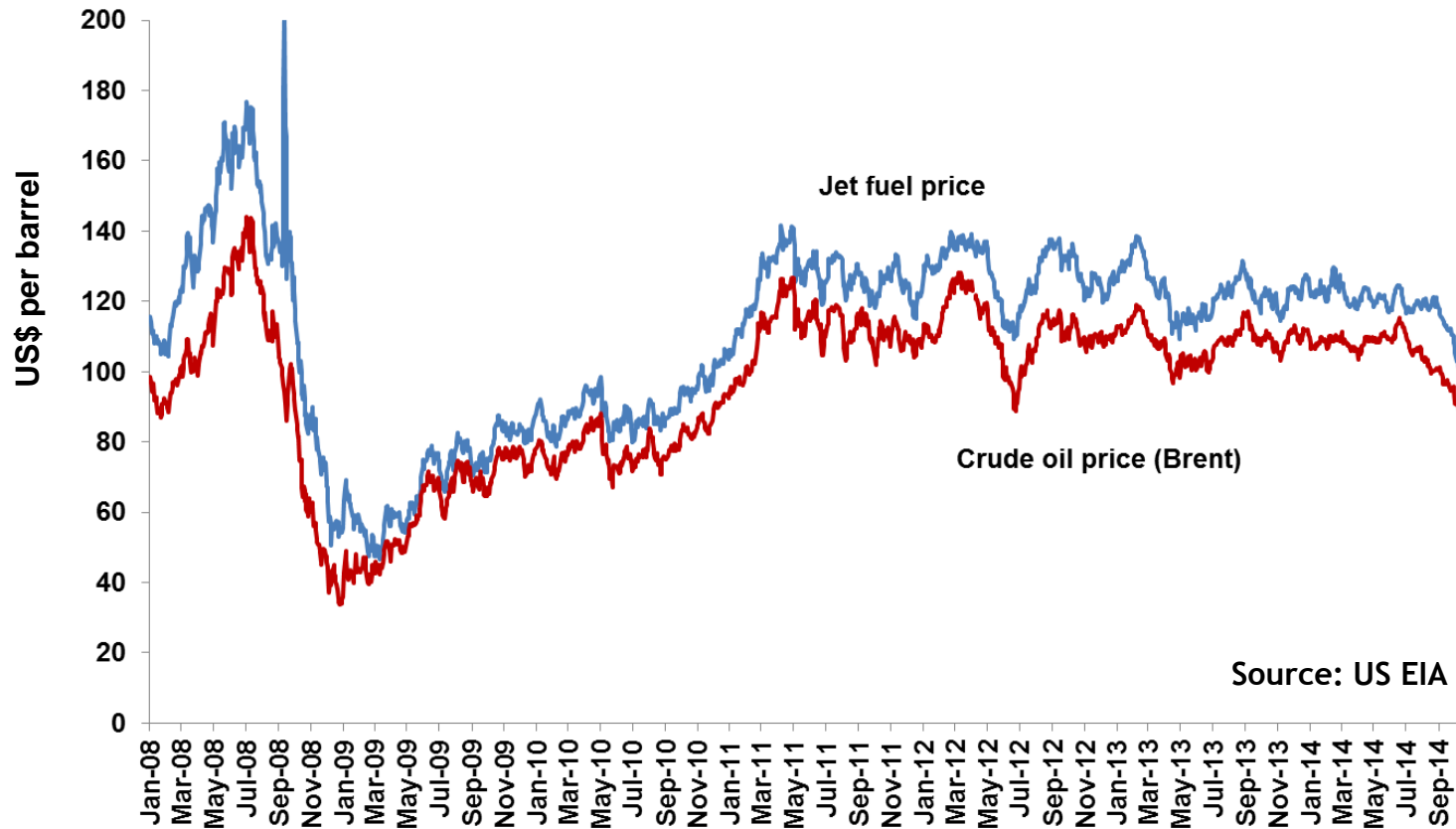
# Evolving Airline Strategies

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- **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?

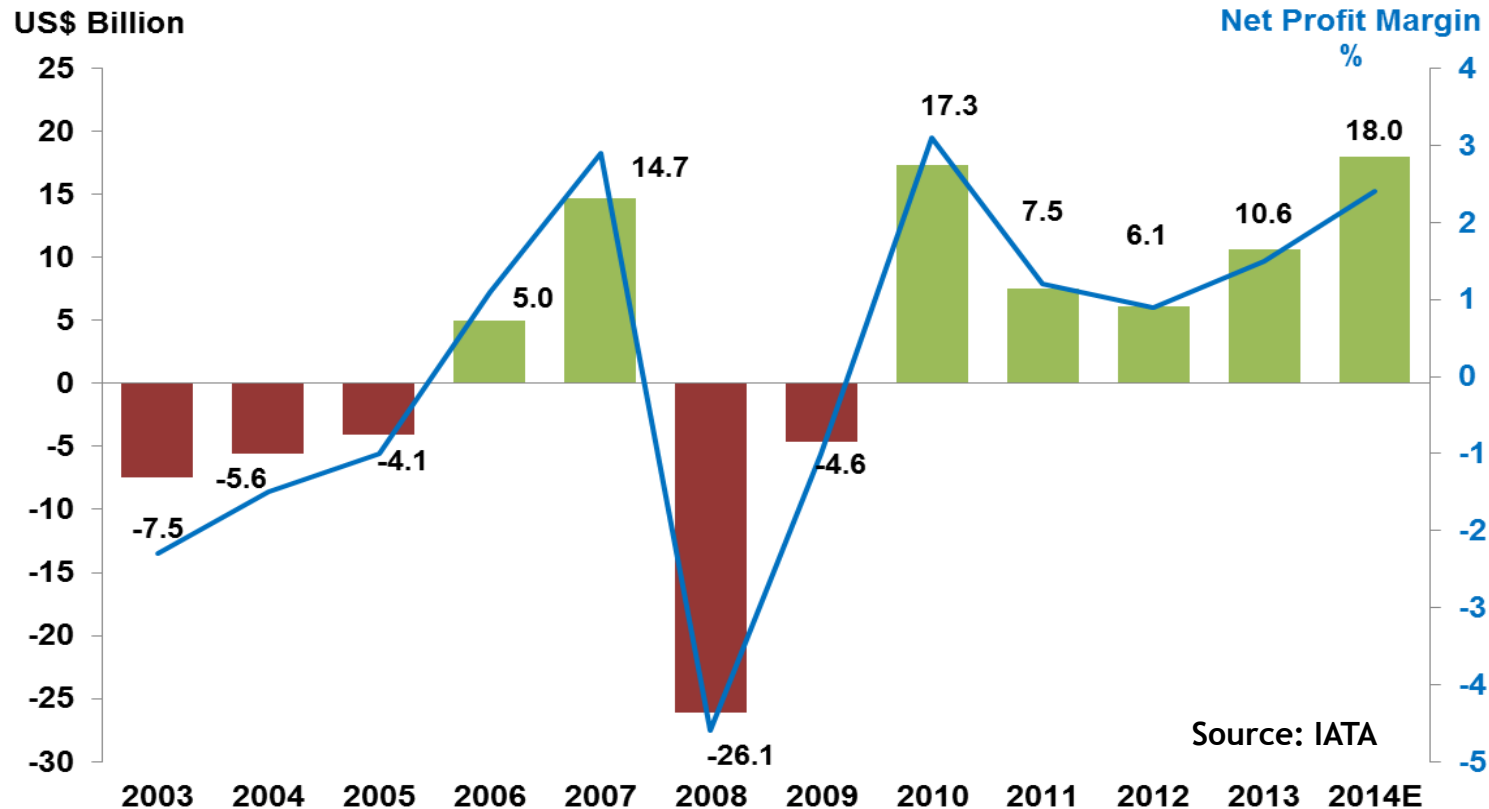


***Average jet fuel price \$123 per barrel  
before recent price declines***





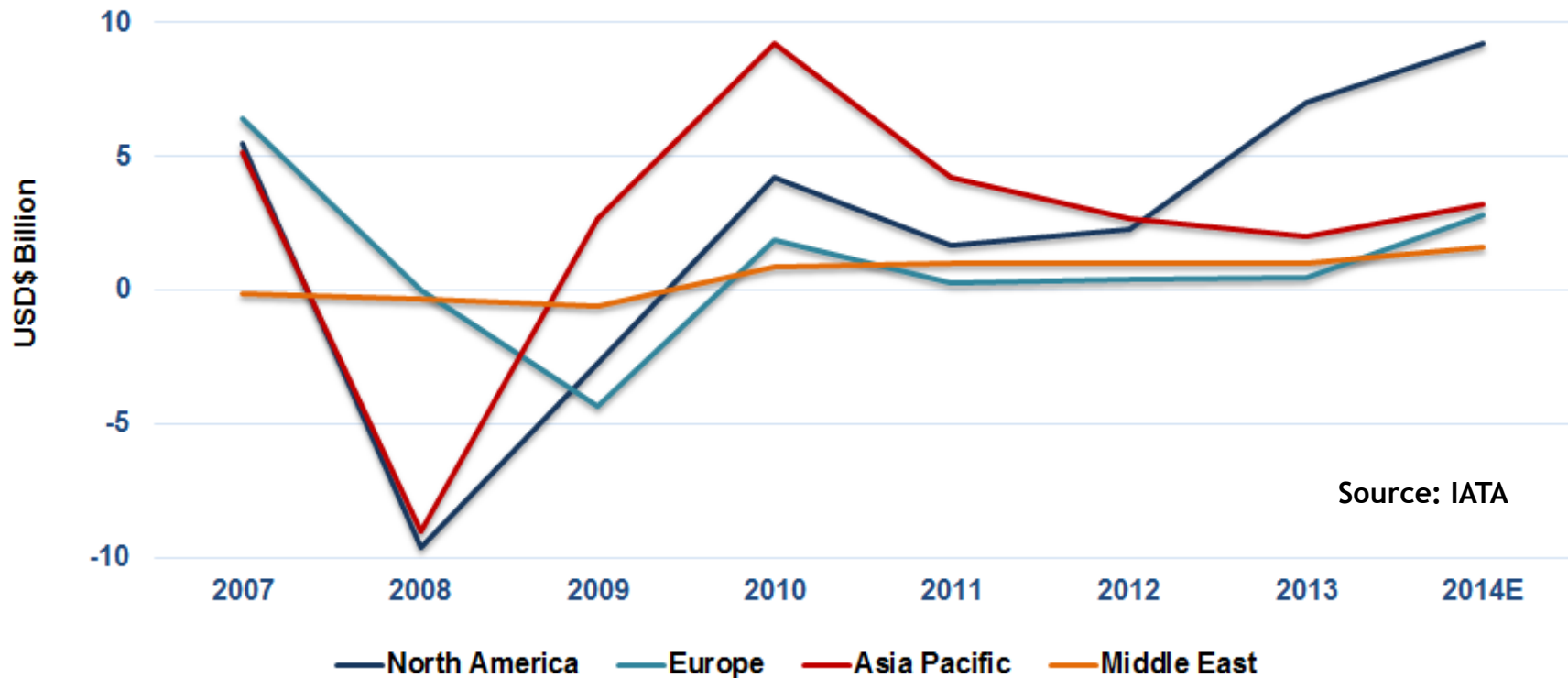
# Global airline industry profitability



***Profitability improving but margins remain very thin ... around \$6 per passenger !***



# Airline profitability by region

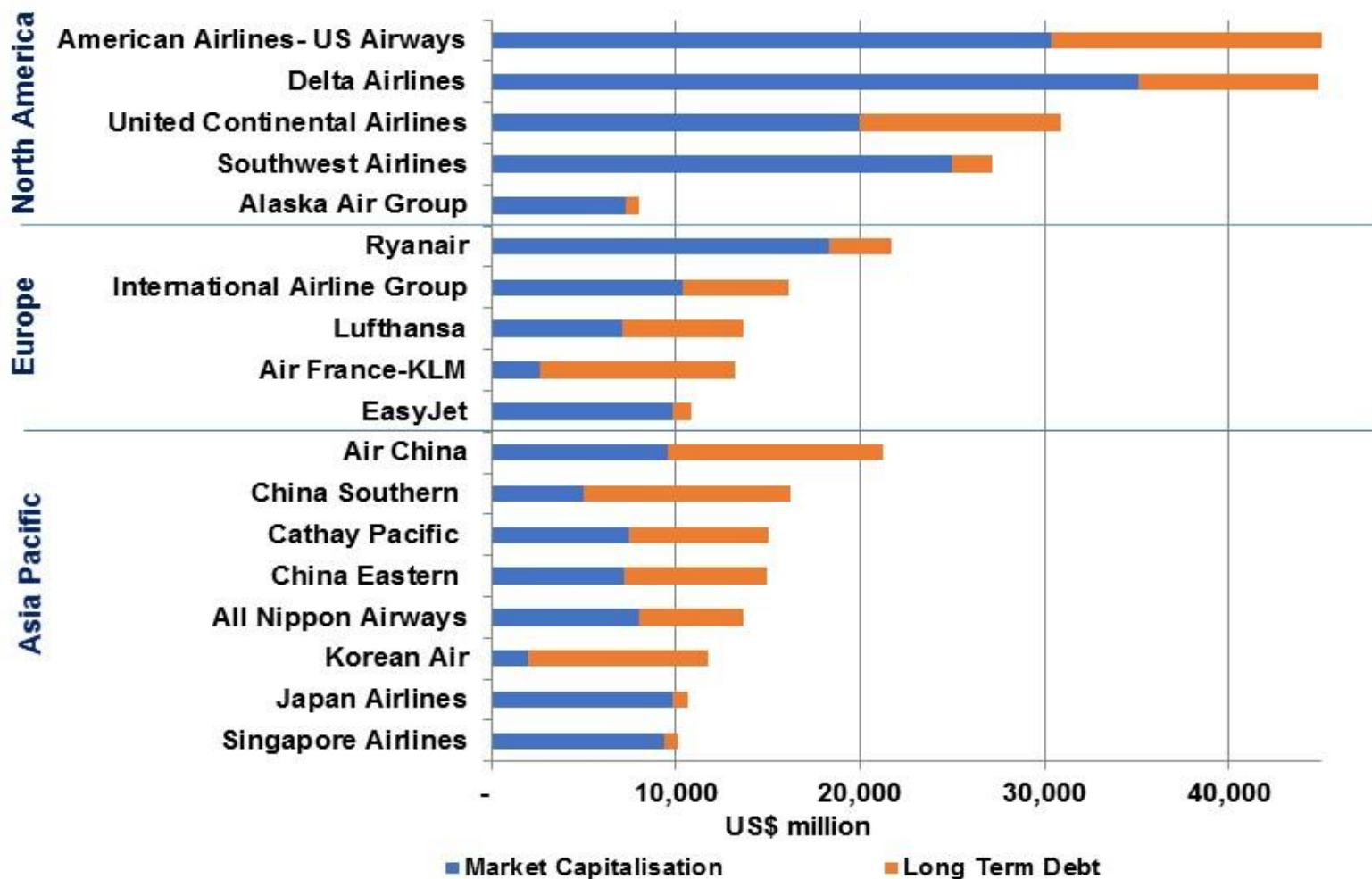


***Resurgence of restructured US carriers  
now generating significant profits***

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# Airline enterprise values by region



Market capitalisation as of 6 November 2014

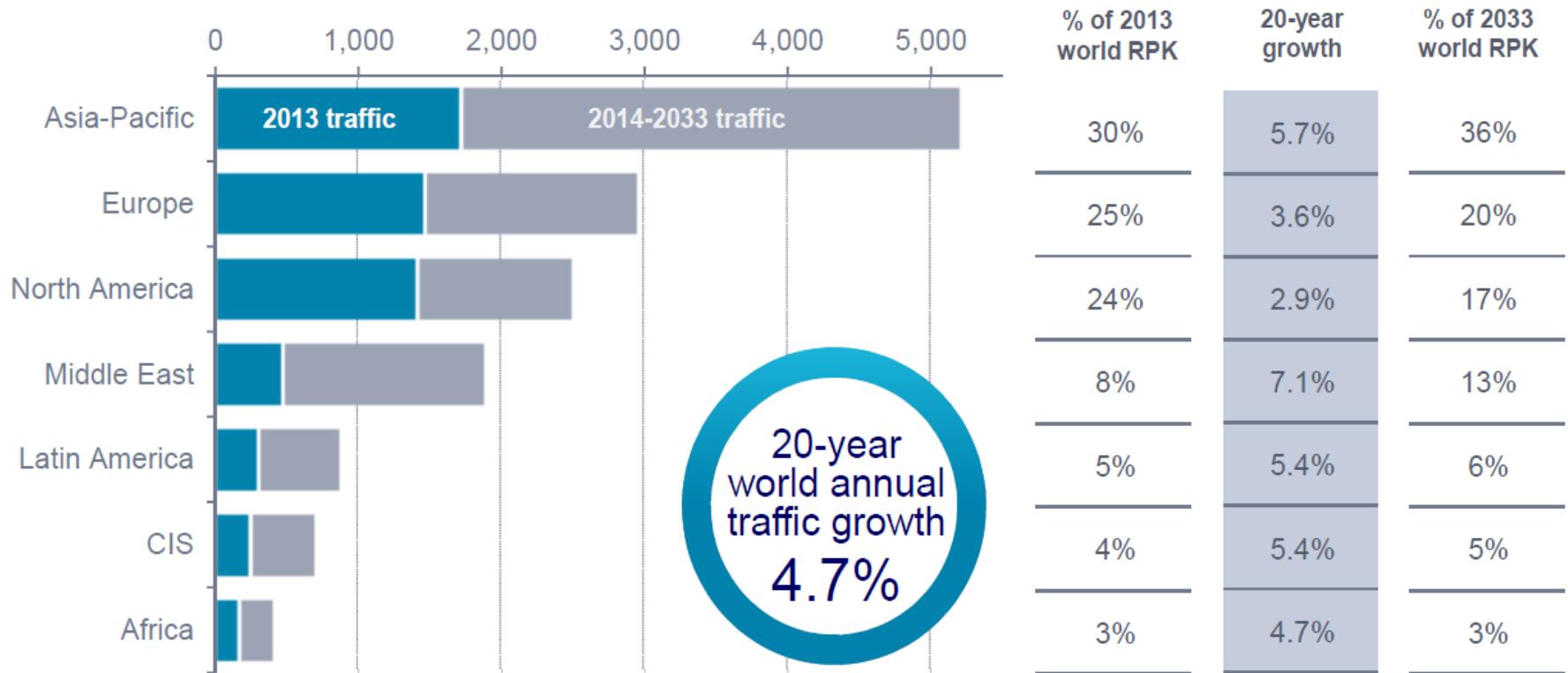
Source: AAPA Estimates



# Asia Pacific leads world traffic growth



RPK traffic by airline domicile (billions)



Source: Airbus GMF 2014

***Overall market grows x 2.5 by 2033***

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# 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***

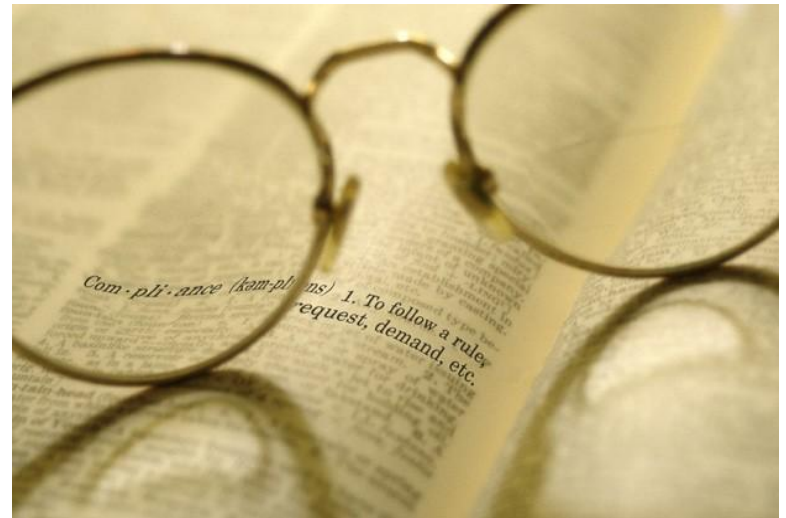


# Global Regulatory Challenges

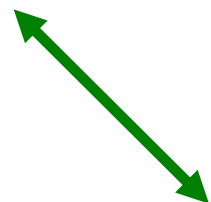
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Aviation is subject to intensive regulation

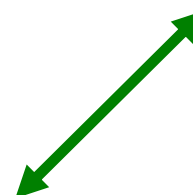
- *Flight Safety*
- *Passenger Facilitation*
- *Environment*
- *Taxation*
- *Health Pandemics*



# Global Regulatory Influences



**Asia  
Pacific**



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

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# Flight Safety Information Exchange

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- 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

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- 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



**United  
Nations  
191  
States**

- 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***

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# 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

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- 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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