

Asia Pacific Aviation

Growth Dynamics & Sustainability

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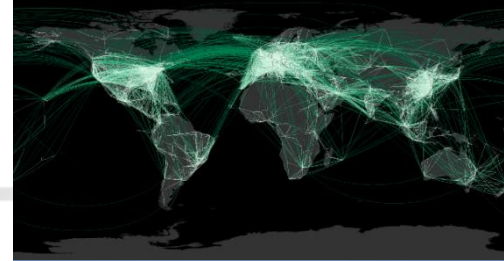


Overview

- **Asia Pacific aviation**
- **Business trends**
- **Future growth**
- **Sustainability**
- **Regulatory challenges**

Aviation: connecting the world

- Air travel delivers global mobility
- 3.6 billion passengers
 - 10 million per day
- Carries 35% by value of global trade
 - Goods worth US\$ 6 Trillion
- Wider social and economic benefits
- Outstanding safety record
- Committed to sustainable growth



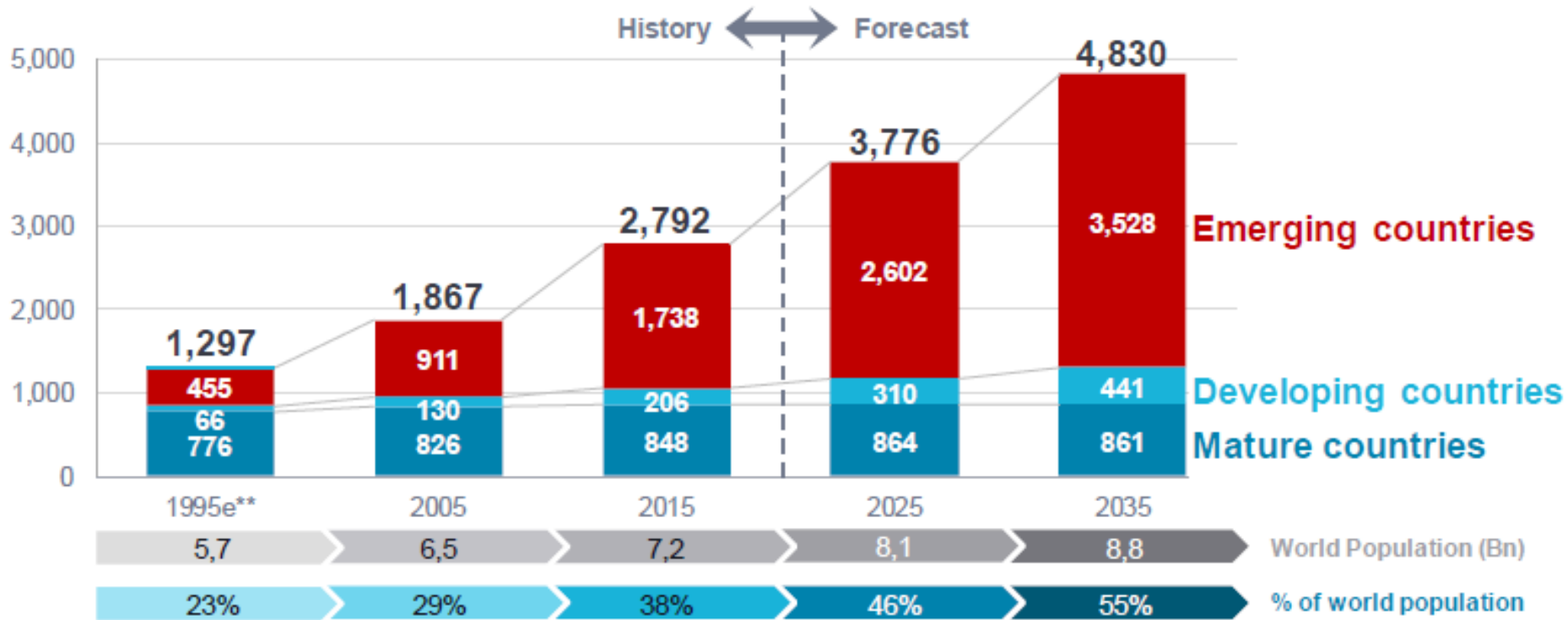
Asia Pacific

- **Diverse geographic region**
- **Home to more than 4 billion people**
- **Dynamic economies generate 31% of global GDP**
- **Wide range of income levels, rapidly growing middle class**
- **Aviation widely recognised as a key contributor to economic and social development**
- **Political diversity remains challenging: need for multilateral cooperation**

Growing middle class consumers



Middle Class* (millions of people)

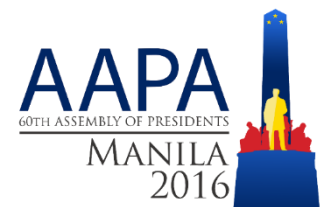


* Households with yearly income between \$20,000 and \$150,000 at PPP in constant 2015 prices

** Estimate for 1995 split region

Driving consumption including air travel demand

Source: Airbus GMF 2016-2035



Asia Pacific Aviation



US\$166 billion revenue

US\$7 billion net profit

1,200 million passengers

860 million domestic

340 million international

20 million tonnes of cargo

7,058 aircraft

Asia Pacific carriers overall market share:

32% of global passenger traffic

40% of global cargo traffic

Data: Financials & Traffic: 2015

Source: Combined AAPA + non-AAPA airlines GMT+5 to GMT+12



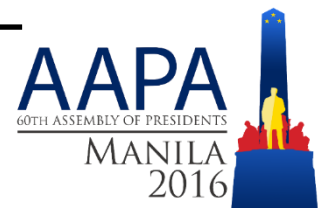
World's ten busiest domestic routes

Busiest domestic routes

Rank	Route	PAX (million)
1	Jeju – Seoul	11.1
2	Sapporo – Tokyo	7.8
3	Fukuoka – Tokyo	7.6
4	Melbourne - Sydney	7.2
5	Beijing – Shanghai	6.1
6	Hanoi – Ho Chi Minh City	5.4
7	Delhi – Mumbai	5.0
8	Jakarta – Surabaya	4.5
9	Beijing – Chengdu	4.4
10	Osaka – Tokyo	4.0

Source: IATA WATS 2016, 2015 data

... are all in Asia



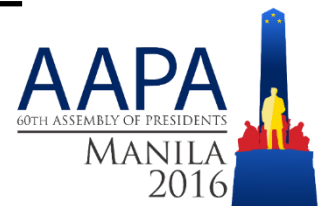
World's ten busiest international routes

Busiest international/ regional routes

Rank	Route	PAX (million)
1	Hong Kong - Taipei	5.1
2	Jakarta - Singapore	3.4
3	Bangkok – Hong Kong	3.0
4	Kuala Lumpur – Singapore	2.7
5	Hong Kong – Singapore	2.7
6	Hong Kong – Shanghai	2.5
7	Hong Kong – Seoul	2.5
8	Bangkok – Singapore	2.4
9	Taipei – Tokyo	2.2
10	Osaka – Taipei	2.1

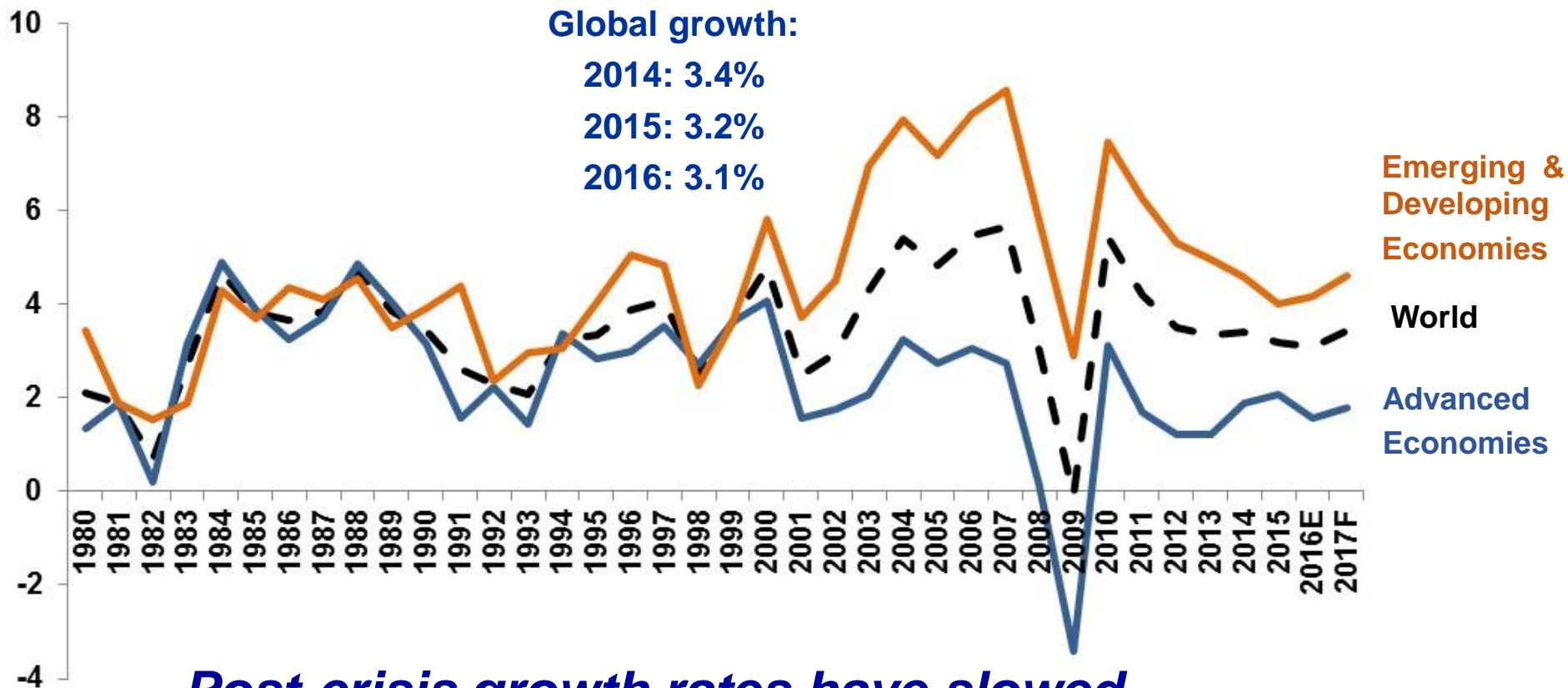
Source: IATA WATS 2016, 2015 data

... are all in Asia



The global economy remains fragile

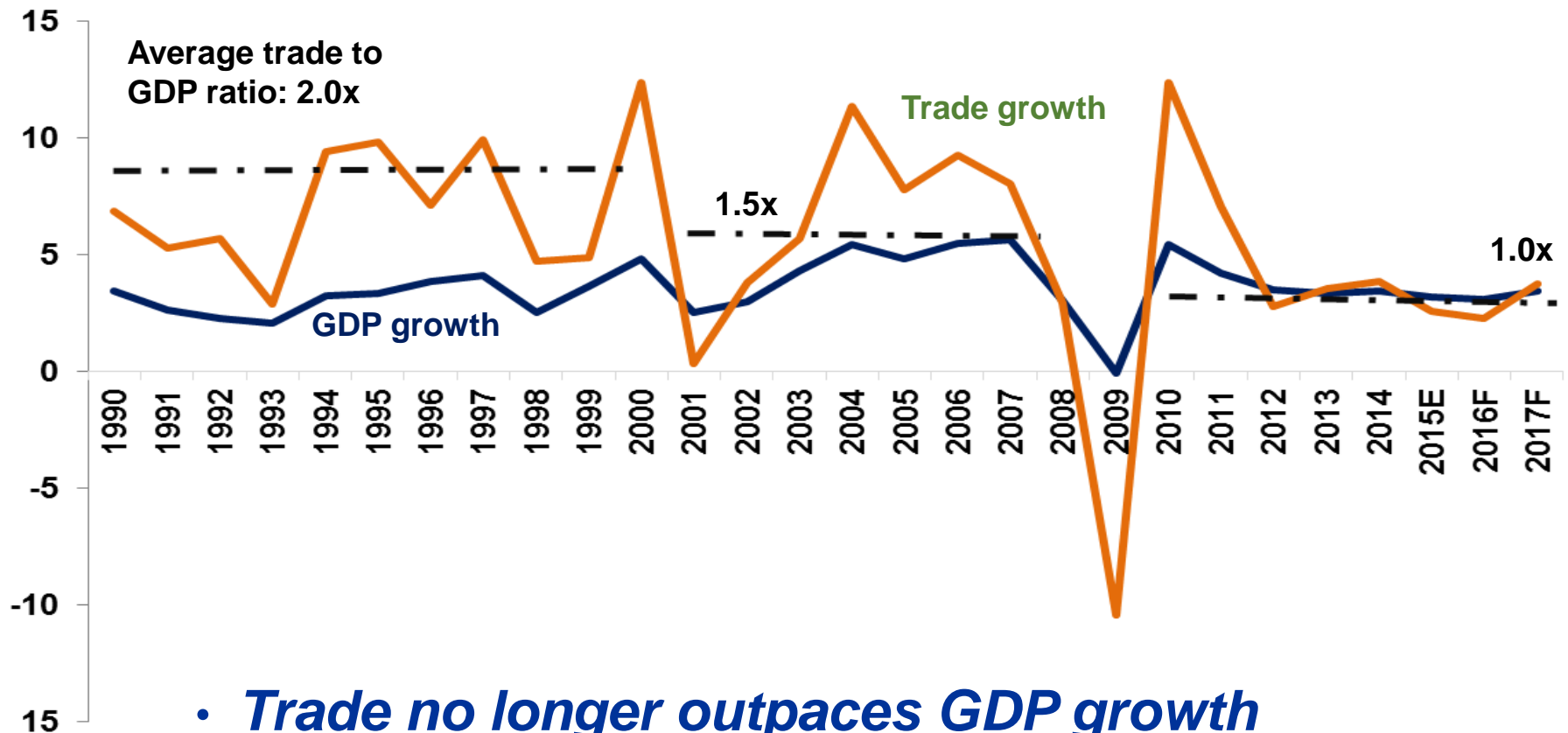
GDP growth rates



- *Post-crisis growth rates have slowed*
- *Still a two speed global economy*
- *Low interest rates signal weak outlook*

Global trade is stuck on a low growth path

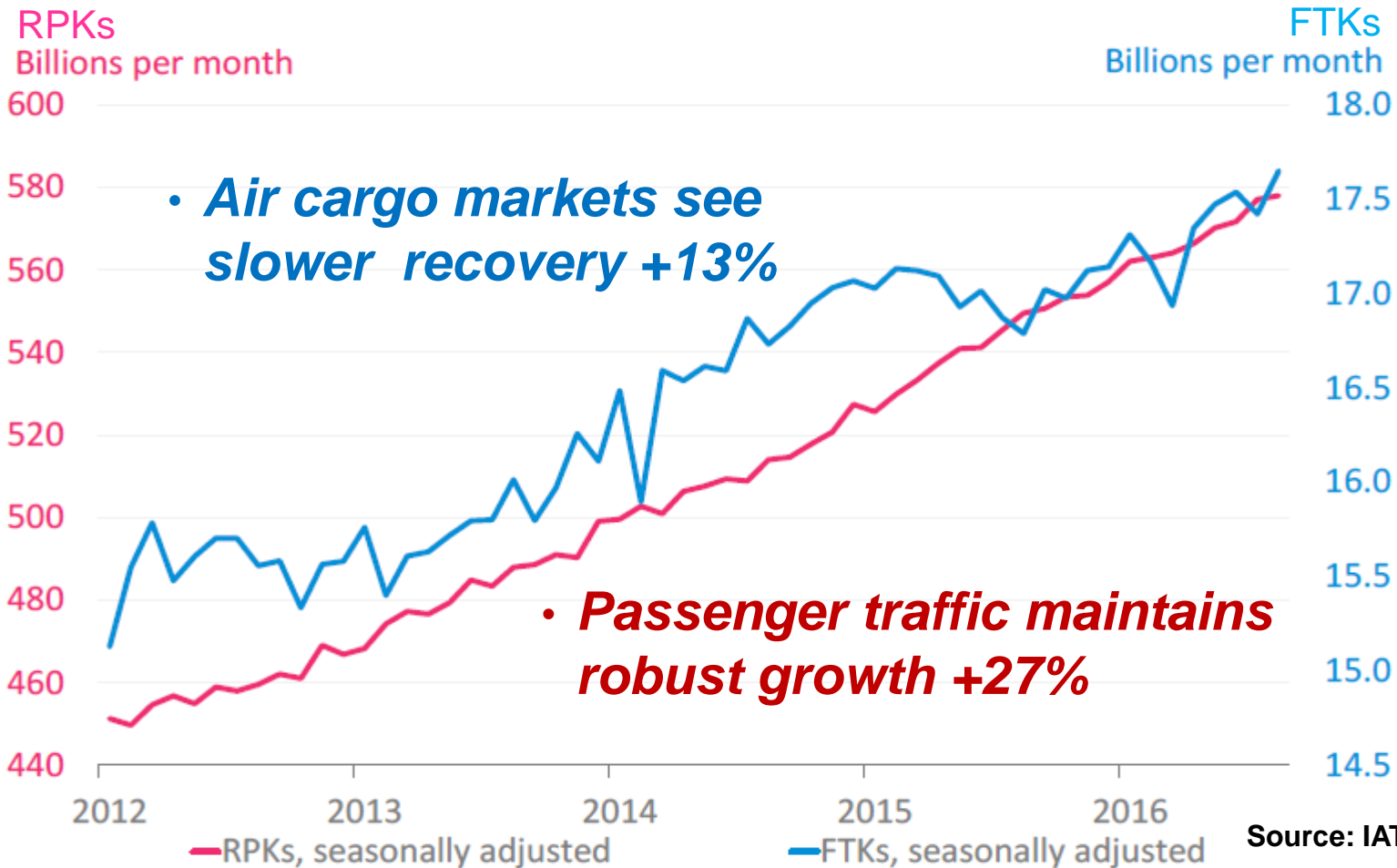
Annual % Change



- *Trade no longer outpaces GDP growth*
- *Threat of protectionist measures*

Source: IMF 2016

Global Passenger and Cargo Traffic



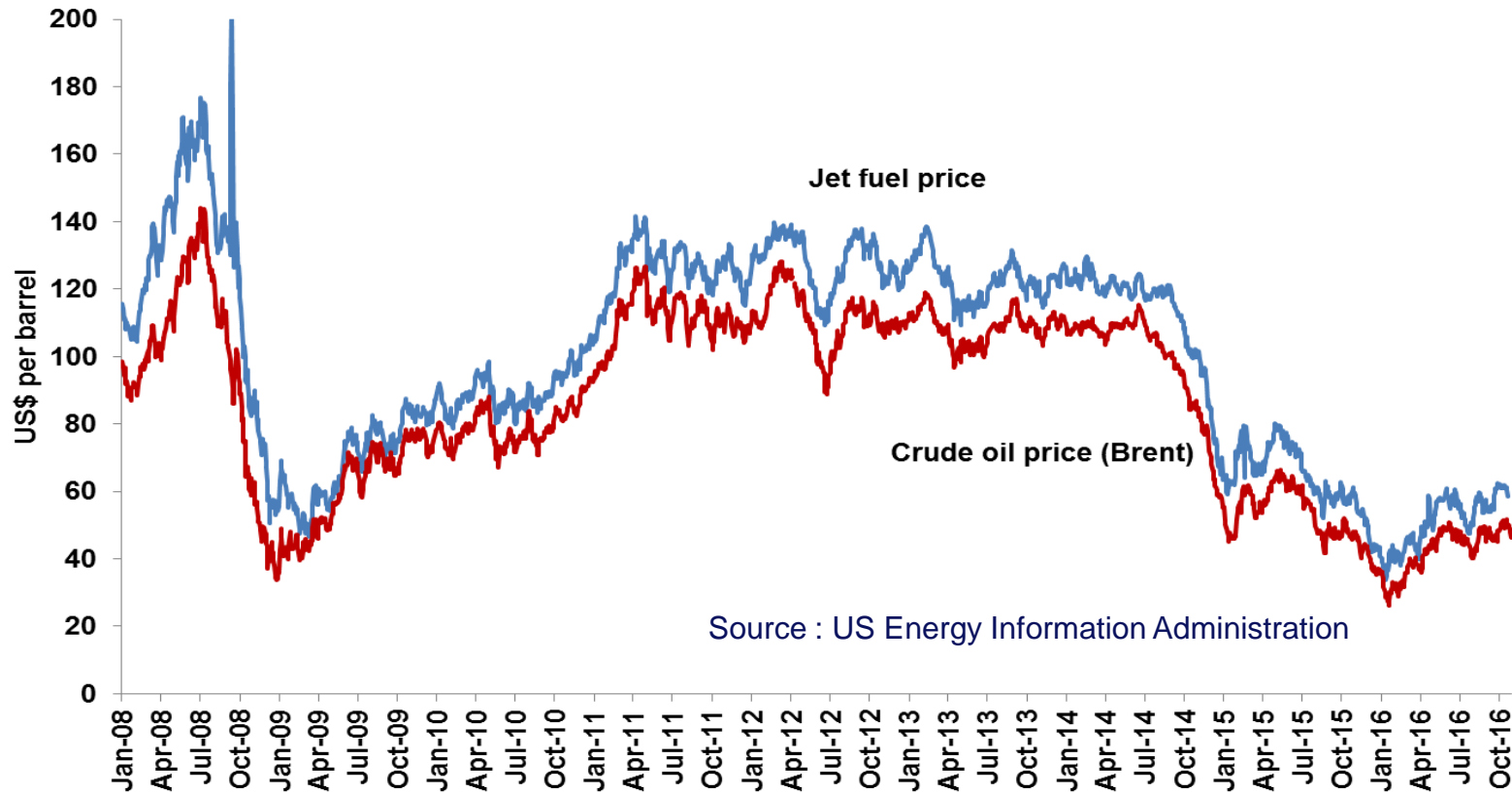
Evolving airline business strategies



- Further convergence of business models
- Group structures: single or multiple brands
- Service differentiation: 1, 2, 3 or 4 classes
- Value added services at a price
- High density seating driving cost efficiency
- Revenue optimisation through network connectivity & cooperative relationships

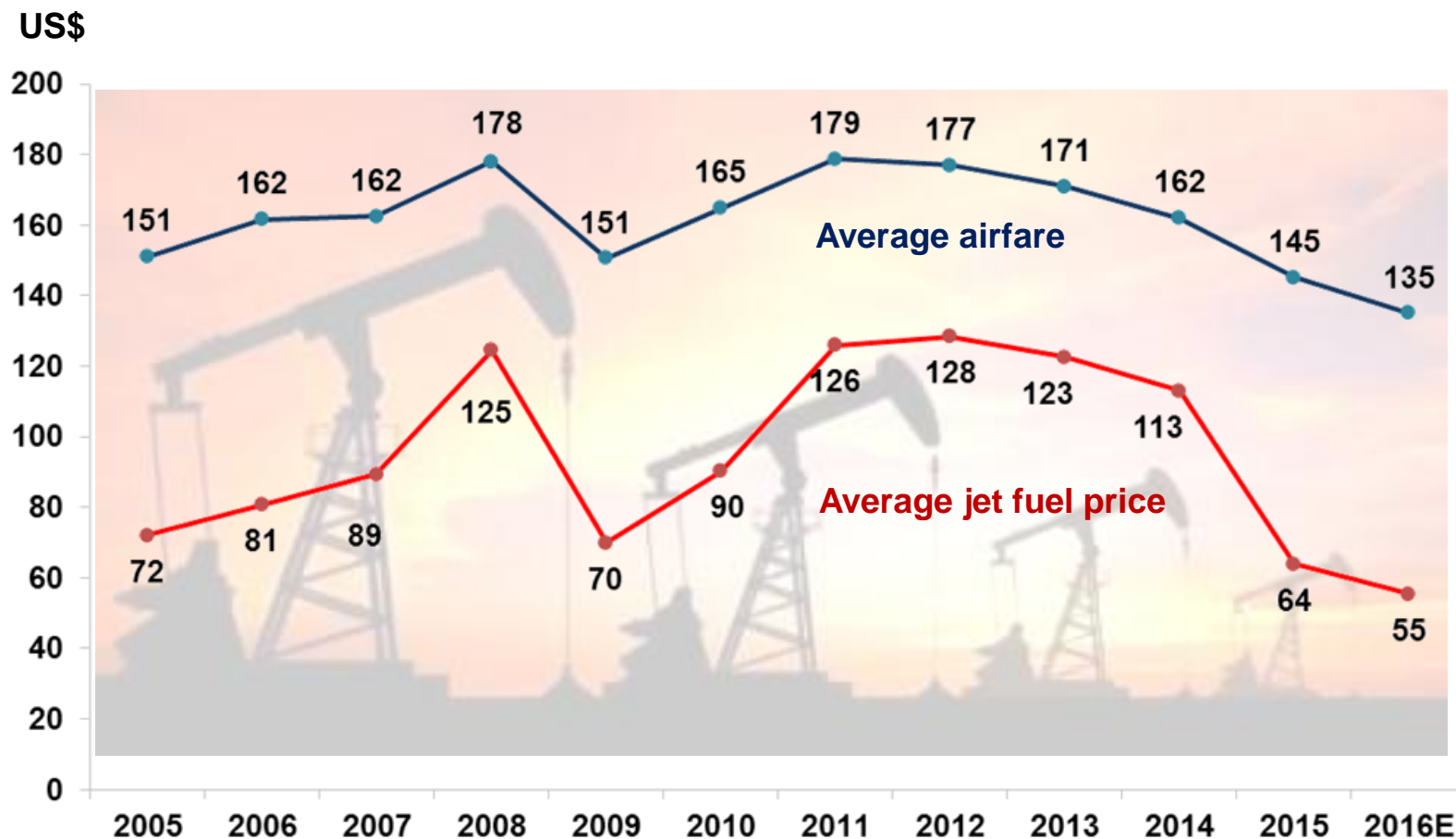
Asia Pacific airlines at the forefront of global industry developments

Oil prices fluctuate but drive efficiency



Fuel costs typically represent between 15% and 35% of total airline costs so always strong incentives to improve fuel efficiency

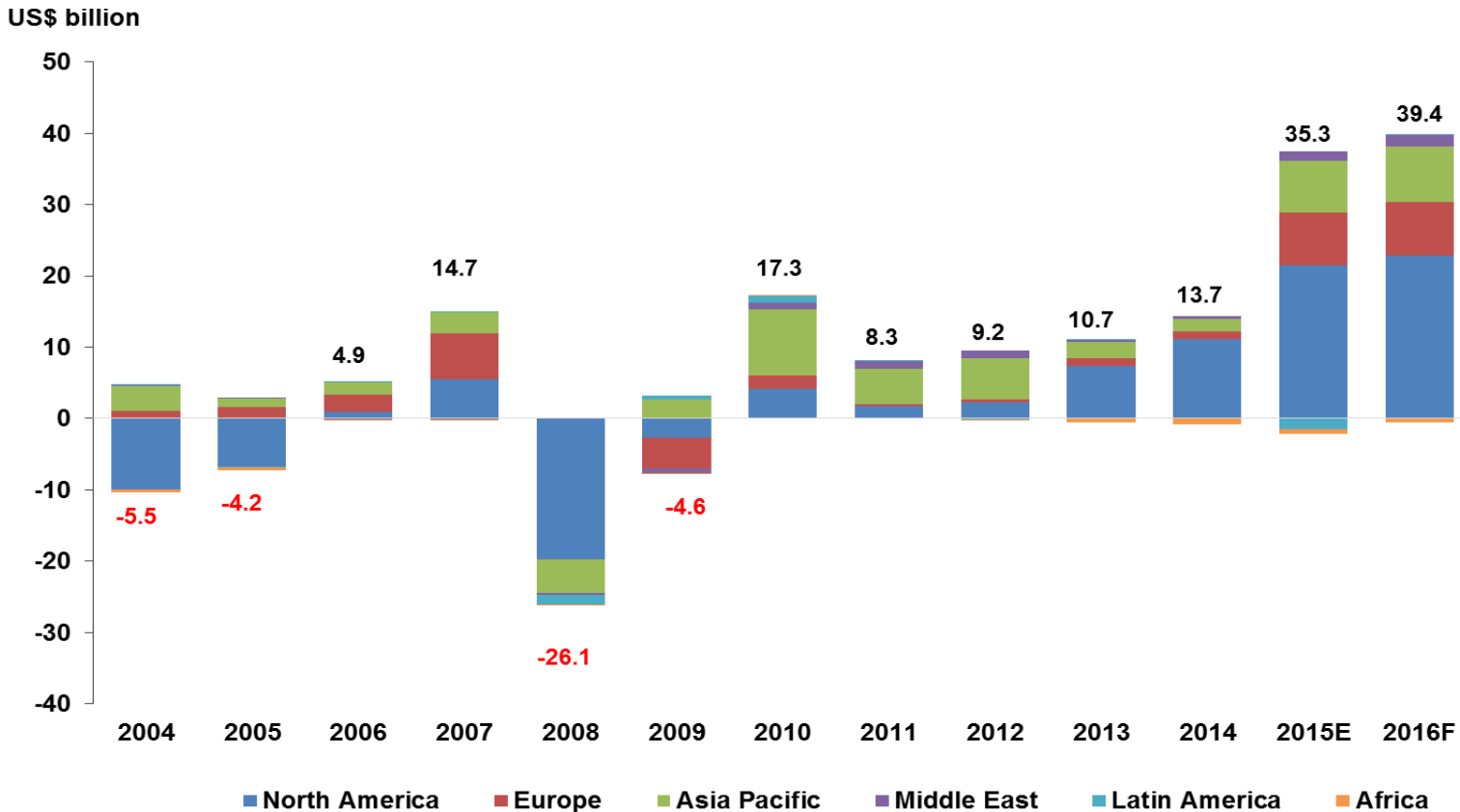
Airfares track changes in oil prices



Widespread availability of affordable airfares gives added boost to travel demand

Source : EIA and IATA

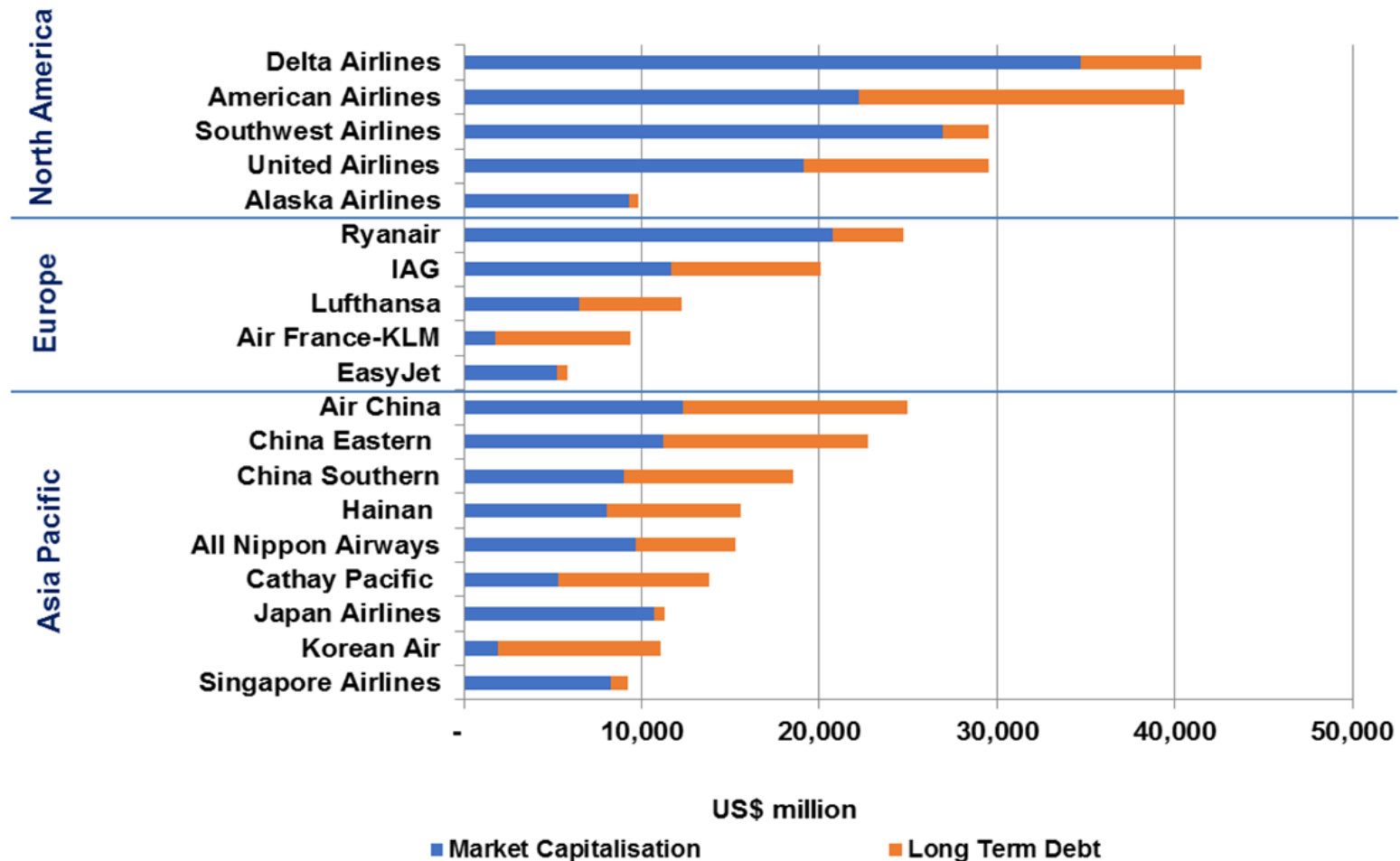
Airline profitability reaches new high



Source : IATA

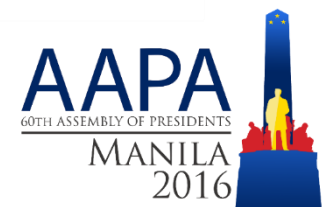
- *Robust passenger demand & lower oil prices*
- *Profit recovery led by North American carriers*
- *Average profit margin still only 5% or \$10 per passenger*

Airline Enterprise Values by Region



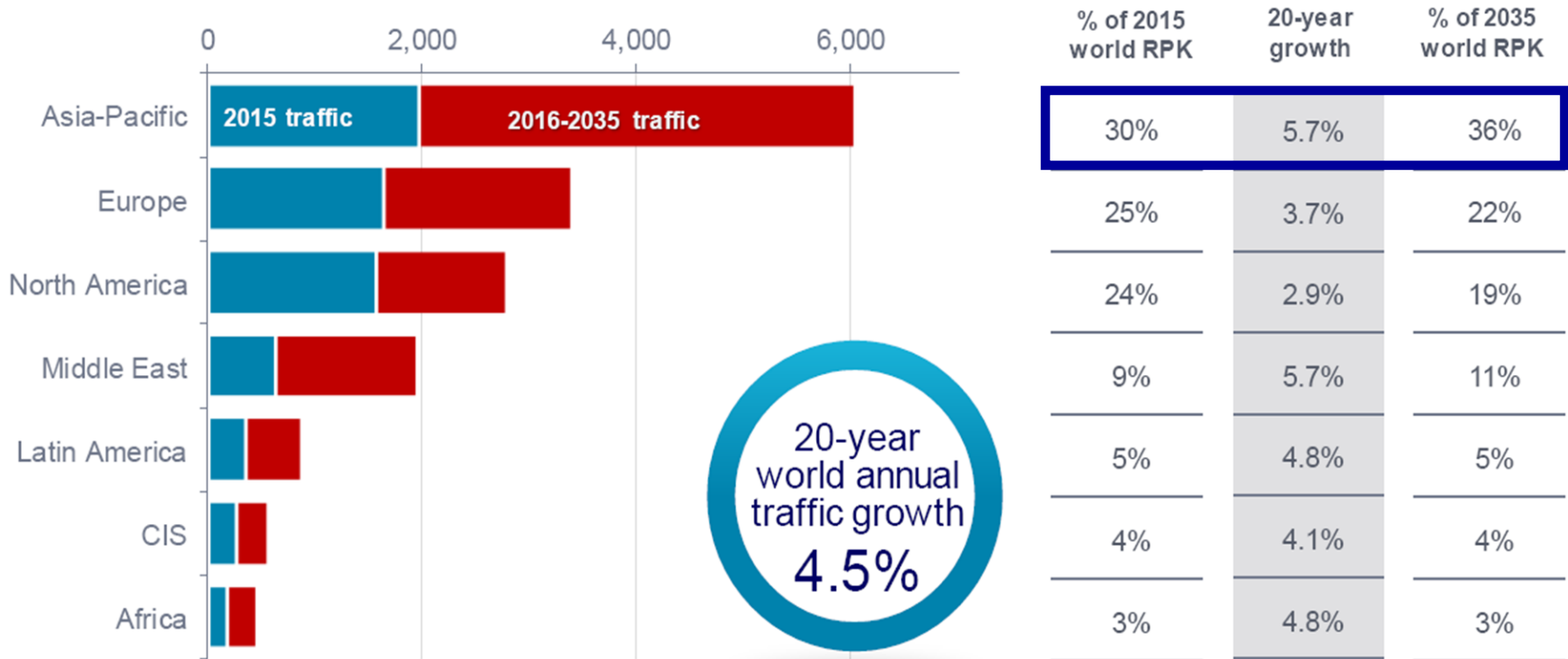
Market capitalisation as of 14 November 2016

Source: AAPA Estimates



Asia Pacific markets to lead future growth

RPK traffic by airline domicile (billions)



Source: Airbus GMF2016

- **Major capital investment required**
- **Asia Pacific represents 40% of future aircraft orders & associated infrastructure requirements**

Source: Airbus GMF 2016-2035



Infrastructure



- **Aviation is a complex global system**
- **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**
- **Managing our environmental impact**
- **Government responsibility to coordinate planning and long term investment required**



***Infrastructure is critically important,
governments & industry must work together***

Aviation & Sustainable Development



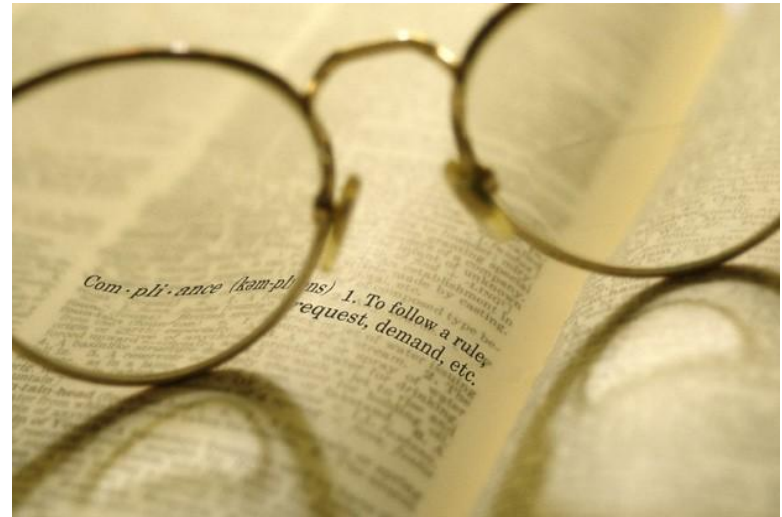
- Aviation committed to sustainable future growth
- Aviation pursuing multi pillar strategy:
 - Fuel efficiency through technology
 - Operational efficiencies
 - Infrastructure improvements
 - Development of alternative fuels
 - Additional emissions reductions using carbon offsets through ICAO CORSIA

Aviation has set ambitious targets and is delivering on its commitments

Other Regulatory Challenges

Aviation is subject to intensive regulation

- ***Safety***
- ***Security***
- ***Air Services***
- ***Taxes & Charges***
- ***Consumer Protection***
- ***Passenger Facilitation***



Global Regulatory Influences



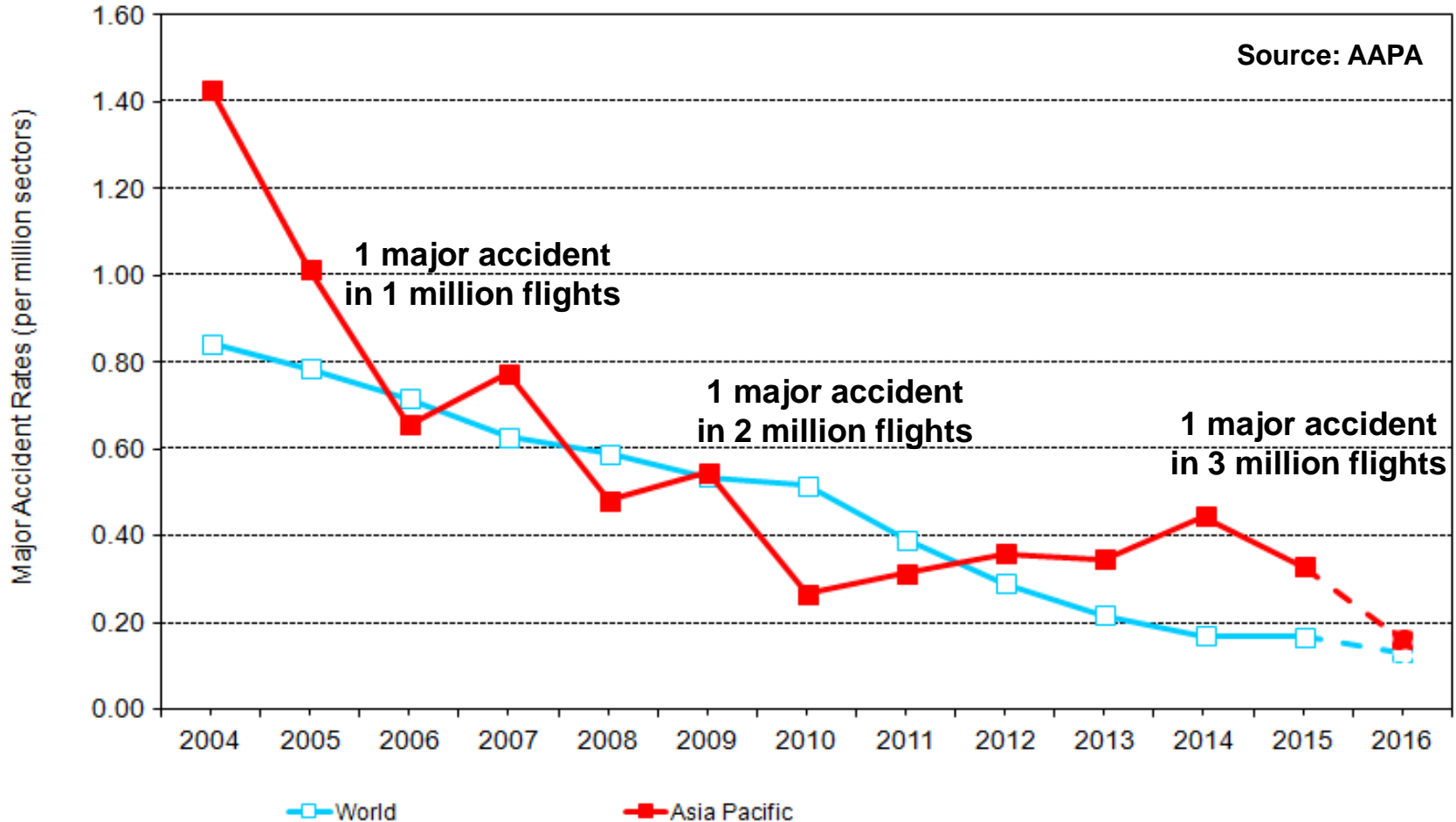
- *Wider impact of US and EU regulations*
- *Asia Pacific needs a unified voice*
- *Need for harmonised global standards*

Aviation Safety Performance Trends



Western-built Jet Aircraft Major Accident Rates

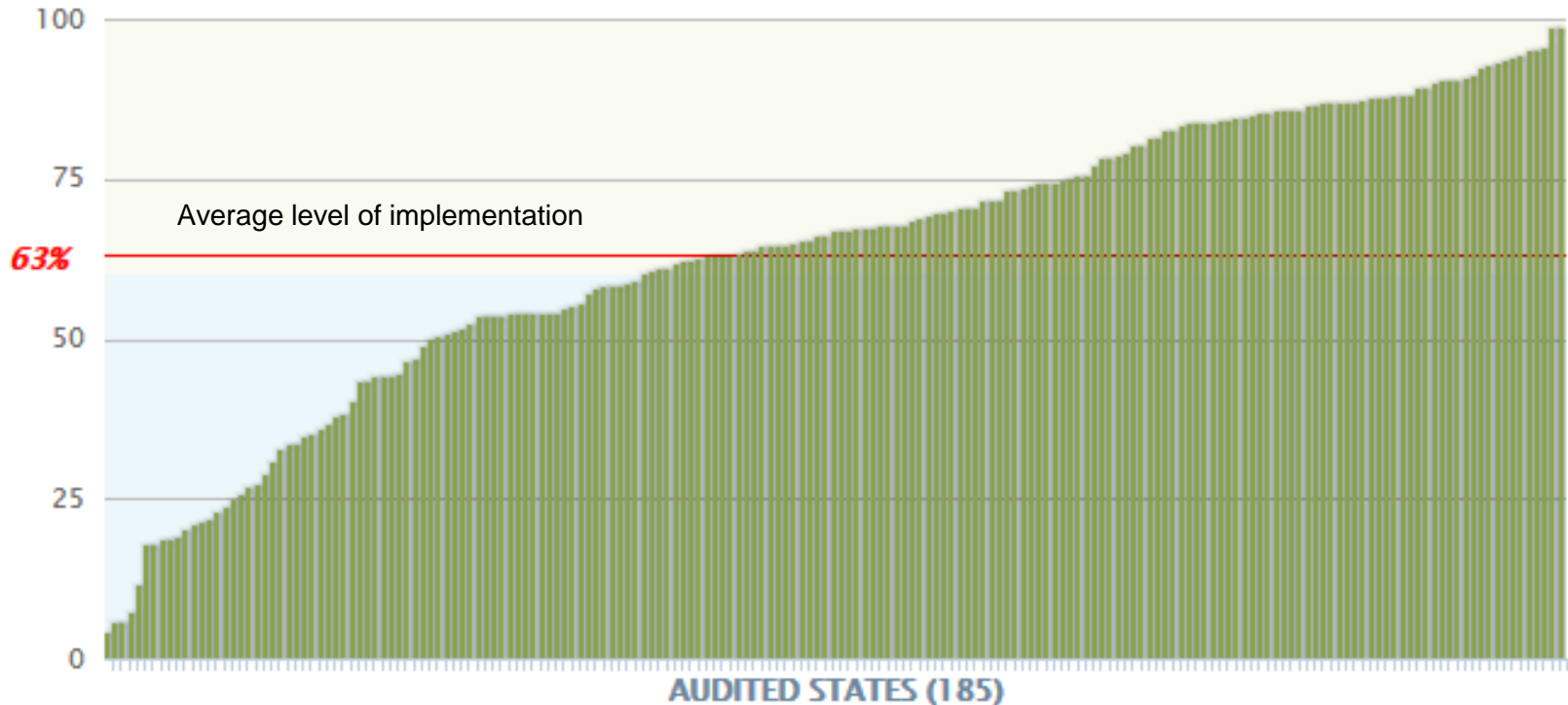
by Operator Region 2004 - 2016
3-year moving averages



* 2016 data as of 31 Oct 2016

Variable quality of regulatory oversight

ICAO Safety Audit Results for World–ICAO Member States
Effective Implementation of safety oversight systems by State



- Lack of quality assurance leads to unnecessary duplication of oversight, multiple audits and sanctions
- ICAO ‘*No Country Left Behind*’ campaign aims to raise levels of effective implementation

Aviation Security



- Aviation remains highly secure despite perceived threats
- Aviation is a global system requiring close international cooperation and coordination
- Security policy responses need to be risk-based, and focused on desired outcomes
- Recognise the benefits of mutual recognition of respective aviation security regimes

Learn the lessons from aviation safety: building trust, information sharing & collaboration

Air Services Development



- **Asia Pacific region the seat of experimentation & innovation in airline business models**
- **Evolving regulatory frameworks**
- **ASEAN Open Skies and ASEAN + X**
- **Progressive liberalisation, but protectionist sentiments sometimes evident**
- **Ongoing debate on interpretation of ownership & control restrictions, subsidies, fair competition**

***Evolution of global regulatory framework
must keep pace with changing markets***

Taxes & Charges

- **Aviation is a positive catalyst for economic growth & social development**
- **Taxes and charges make air travel less affordable**
- **Taxes hurt the wider economy and inhibit job creation**
- **User charges must be transparent, cost-based, non-discriminatory**
- **Economic regulation of monopoly service providers**

Consumer Protection

- **ICAO core principles on consumer protection**
- **Over 70 jurisdictions have aviation-specific consumer protection regimes**
- **Overlapping national regimes often create inconsistencies and confusion for travellers**
- **Regulators underestimate the power of the market to adapt to changing consumer preferences**

Lighter regulation preserves incentive for innovation in customer service standards

Passenger Facilitation



- **Challenges of handling 10 million daily passengers**
- **Lengthy queues still common at immigration & security checkpoints**
- **Deterioration in passenger travel experience**
- **Opportunities to streamline integration of airline, security & border control processes using available technologies**

Balancing efficient passenger facilitation and security screening needs

Closing Thoughts

- **Flying is extraordinarily safe and secure**
- **Aviation drives economic and social development**
- **Infrastructure planning is a shared challenge**
- **Airline business strategies are responding to changes in market demand and consumer preferences**
- **Regulatory oversight should focus on close adherence to global standards**
- **Asia Pacific airlines shaping the development of global aviation**

Aviation : connecting the world





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