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# **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



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# 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**

# 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:***

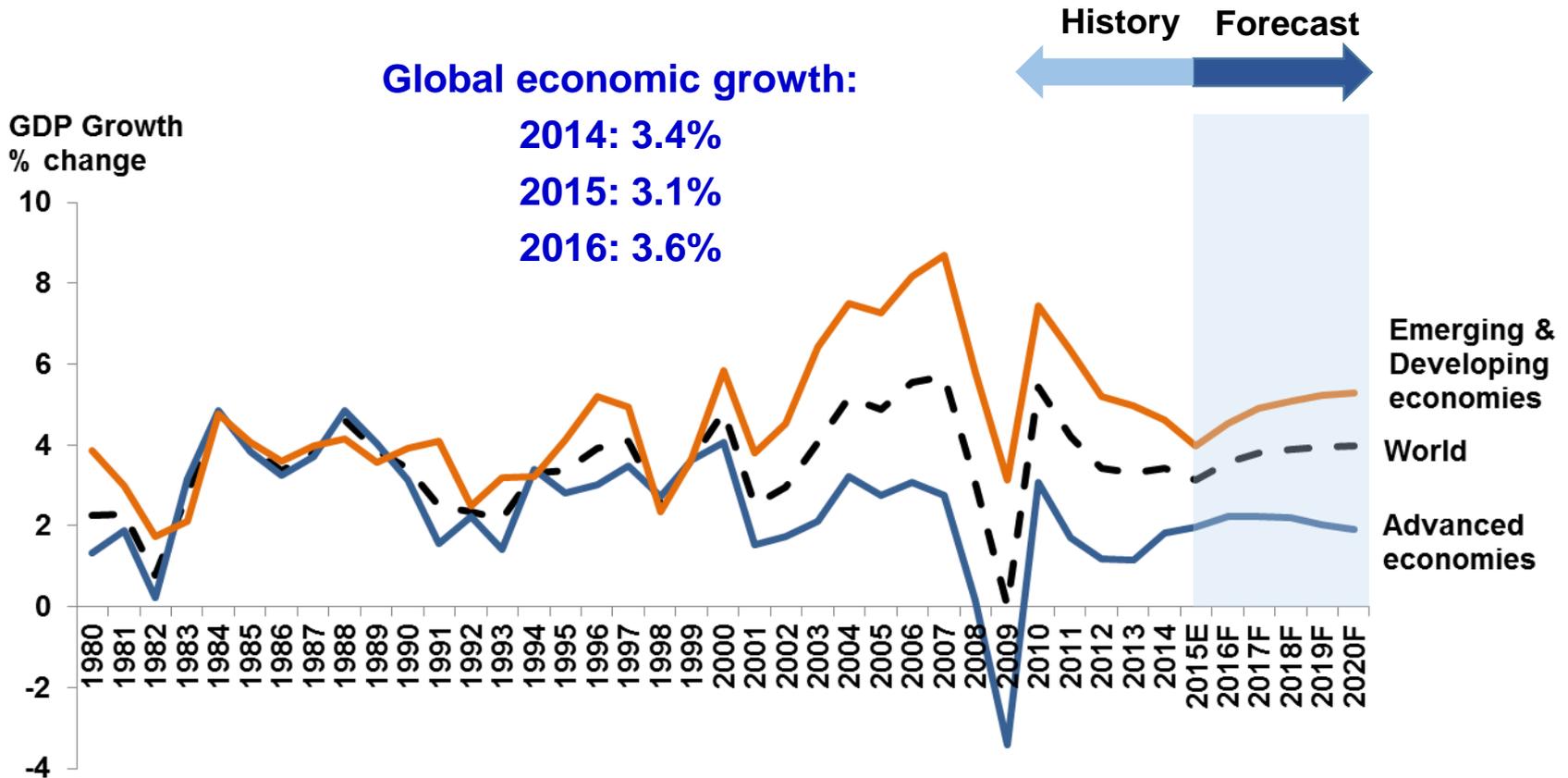
***31% of global passenger traffic***

***38% of global cargo traffic***



# Still a two-speed global economy

## Comparison of year-on-year GDP growth



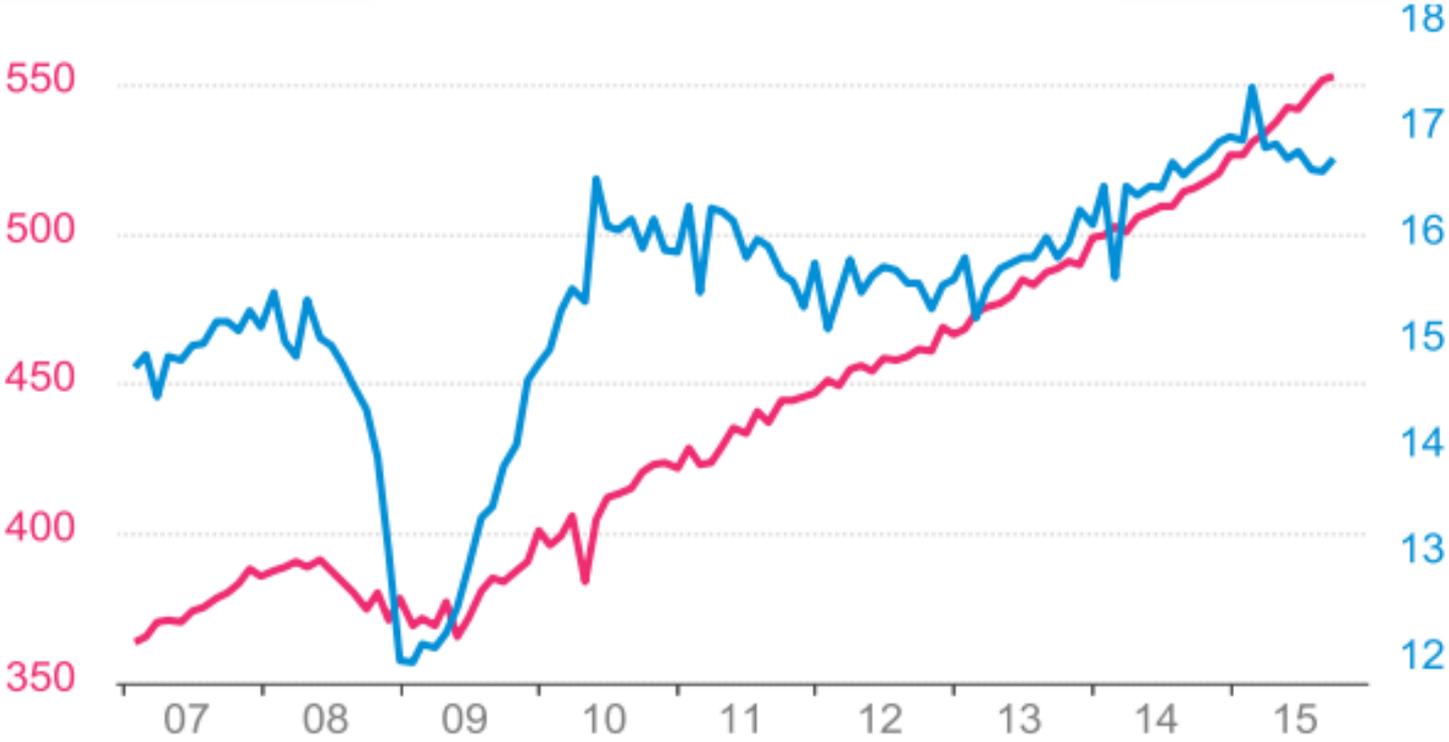
Source: IMF, World Economic Outlook, Oct 2015

# Global passenger and cargo traffic



Monthly RPKs, billion

Monthly FTKs, billion

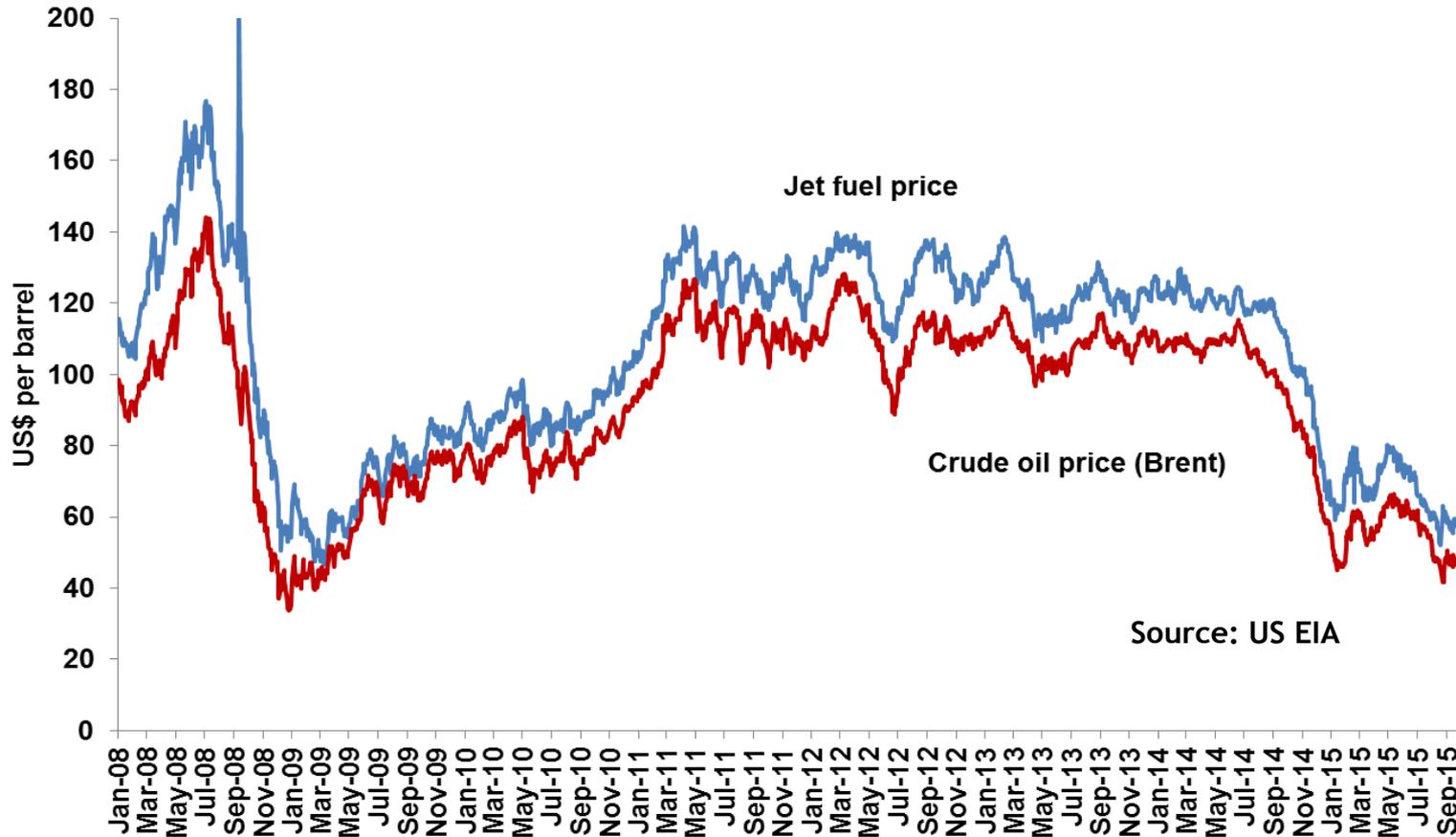


— Revenue Passenger Kilometers (RPKs), Seasonally Adjusted      Source: IATA  
 — Freight Tonne Kilometers (FTKs), Seasonally Adjusted

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



# Impact of lower oil prices

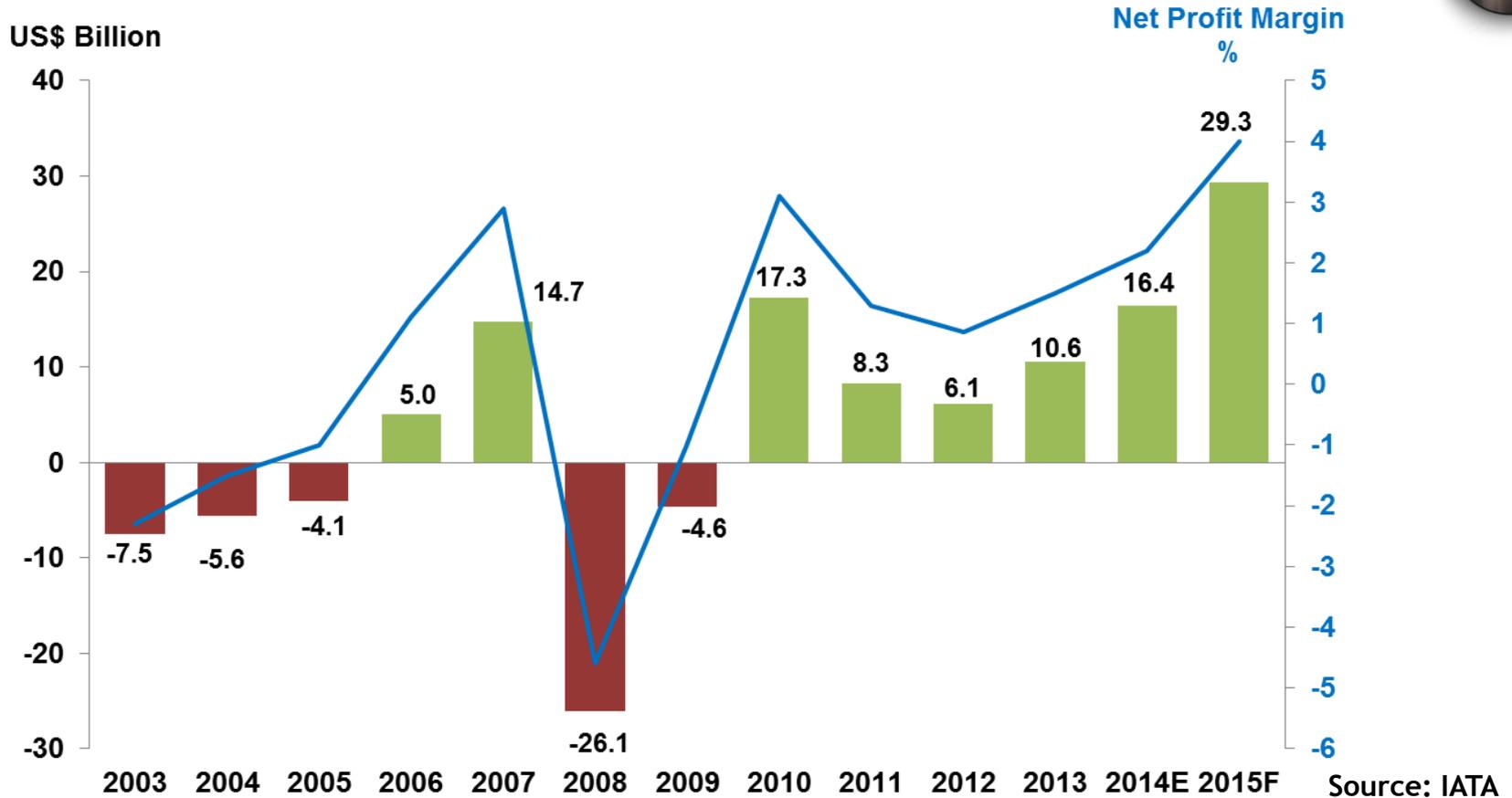


***Jet fuel prices averaging \$67 per barrel compared to \$113 last year ... reflecting plentiful supply***



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# Global airline industry profitability

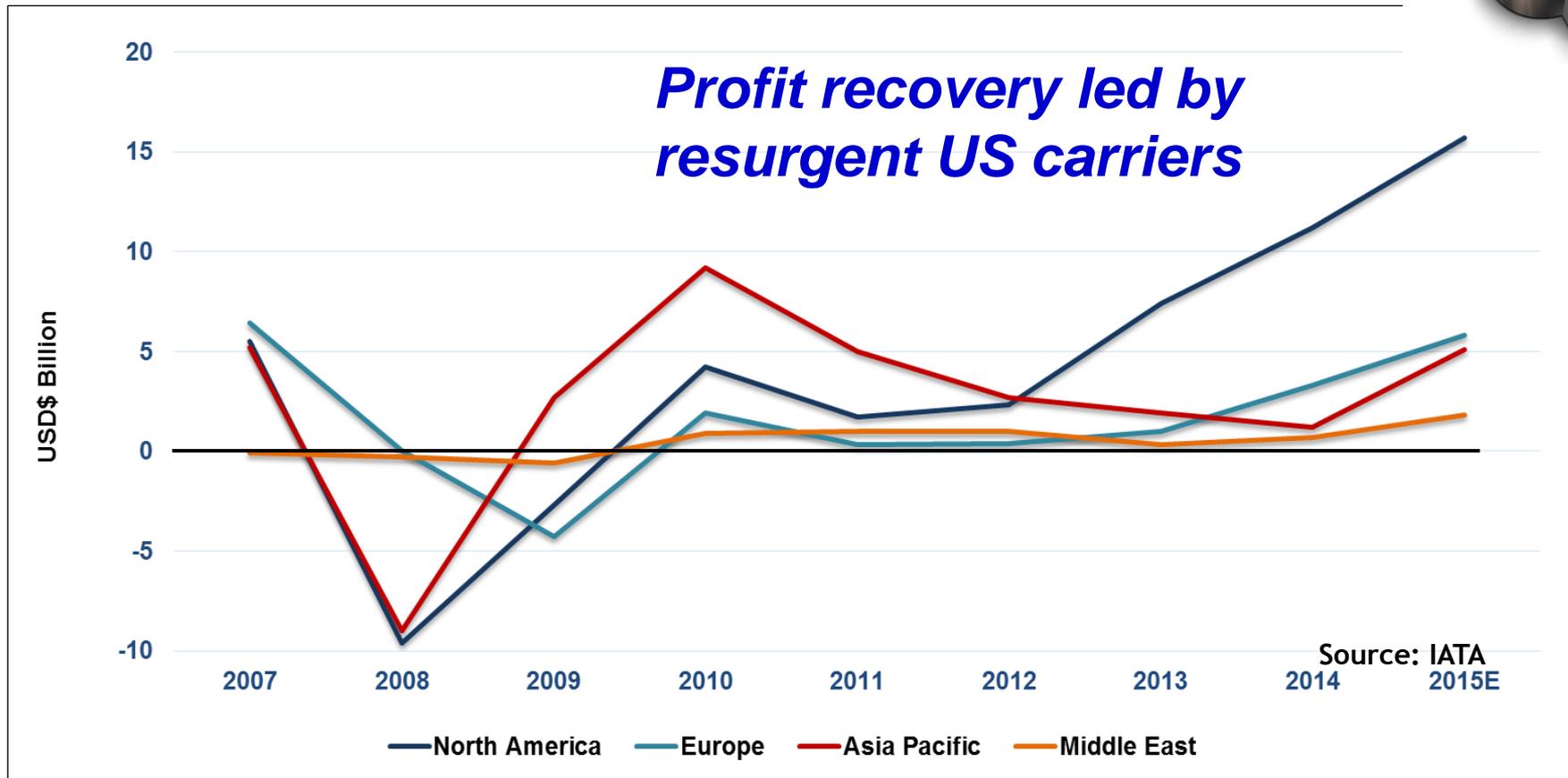


***Stronger financial performance driven by robust passenger demand and significant drop in fuel prices***



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# Airline profitability trends by region

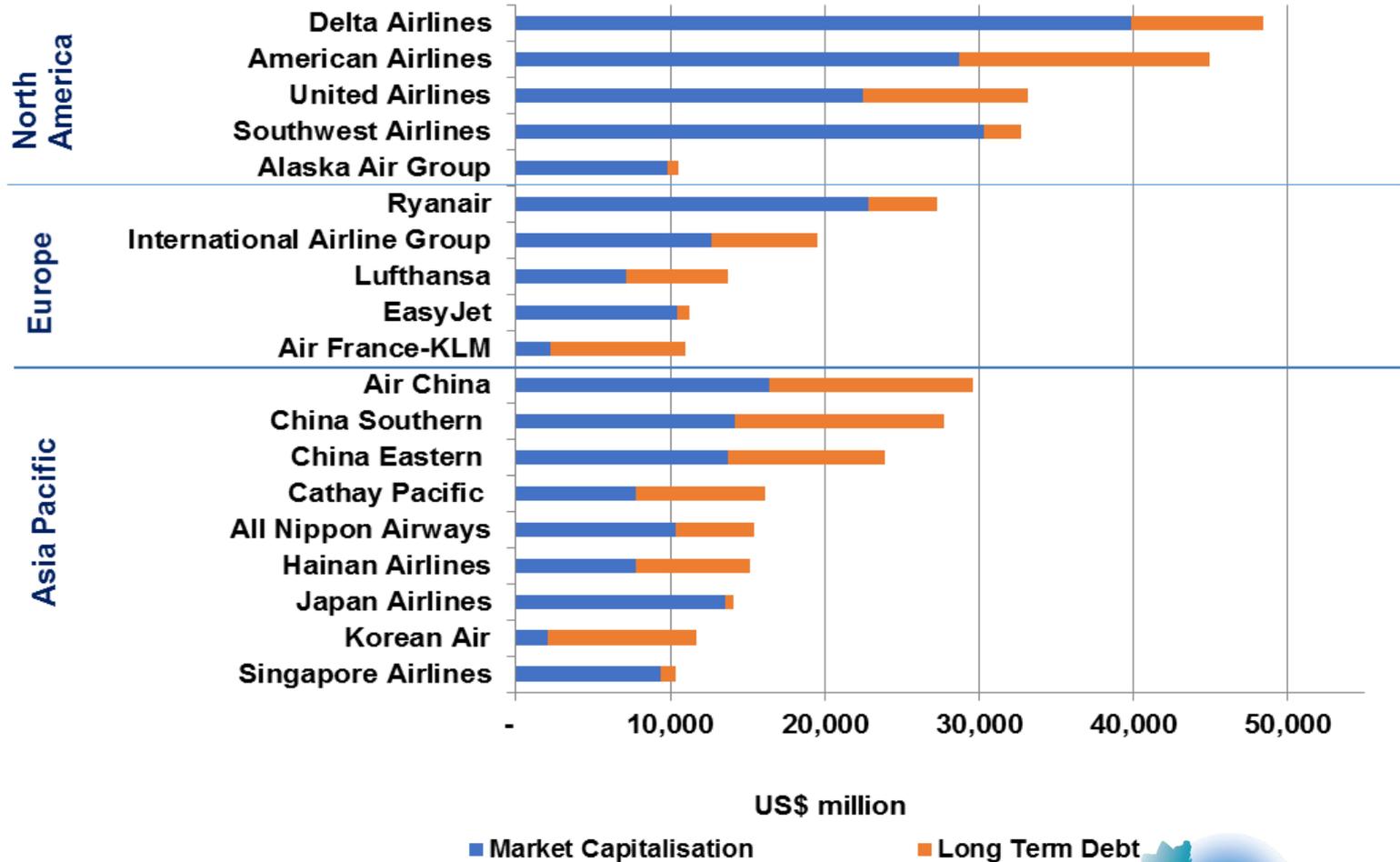


*Regional variations reflect varying competitive dynamics, currency volatility and fuel hedging policies*



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# Airline enterprise values by region



Market capitalisation as of 5 November 2015

Source: AAPA Estimates



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# Competition in Asia



## The world's busiest international/regional air routes

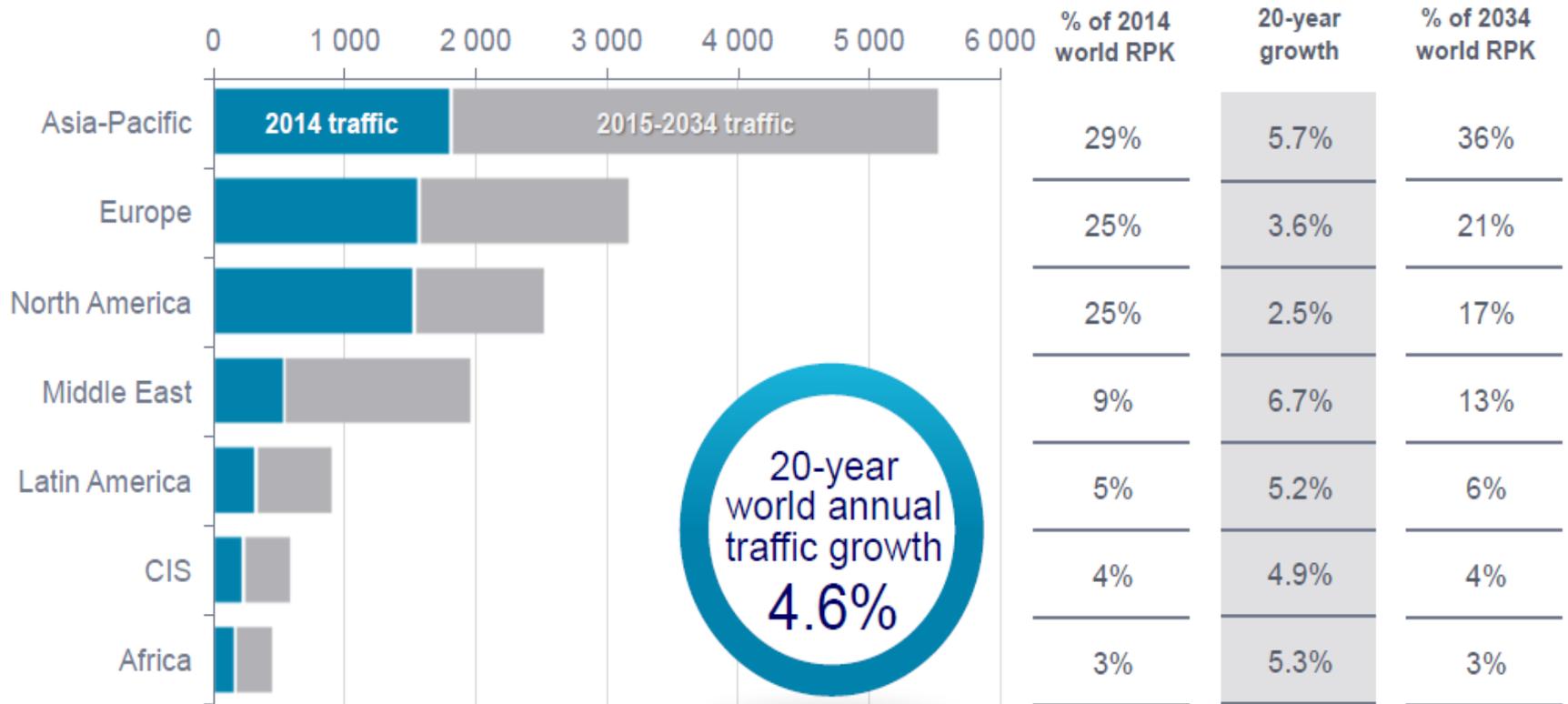
Rank	Route	PAX
1	Hong Kong – Taipei	5,069,213
2	Jakarta – Singapore	3,484,934
3	Hong Kong – Singapore	2,824,402
4	Hong Kong – Shanghai	2,667,905
5	Hong Kong – Seoul	2,494,169
6	Kuala Lumpur – Singapore	2,446,174
7	Bangkok – Hong Kong	2,350,092
8	Bangkok – Singapore	2,282,080
9	Hong Kong – Beijing	2,008,124
10	Tokyo-Narita – Taipei	1,998,997

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



# Asia Pacific to lead world traffic growth

RPK traffic by airline domicile (billions)



Source: Airbus GMF 2015

Source: Airbus GMF 2015-2034



# Airline Business Strategies

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- **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**



# 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 committed and ready to play its part**

***Infrastructure is a shared responsibility  
& critically important***



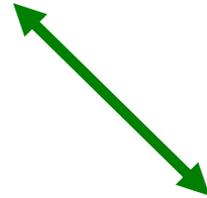
# Global Regulatory Challenges

Aviation is subject to intensive regulation

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



# Global Regulatory Influences



**Asia  
Pacific**

- 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**



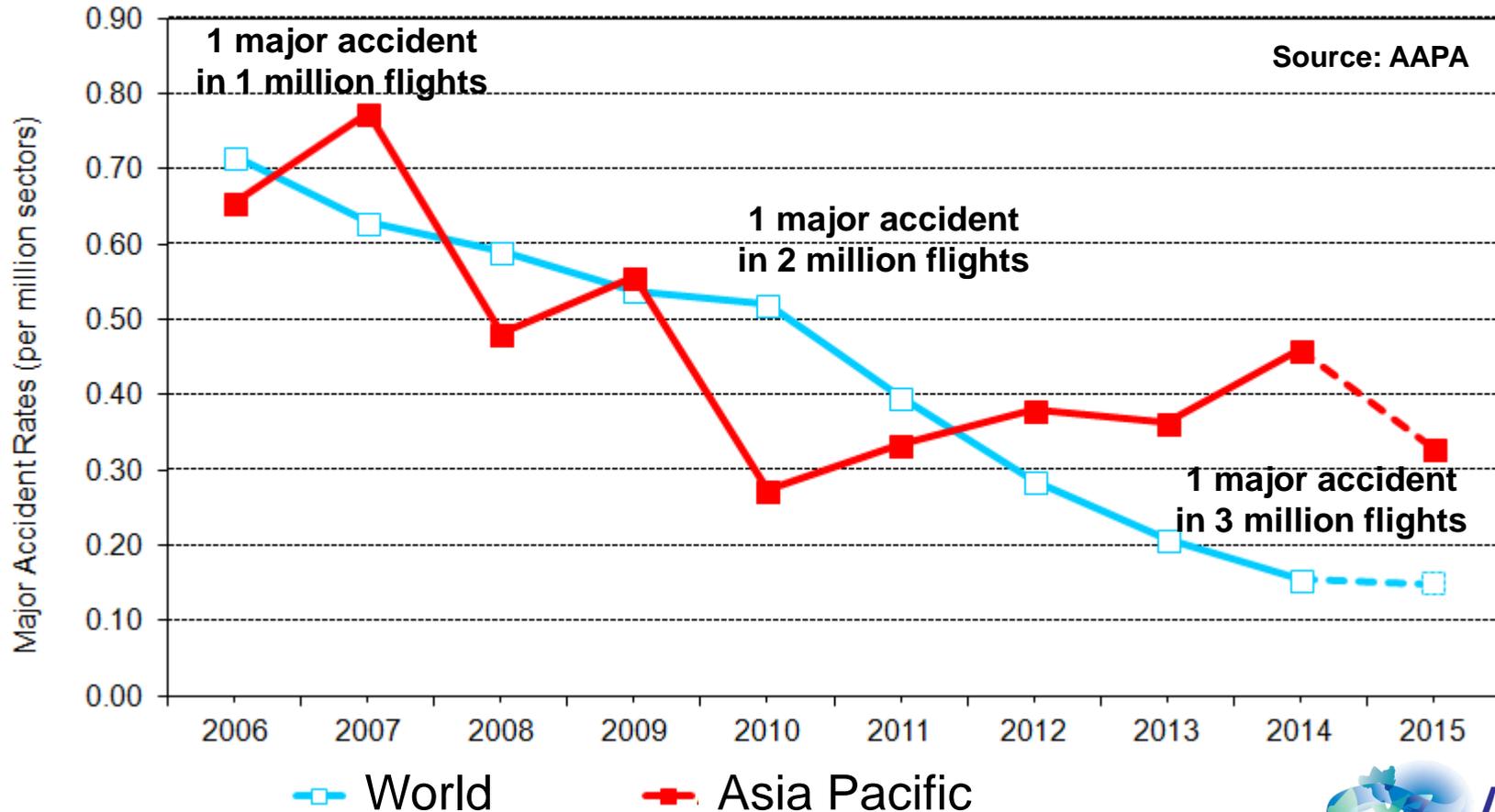
# Safety Performance Trends



## Passenger confidence in air transport remains high

### Western-built Jet Aircraft Major Accident Rates

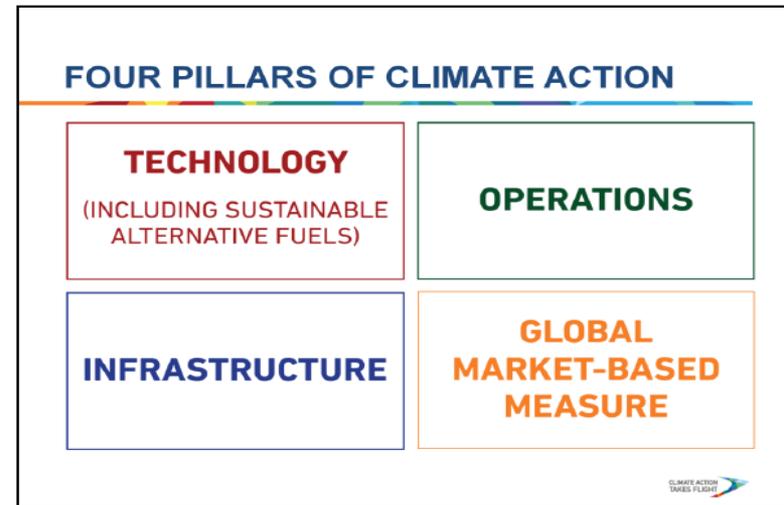
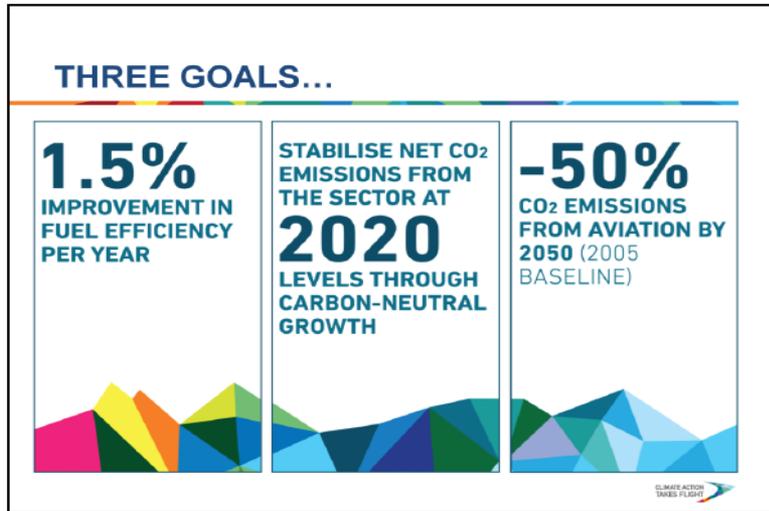
by Operator Region 2006 - 2015  
3-year moving averages



\* 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?***

# Taxes & Charges

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- 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***

# Consumer Protection

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- Airlines have established procedures for handling flight disruptions and customer care
- ICAO core principles
- Over 60 jurisdictions have aviation-specific consumer protection regimes
- Such regimes often overlapping and extra-territorial in nature
- Confusion for travellers
- Better coordination needed amongst different stakeholders

***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

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- **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**

***Asia Pacific airlines - Innovative,  
Dynamic and with a great future***



# Responding to opportunities, investing for the future



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The screenshot shows the homepage of the Association of Asia Pacific Airlines (AAPA). At the top, there is a navigation bar with the AAPA logo, a member login field, and a search bar. Below the navigation bar is a large banner image of an airplane in flight with the text "Asia Pacific Aviation reaching out...". The main content area is divided into three columns: HIGHLIGHTS, ISSUES, and EVENTS. The HIGHLIGHTS section includes press releases and publications. The ISSUES section features articles on EU Emissions Trading Scheme, Environment, and US DOT NPRM on enhancing airline passenger protections. The EVENTS section lists upcoming symposiums and assemblies. At the bottom, there is a footer with copyright information and a list of member airlines.



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