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ASSOCIATION OF ASIA PACIFIC AIRLINES

Asia Pacific Aviation *Growth Dynamics & Competitive Challenges*

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Association of Asia Pacific Airlines

Yangon, Myanmar 24-26 March 2014

Myanmar Civil Aviation Development Conference 2014

Myanmar 

Myanmar Civil Aviation Development Conference 2014

GREATER HEIGHTS

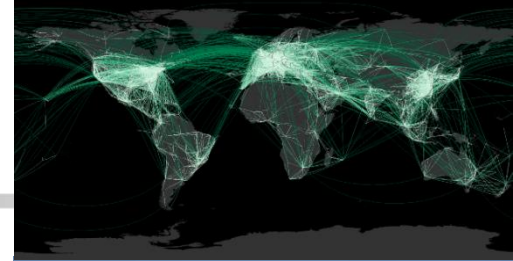
**24 - 26 March 2014
Traders Hotel Yangon,
Myanmar**

Overview

- **Asia Pacific aviation**
- **Current business conditions**
- **Evolving airline strategies**
- **Future growth drivers**
- **Infrastructure needs**

Aviation: moving the world

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

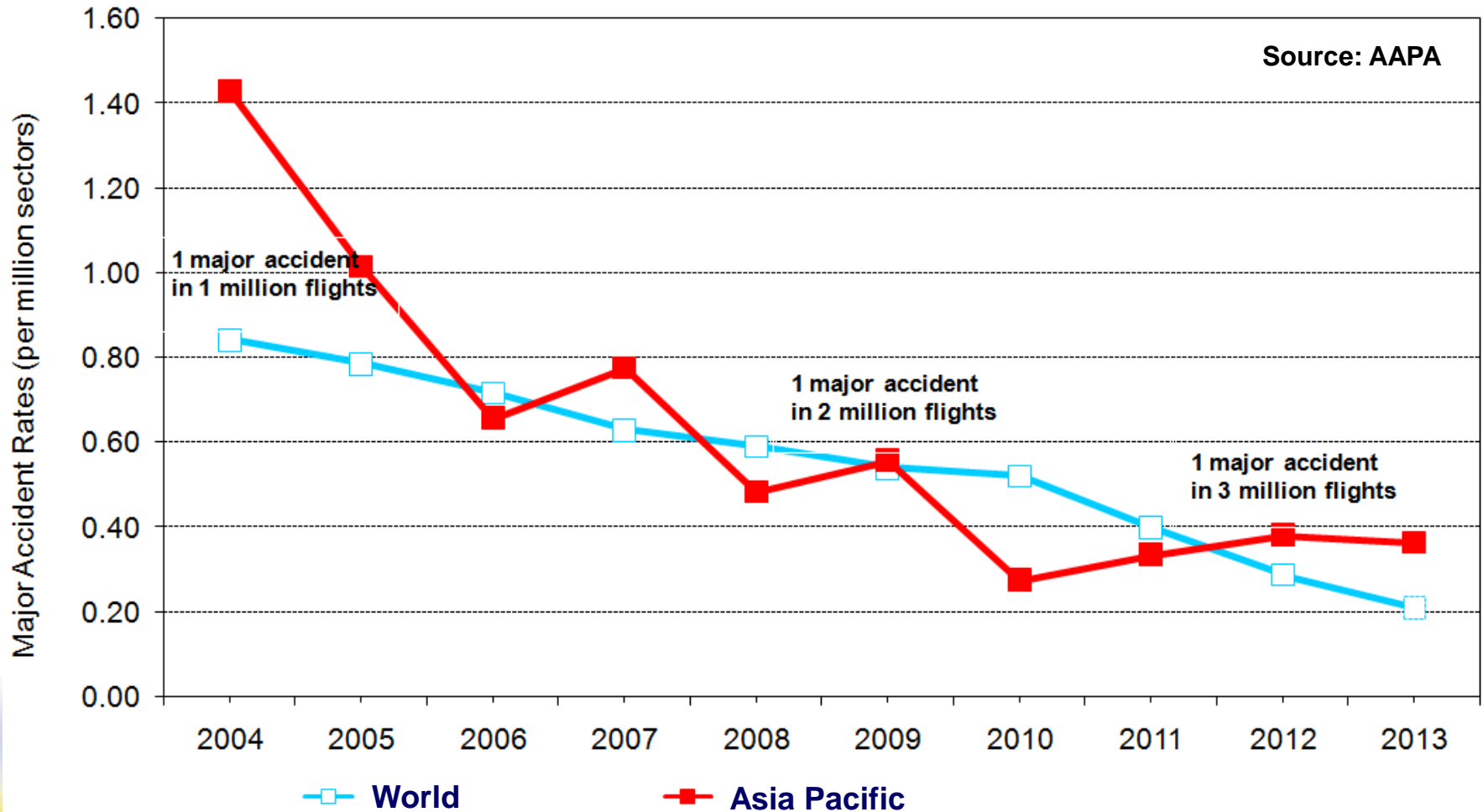


Source: ATAG

Safety Performance Trends



Western-built Jet Aircraft Major Accident Rates
by Operator Region 2004 - 2013
3-year moving averages



Asia Pacific



- **Diverse geographic region**
- **Home to more than 4 billion people**
 - 60% of the world's population
- **Dynamic economies generate 37% 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**

Asia Pacific Aviation



US\$171 billion revenue
US\$3 billion net profit
1,053 million passengers
756 million domestic
297 million international
17 million tonnes of cargo
5,688 aircraft

Asia Pacific carriers overall market share:

31% of global passenger traffic

39% of global cargo traffic

Data: Financials, Traffic & Fleet: 2013 Estimates

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



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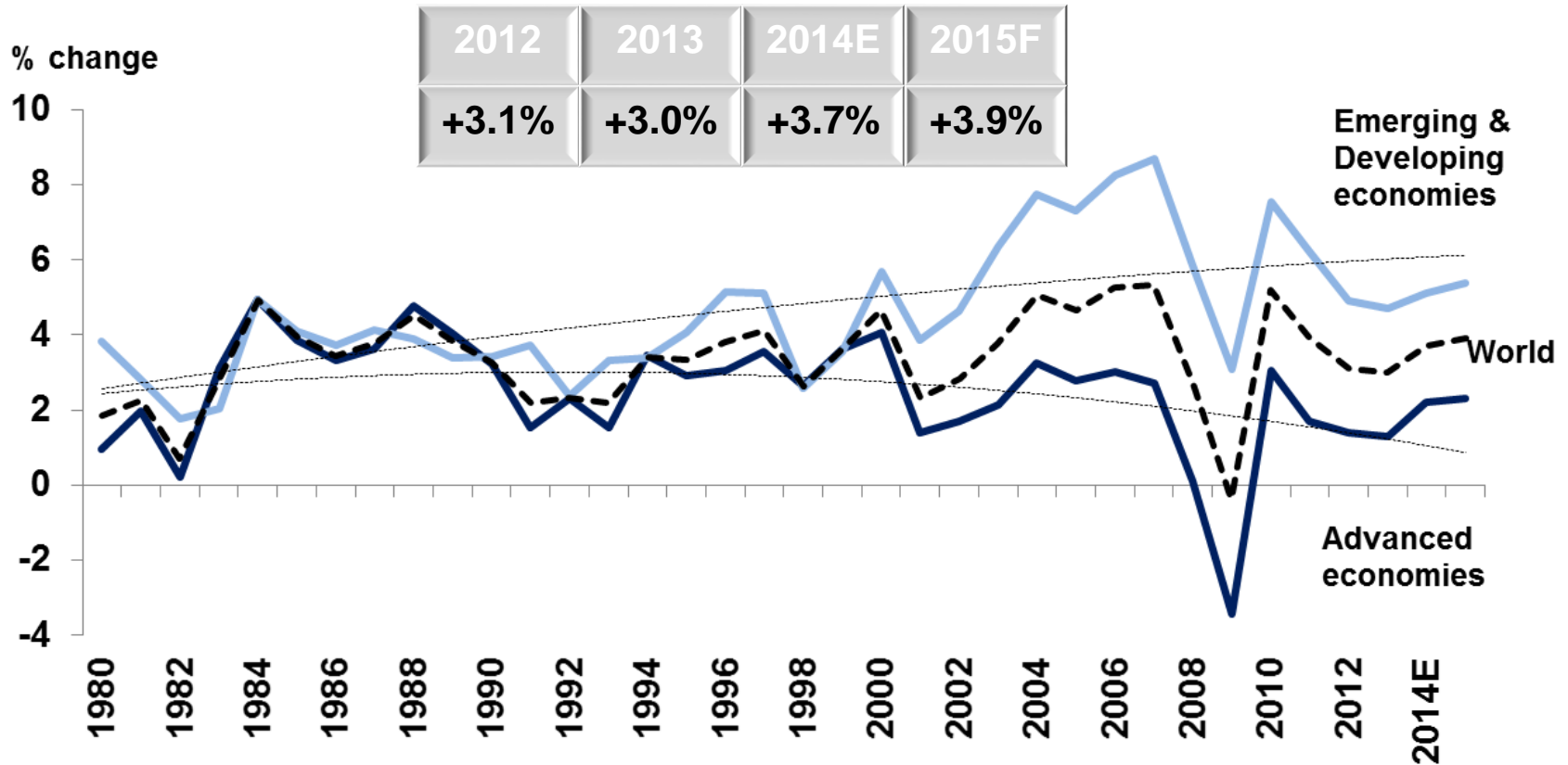
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Current Business Conditions

The two speed global economy



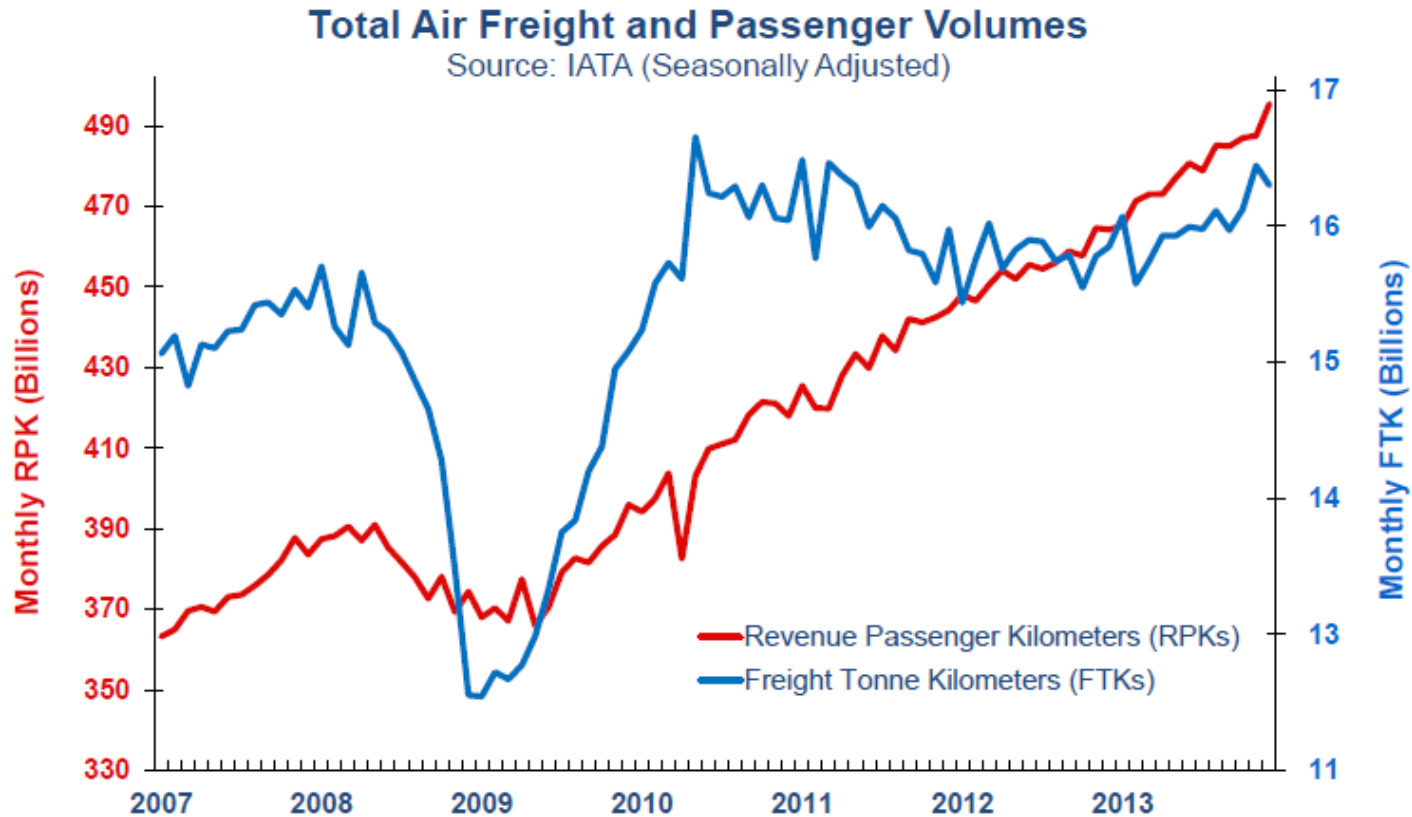
World GDP



Global economic growth of 3% in 2013, with hopes for a modest pick up in 2014

Source: IMF

Global passenger and cargo traffic



- ***Robust growth in passenger travel***
- ***Air cargo market stagnant***

Source: IATA

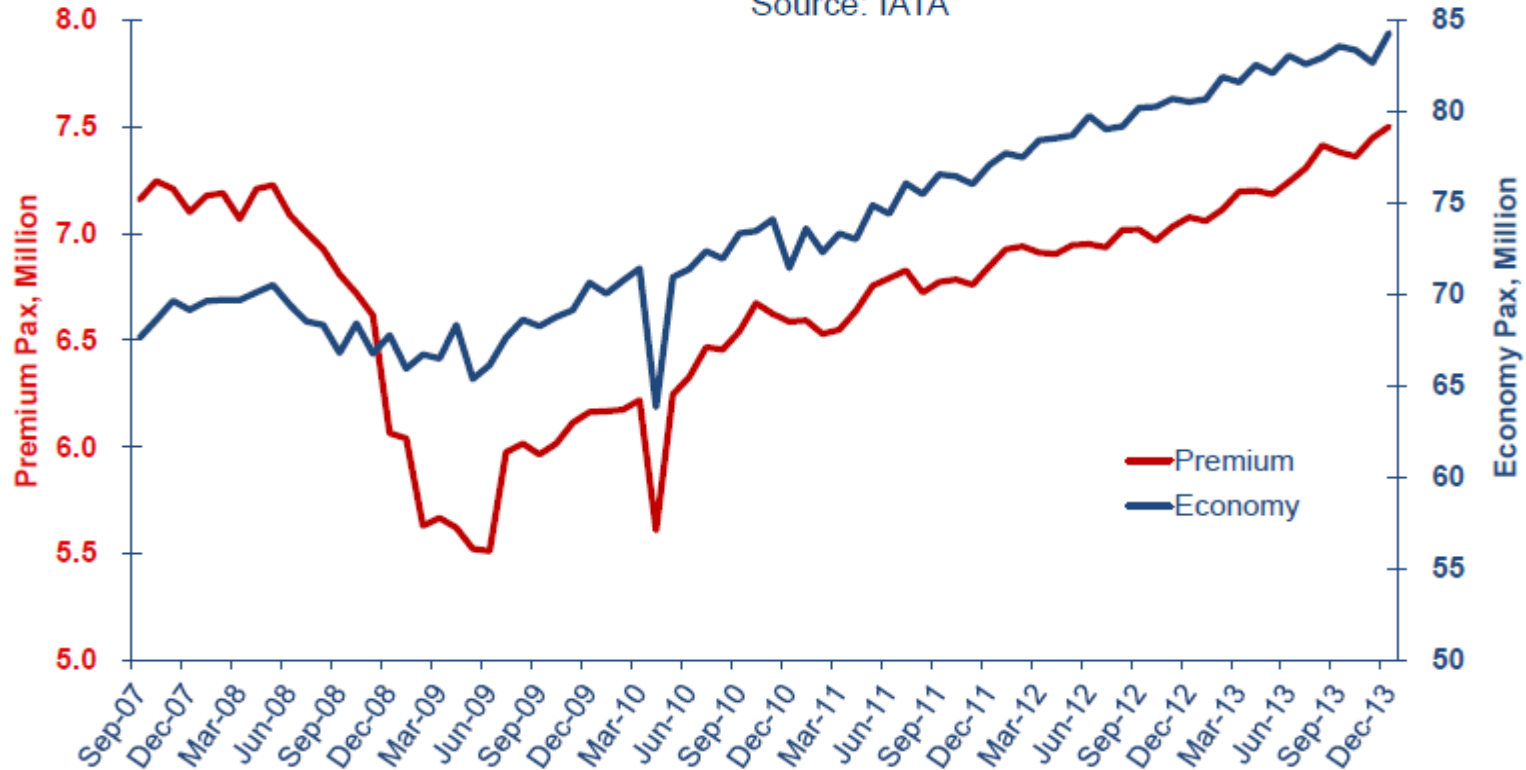
Premium and economy traffic growth



International air passengers by seat class

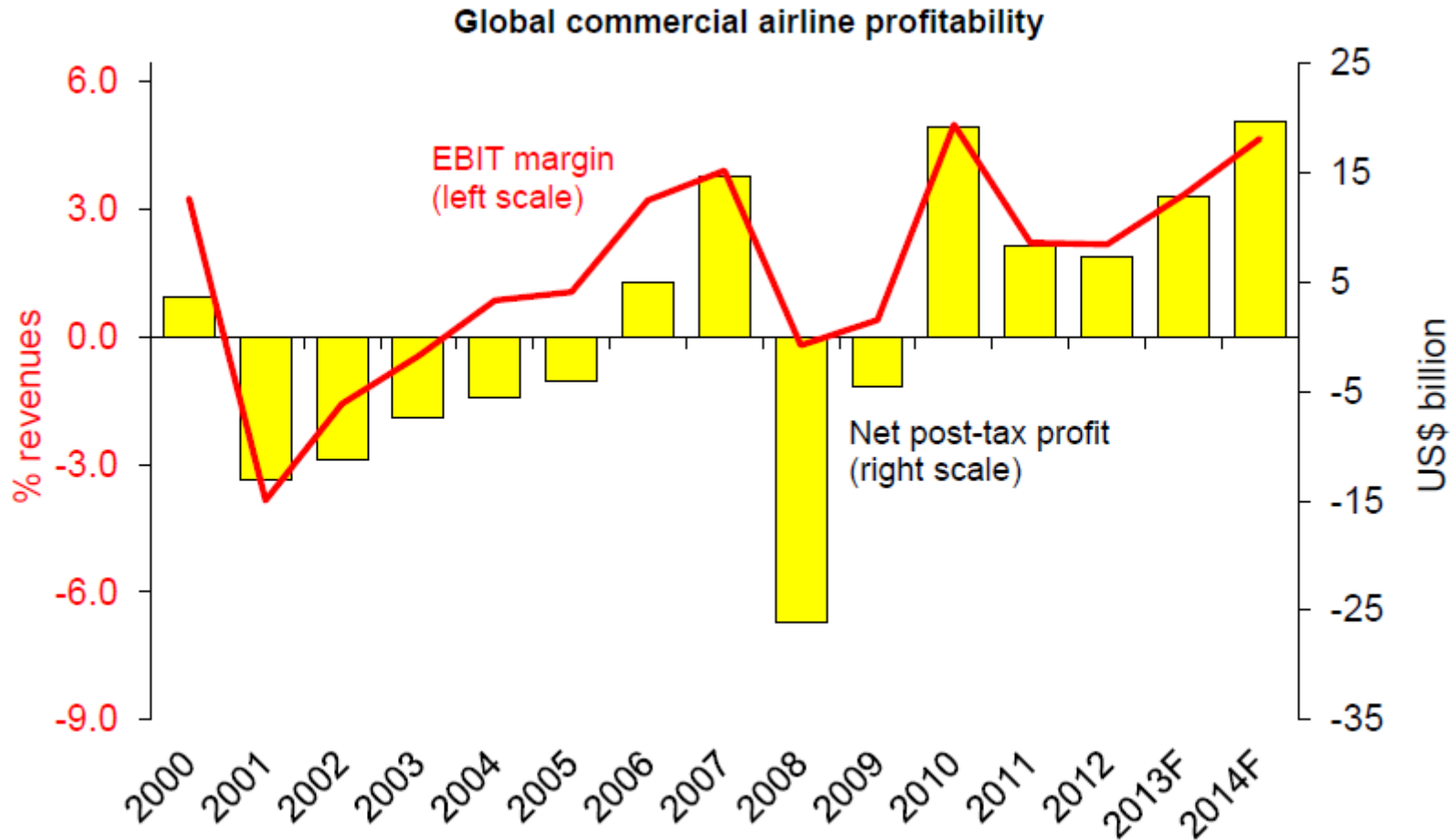
Seasonally Adjusted

Source: IATA



Slower recovery in premium traffic but common growth trend

Global airline industry profitability



Source: ICAO, IATA

Profitability improving but margins remain very thin ... around \$4 per passenger !

Airline profitability trends by region



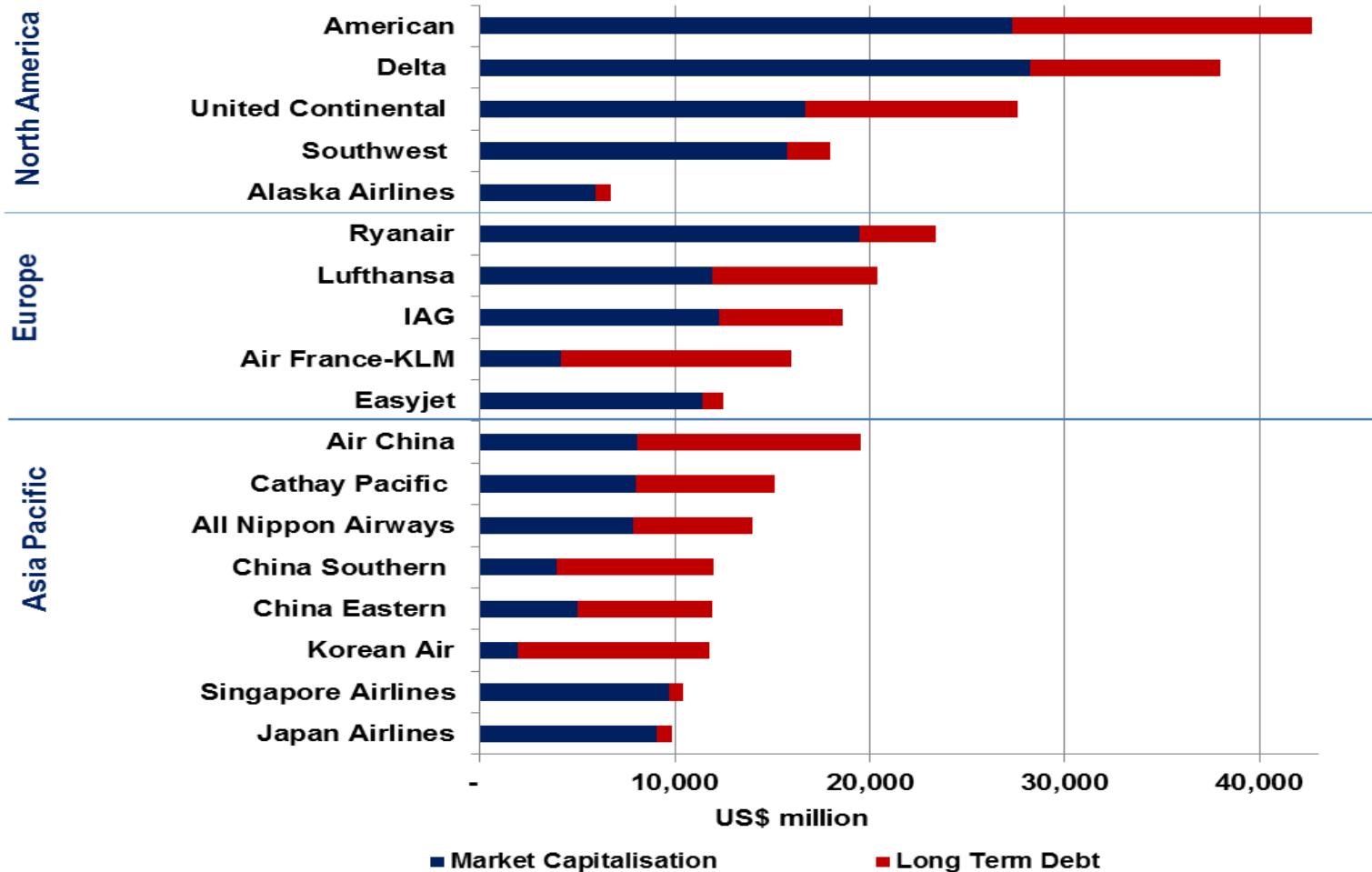
Airline net post-tax profit margins



Source: ICAO, IATA

Resurgence of restructured US carriers

Selected enterprise values by region



Market capitalisation as of 3 March 2014

Source: AAPA Estimates



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Evolving Airline Strategies

Evolving Airline Strategies

- Full Service Network Carriers
 - Ongoing investment in cabin products & premium services
 - Streamlining short haul operations
 - Establishing LCC subsidiaries and associates
- Point-to-Point LCCs
 - Primarily focused on short-haul routes
 - Venturing into international and long-haul markets
 - Experimenting with codeshares, connections and value added services
- Further signs of convergence
 - Long-haul invariably uses wide body aircraft, involves cargo operations
- Industry consolidation, alliances and new ventures

Competition in Asia

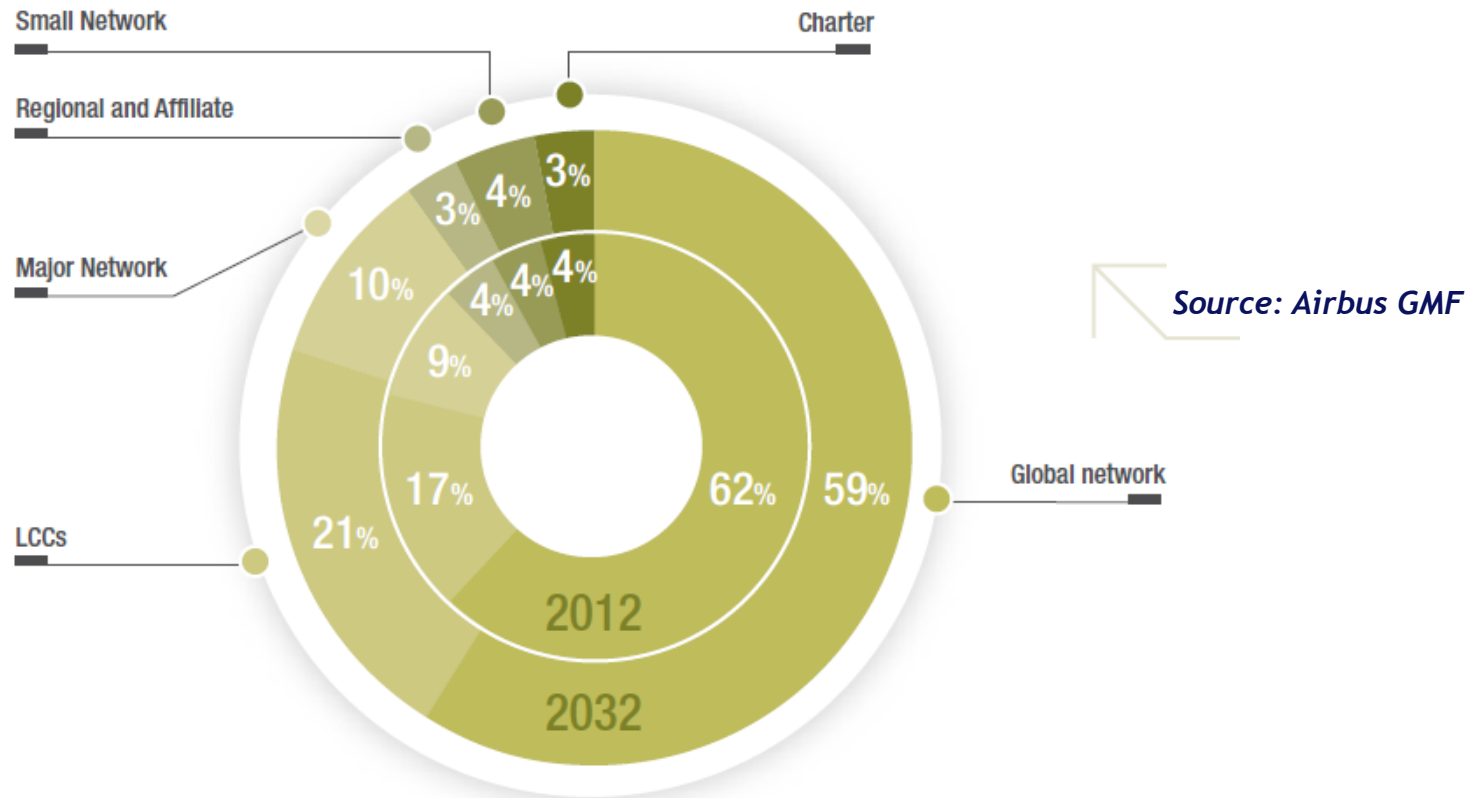


- Asian regional traffic concentrated on major trunk routes
 - Asia has 7 of the world's top 10 busiest routes
 - 85% of traffic on routes of 100,000 pax p.a.
 - Intensely competitive Asian marketplace
 - 75% of routes served by at least three airlines
 - 27% of routes served by at least five airlines
 - 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*



Growth: complementary business models



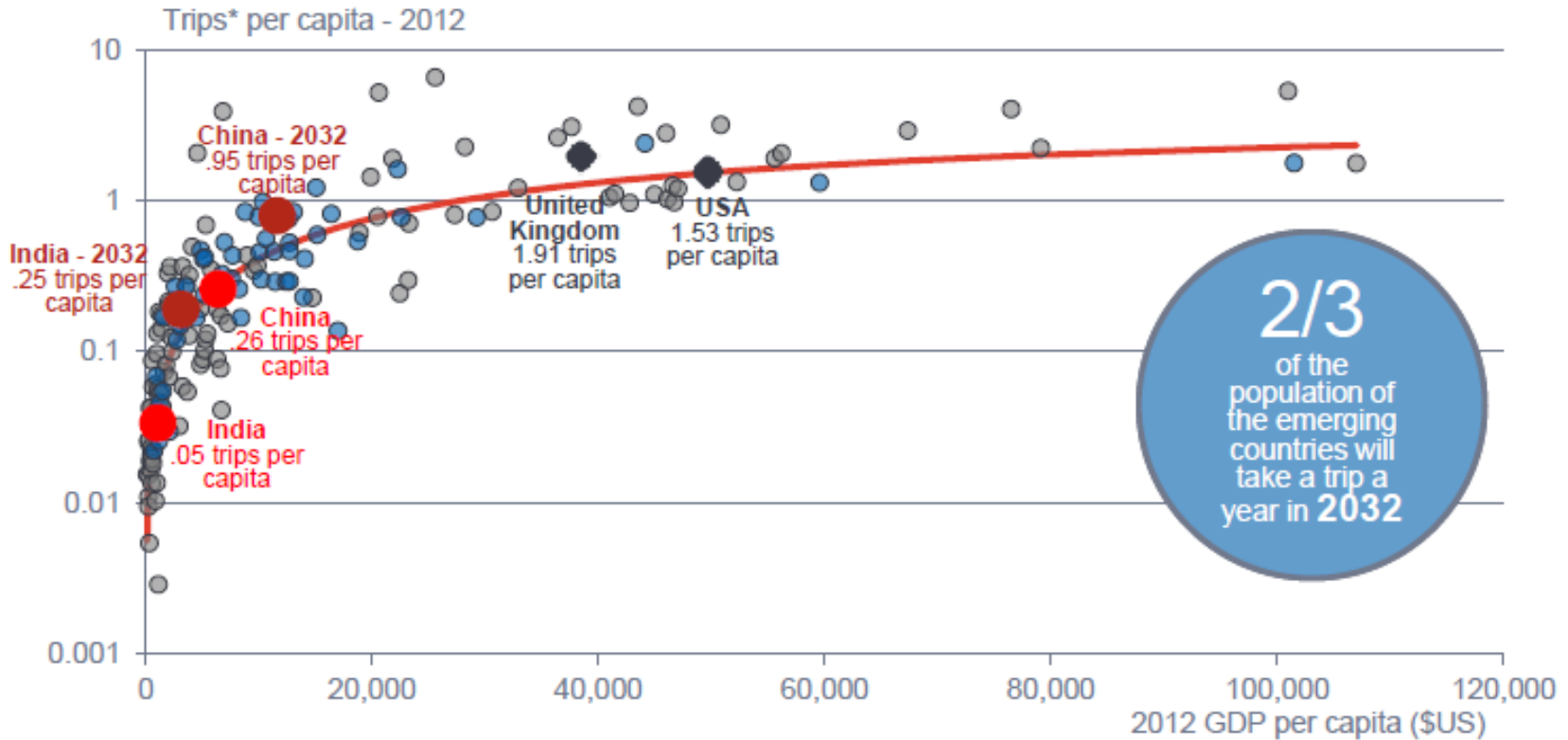
Global network carriers expected to thrive despite competition



Future Growth

Aspirational Demand for Air Travel

Trips* per capita over GDP per capita



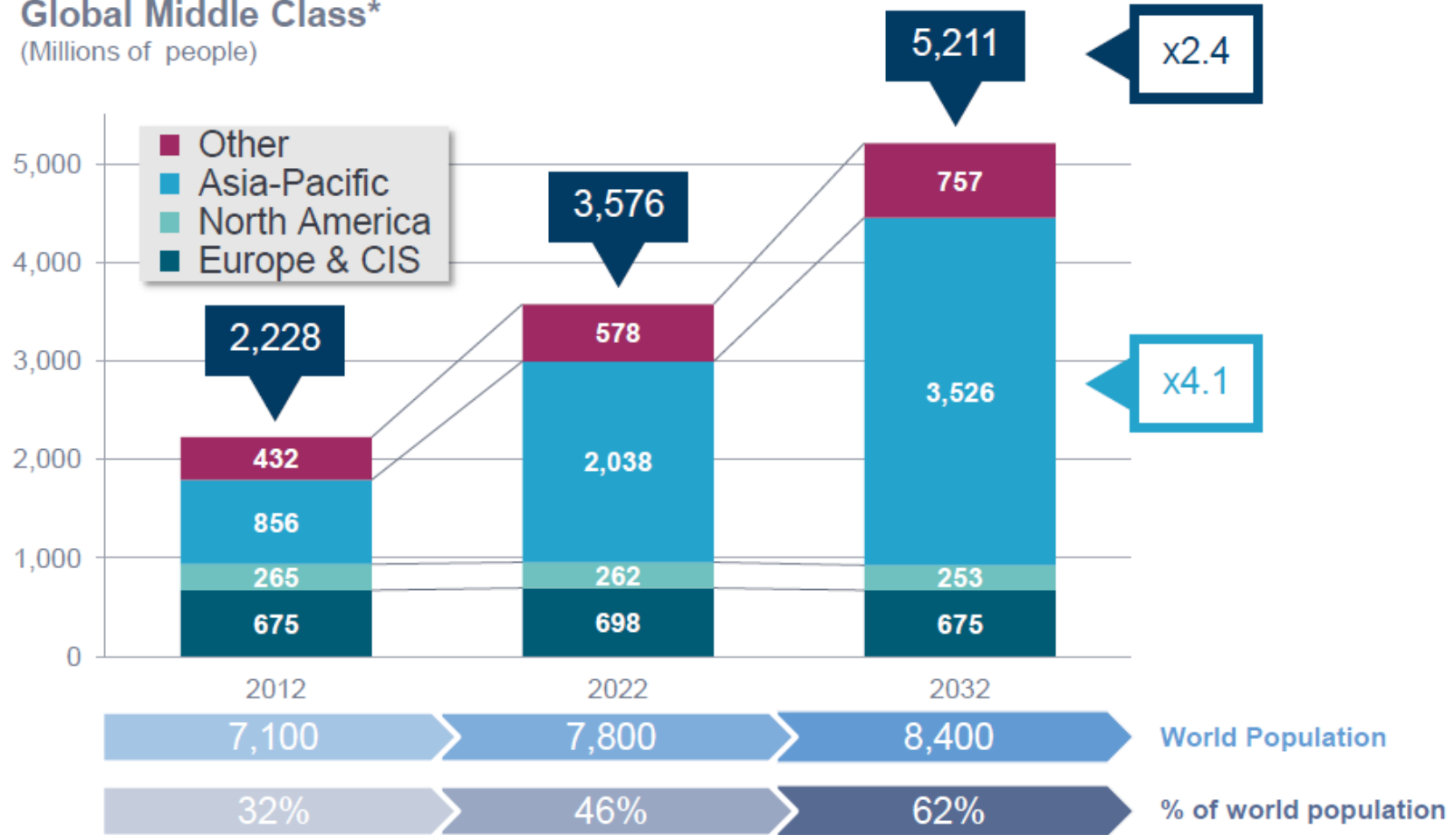
Rising incomes, urbanisation, social development

Source: Airbus GMF 2013-2032

*passengers originating from respective country

The growing middle class

Global Middle Class*
(Millions of people)

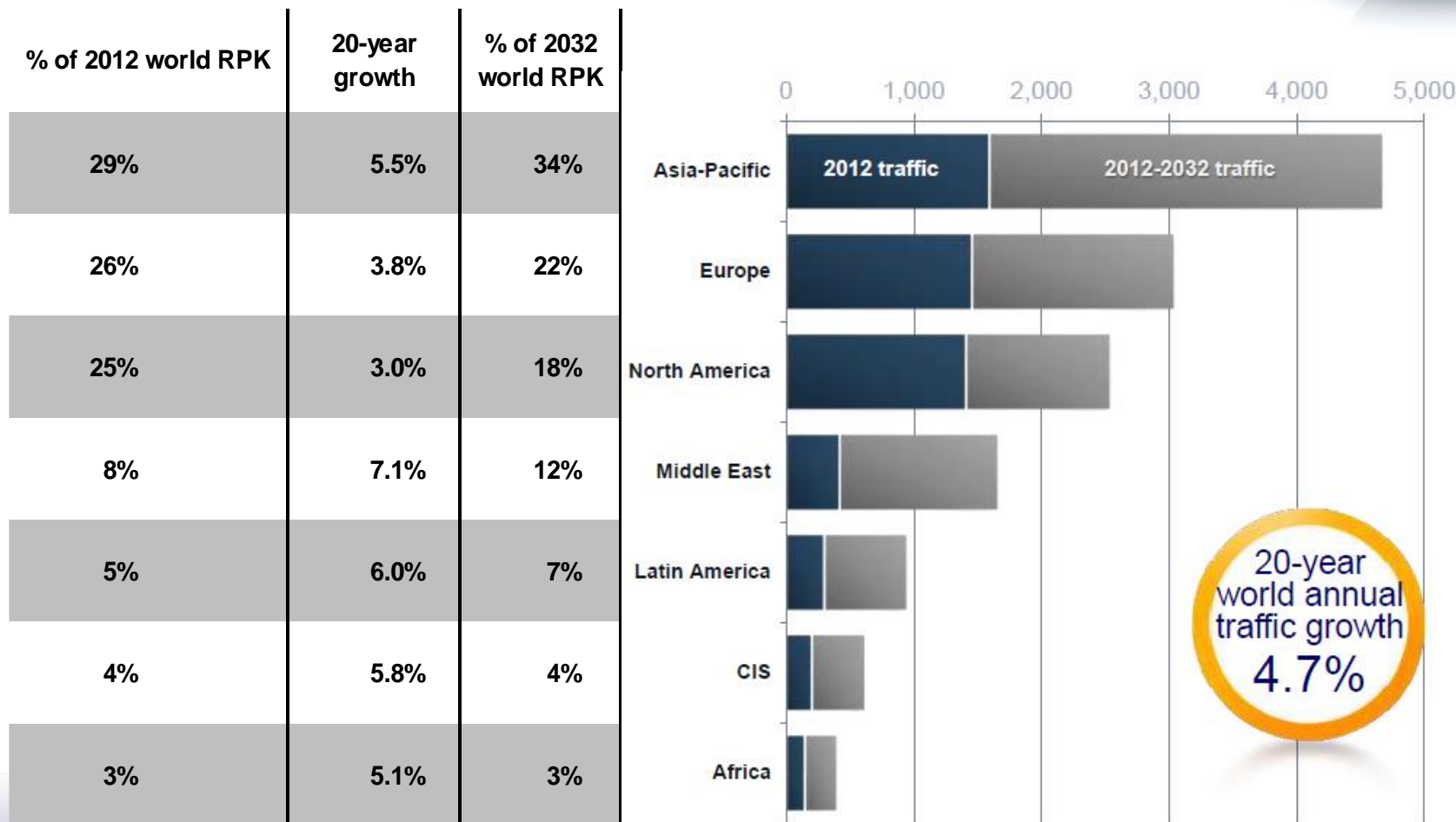


*Households with daily expenditures between US\$10 and US\$100 per person (at PPP)

Asia Pacific to lead world traffic



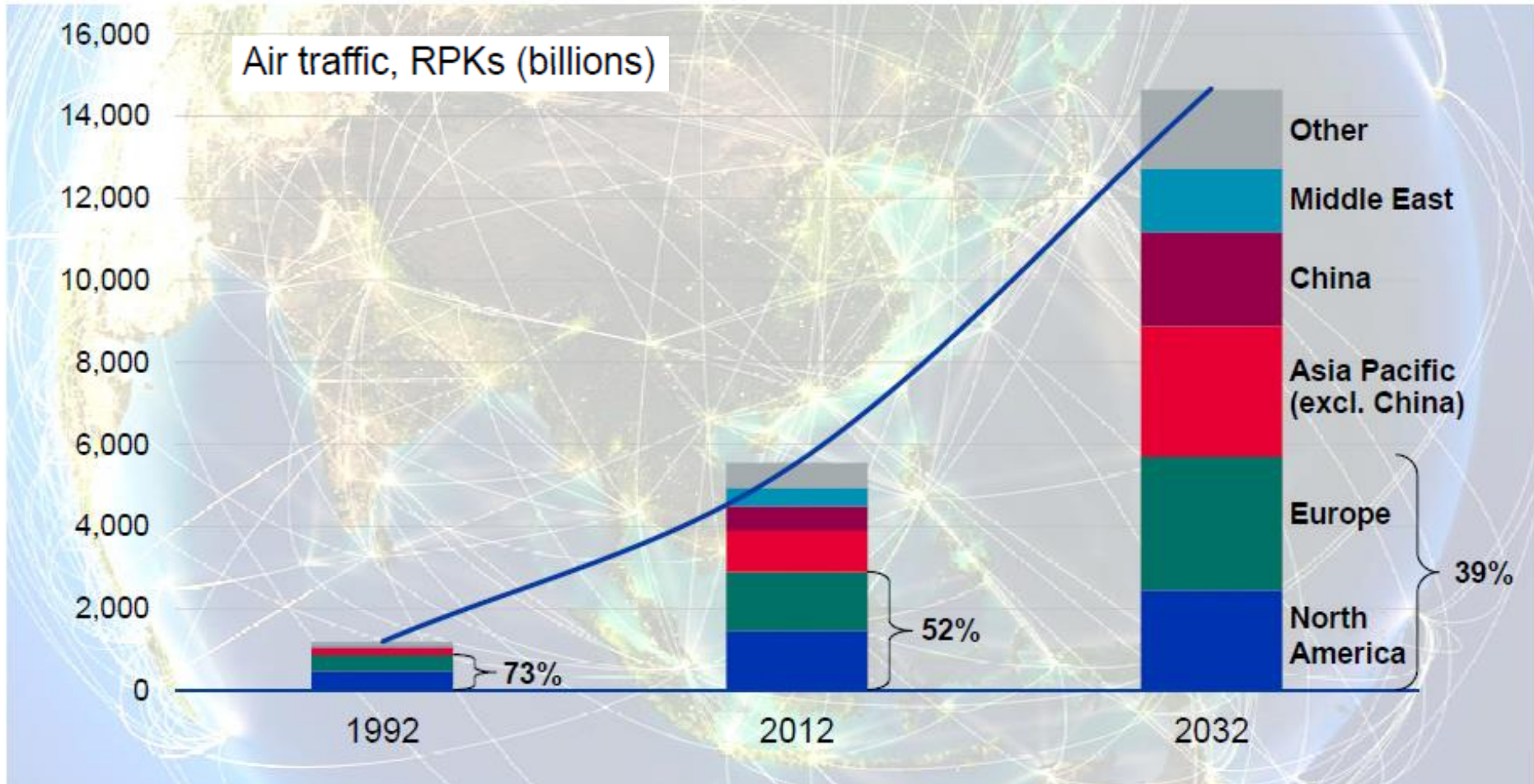
World traffic by airline domicile (RPK billions)



Source: Airbus
GMF2013-2032

Overall market grows x 2.5 by 2032

Airline industry global trend



Source: Boeing CMO 2013-2032

Asia Pacific moving to leadership position

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 critically important

Closing Thoughts



- **Aviation is at the heart of global economic development**
- **Progressive liberalisation of air services has kept pace with the growth in travel demand but has held back industry restructuring**
- **Industry adaptations include interline code sharing, global marketing alliances, joint ventures and other innovative corporate structures**
- **Asian airlines pressing ahead with both customer service and business model innovation**
- **Overall prospects for long term growth remain bright but infrastructure planning is a shared challenge**

Shared confidence and optimism about the future

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