



AAPA

ASSOCIATION OF ASIA PACIFIC AIRLINES

Asia Pacific Aviation *Challenges & Opportunities*

**Andrew Herdman
Director General
Association of Asia Pacific Airlines**

**Willis Towers Watson Aviation Conference
Singapore
8 March 2017**



Willis Towers Watson
Aviation Conference
7-10 March, 2017
W Singapore, Sentosa Cove

Willis Towers Watson

Overview

- **Asia Pacific aviation**
- **Safety performance**
- **Business overview**
- **Challenges**
- **Future growth**

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

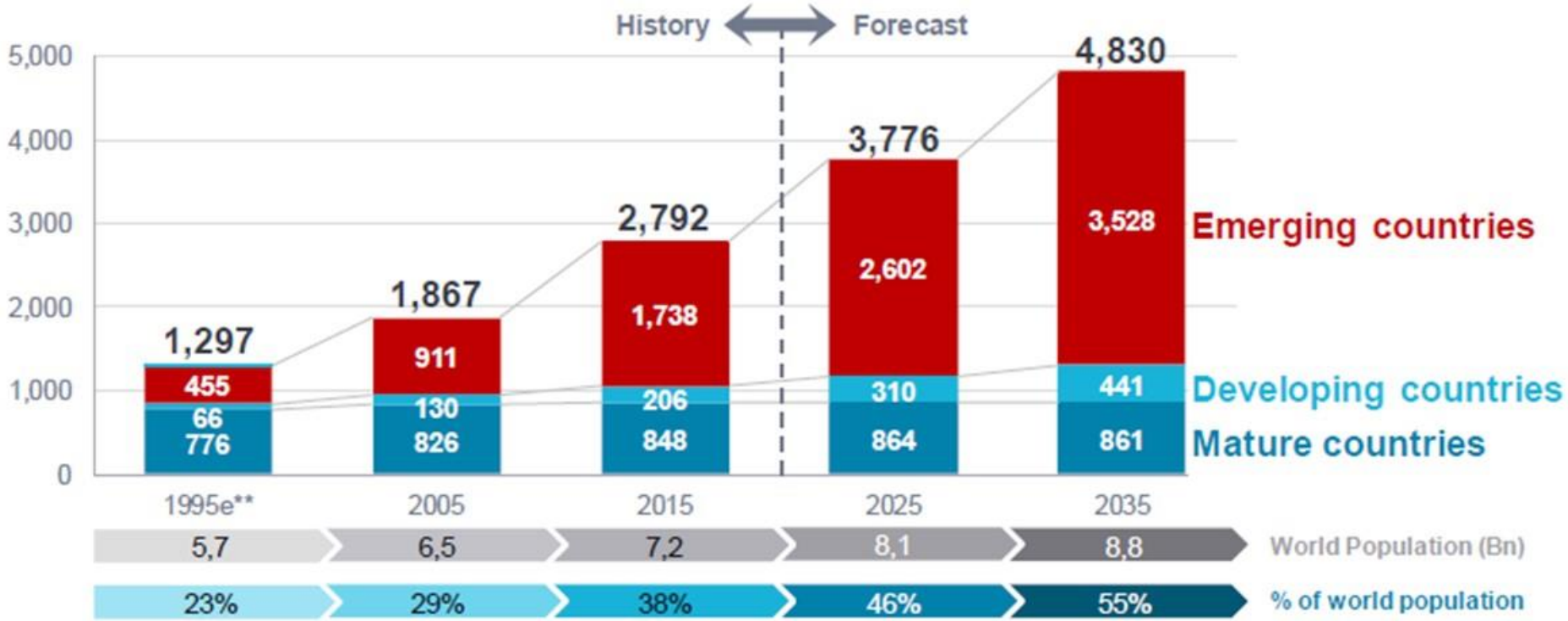


- **Diverse geographic region**
- **Home to 4 billion people**
 - **56% of the world's population**
- **Dynamic economies generate 34% of global GDP**
- **Wide range of income levels, rapidly growing middle class**
- **Aviation widely recognised as a key contributor to economic and social development**
- **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\$203 billion revenue
US\$7 billion net profit
1,297 million passengers
927 million domestic
370 million international
21 million tonnes of cargo
7,058 aircraft

Asia Pacific carriers overall market share:

33% of global passenger traffic

38% of global cargo traffic

Data: Traffic: AAPA 2016 Estimates, Financials: IATA 2016 Estimates

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



World's 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	London - New York	2.7
6	Hong Kong - Singapore	2.7
7	Hong Kong - Shanghai	2.5
8	Hong Kong - Seoul	2.5
9	Bangkok - Singapore	2.4
10	Dublin - London	2.2

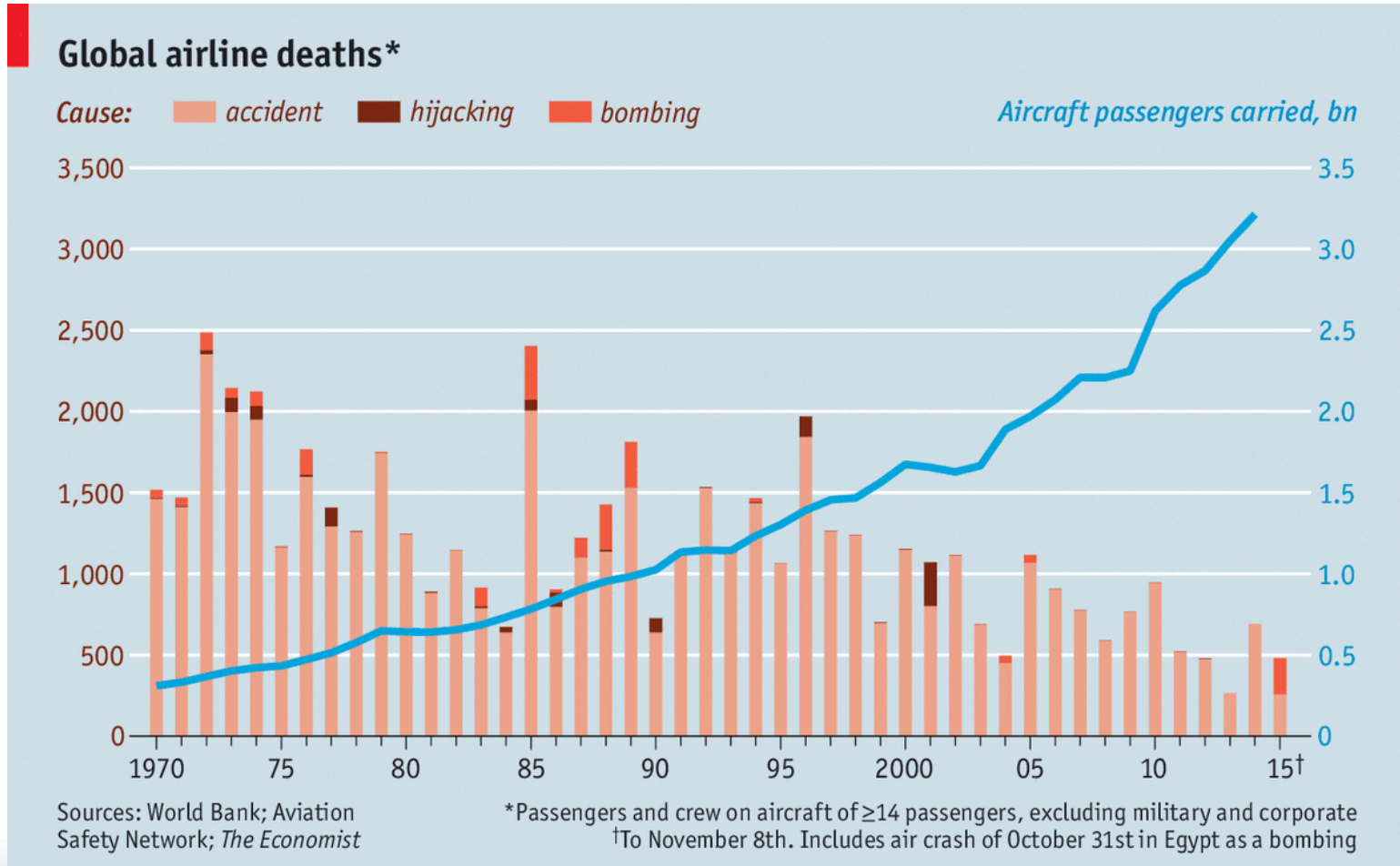
Most of the world's busiest international routes are in the Asia Pacific region

Source: IATA WATS 2016, 2015 data



Safety & Security

Aviation Safety & Security



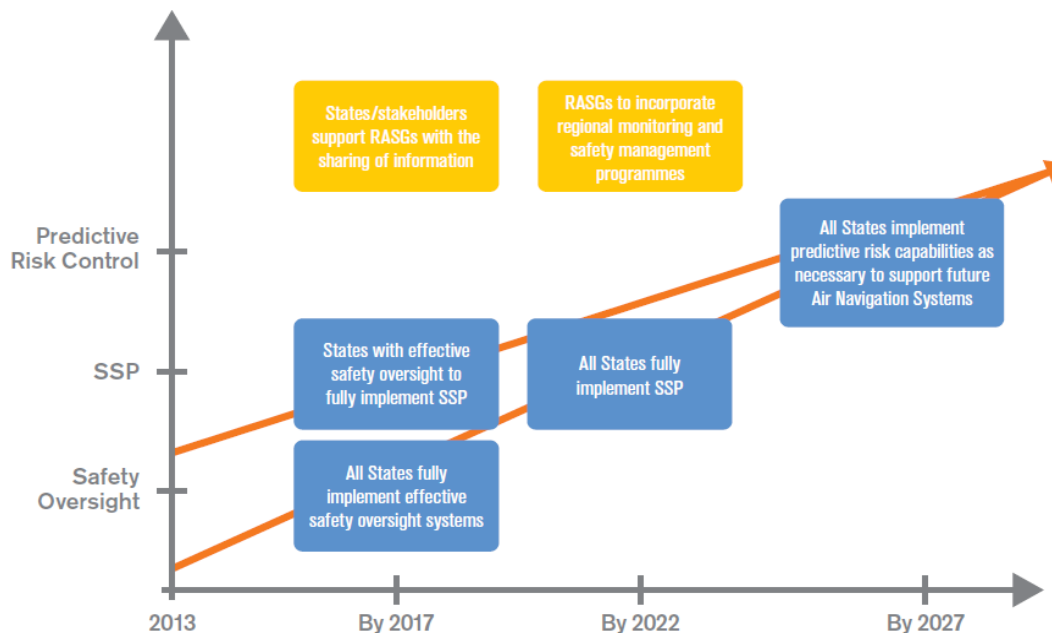
Economist.com

Diminishing losses despite strong traffic growth

ICAO State Safety Oversight System

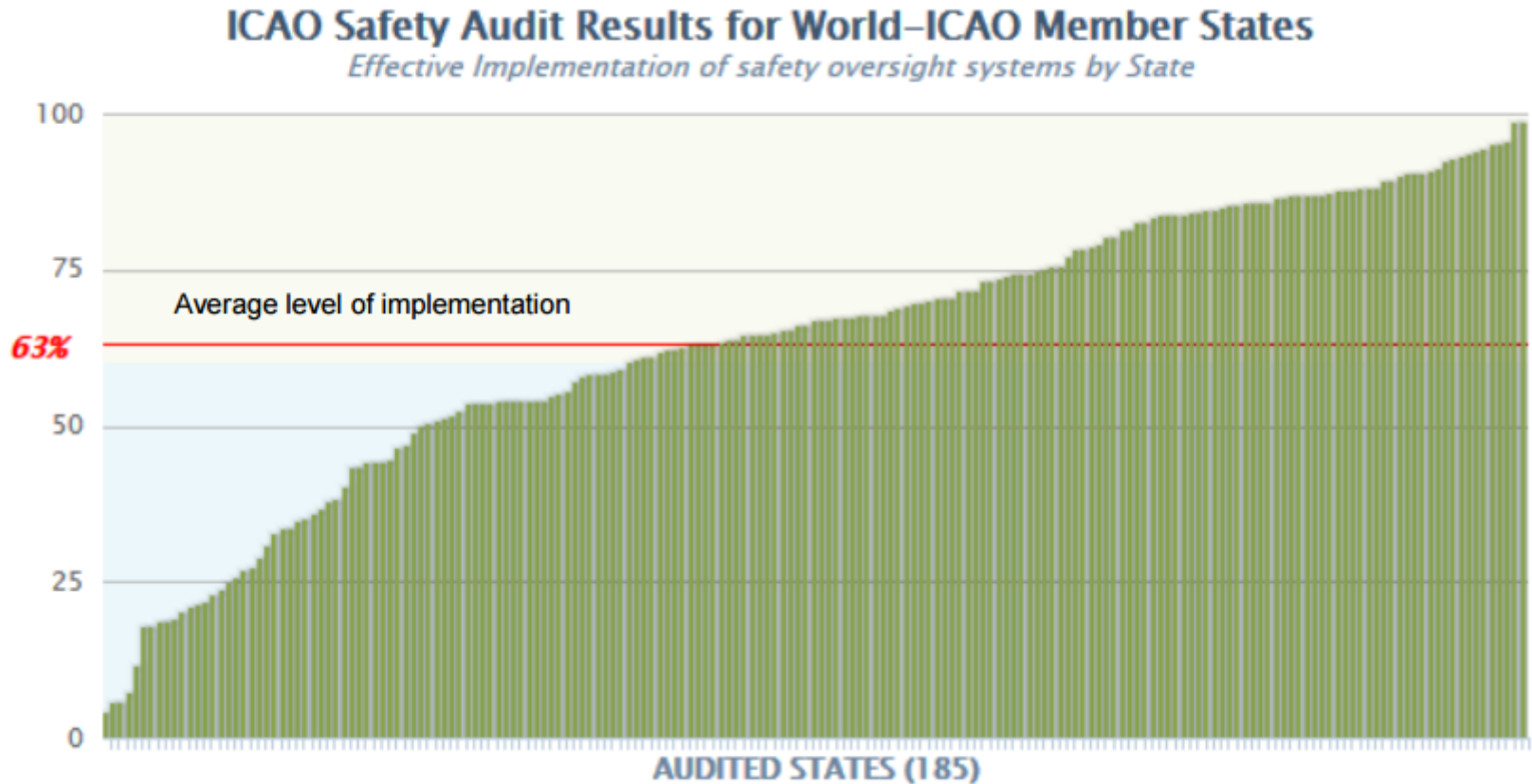


- ICAO sets global safety standards and practices
 - Staged approach: Basics > Extended > Predictive



- ICAO oversight of effective implementation by States through Universal Safety Oversight Audit Programme & Continuous Monitoring Approach (USOAP-CMA)

Variable quality of regulatory oversight



- ***Lack of quality assurance leads to unnecessary duplication***
- ***ICAO ‘No Country Left Behind’ campaign***

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 and collaboration

ICAO Global Aviation Security Plan

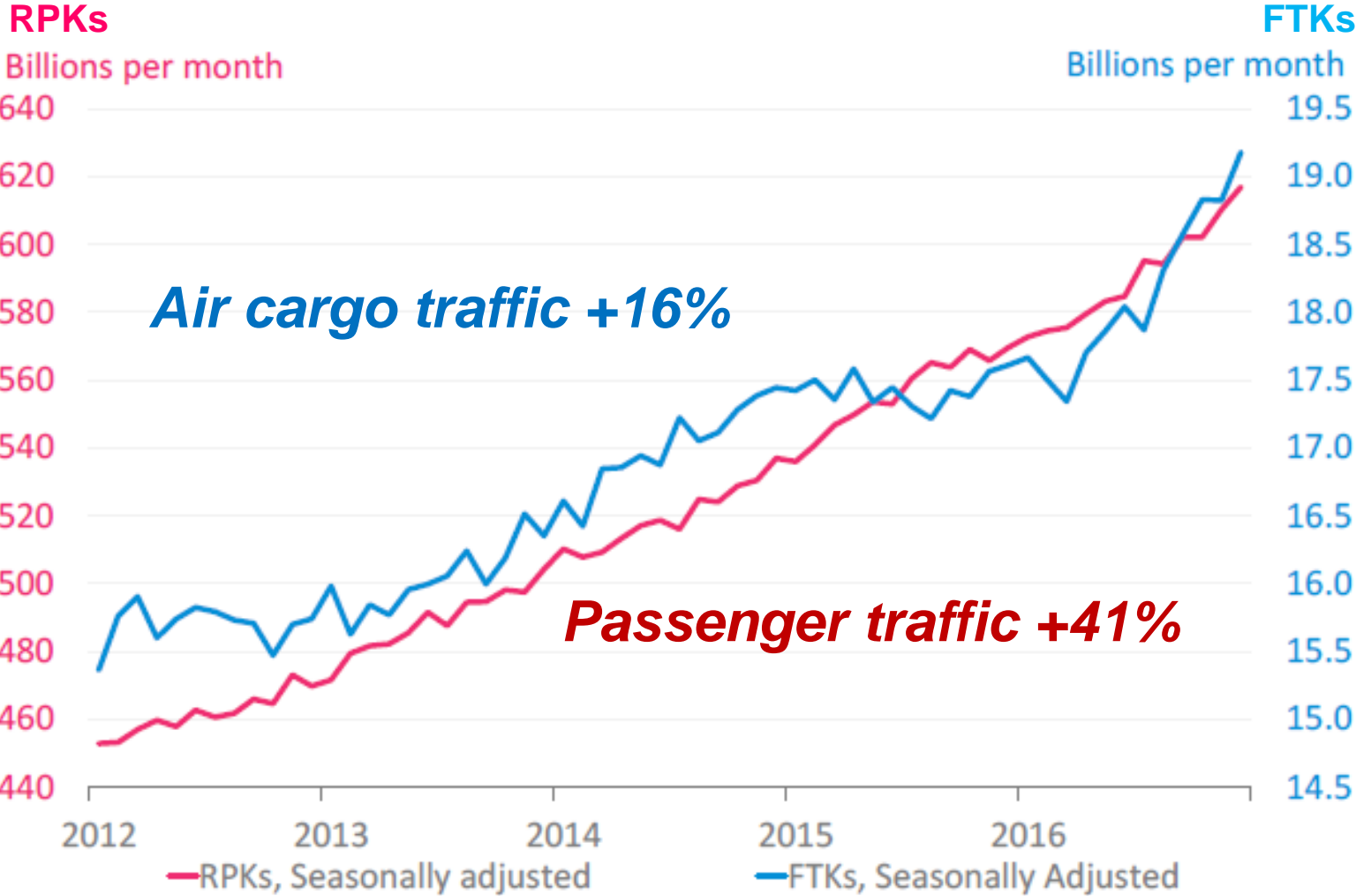


- **Building on the successes of the Global Aviation Safety Plan (GASP) and the Global Air Navigation Plan (GANP)**
- **Integrated approach to aviation safety and security**
- **Encourage real-time sharing of critical information between States and industry**
- **Establish goals and targets on key performance indicators**

Security requires closer cooperation and coordination between governments and industry stakeholders

Business Overview

Global passenger and cargo traffic



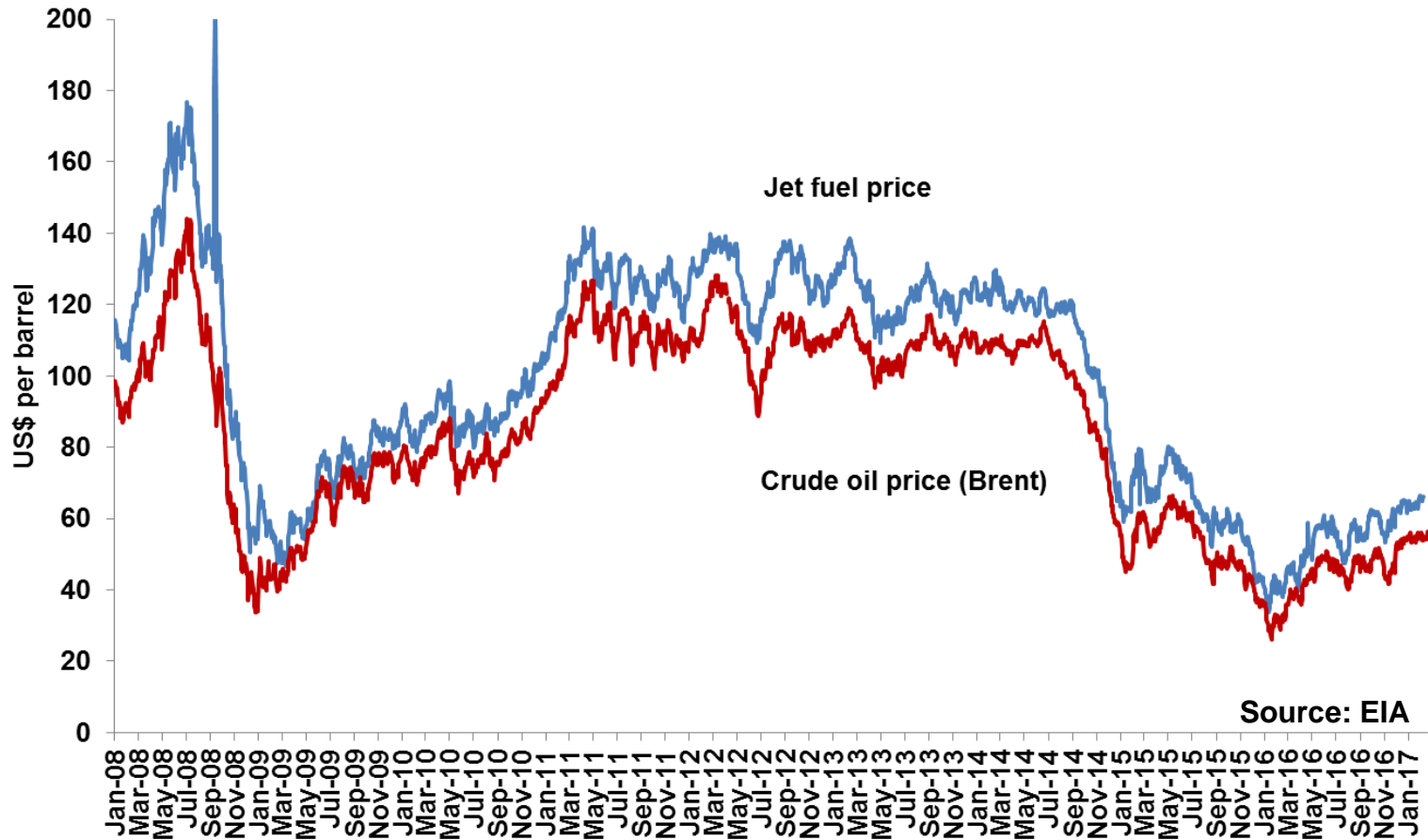
Evolving airline business strategies



- 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

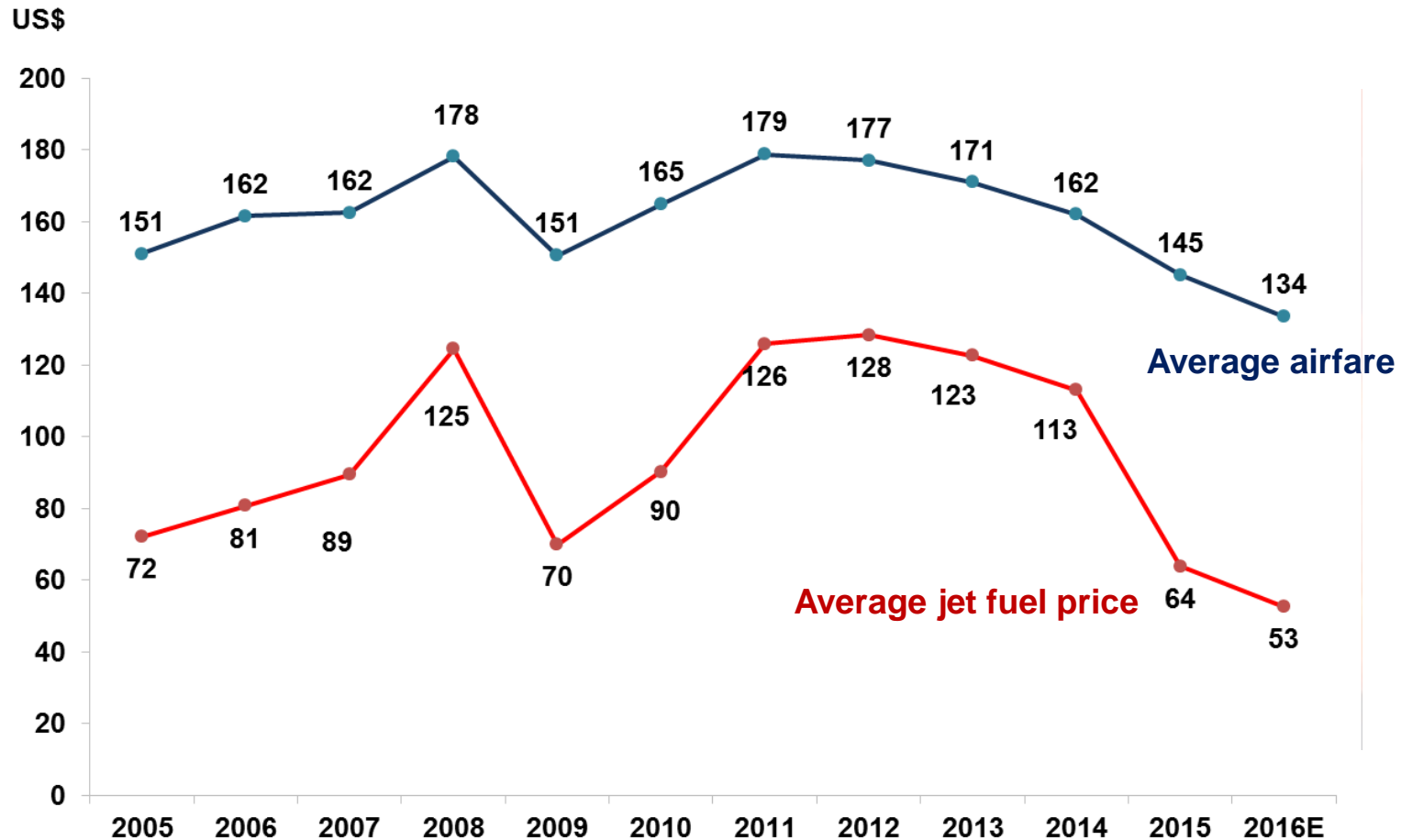
*Asia Pacific airlines at the forefront
of global industry developments*

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

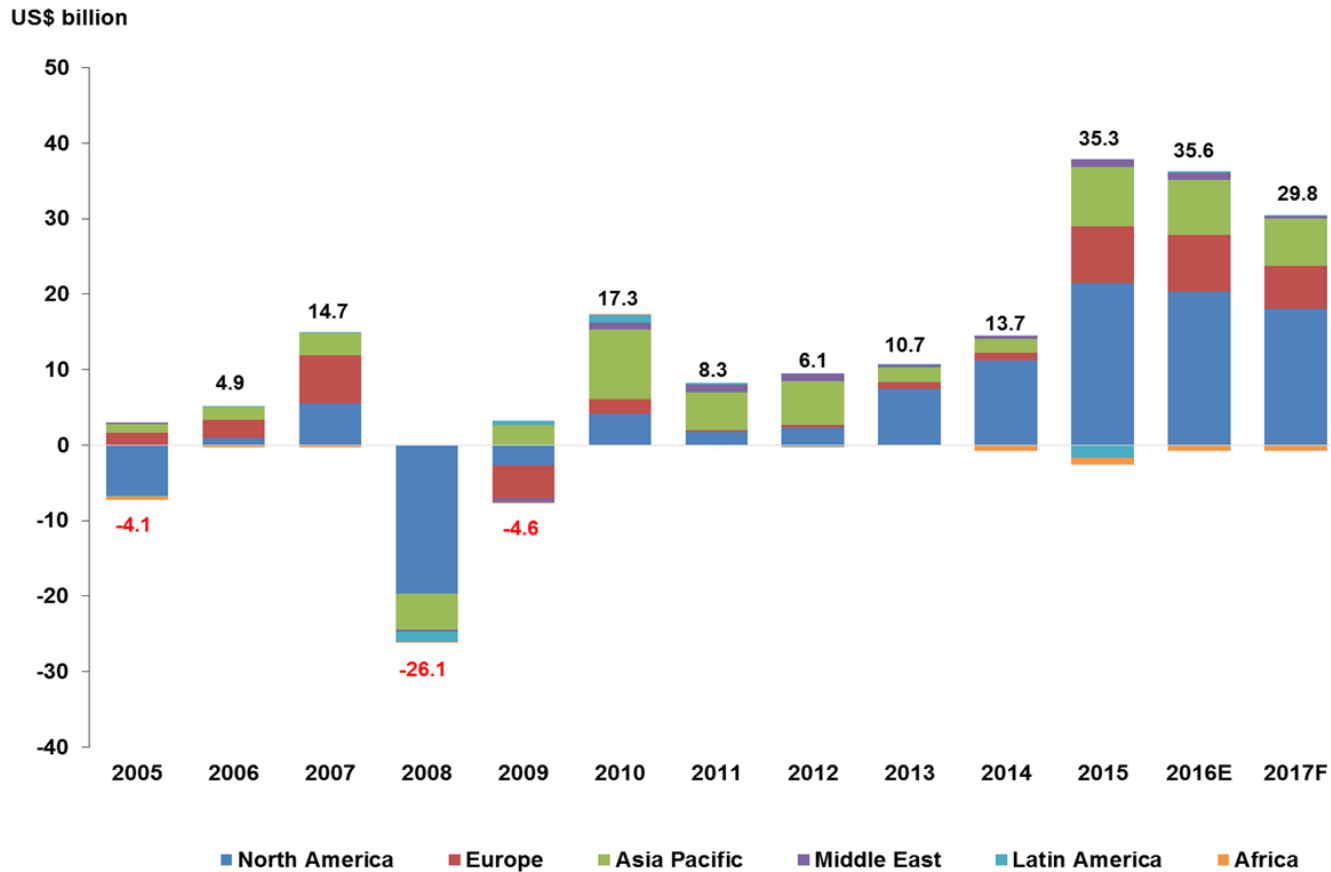
Airfares track changes in oil prices



Widespread availability of affordable fares spurs travel demand

Source: EIA, IATA

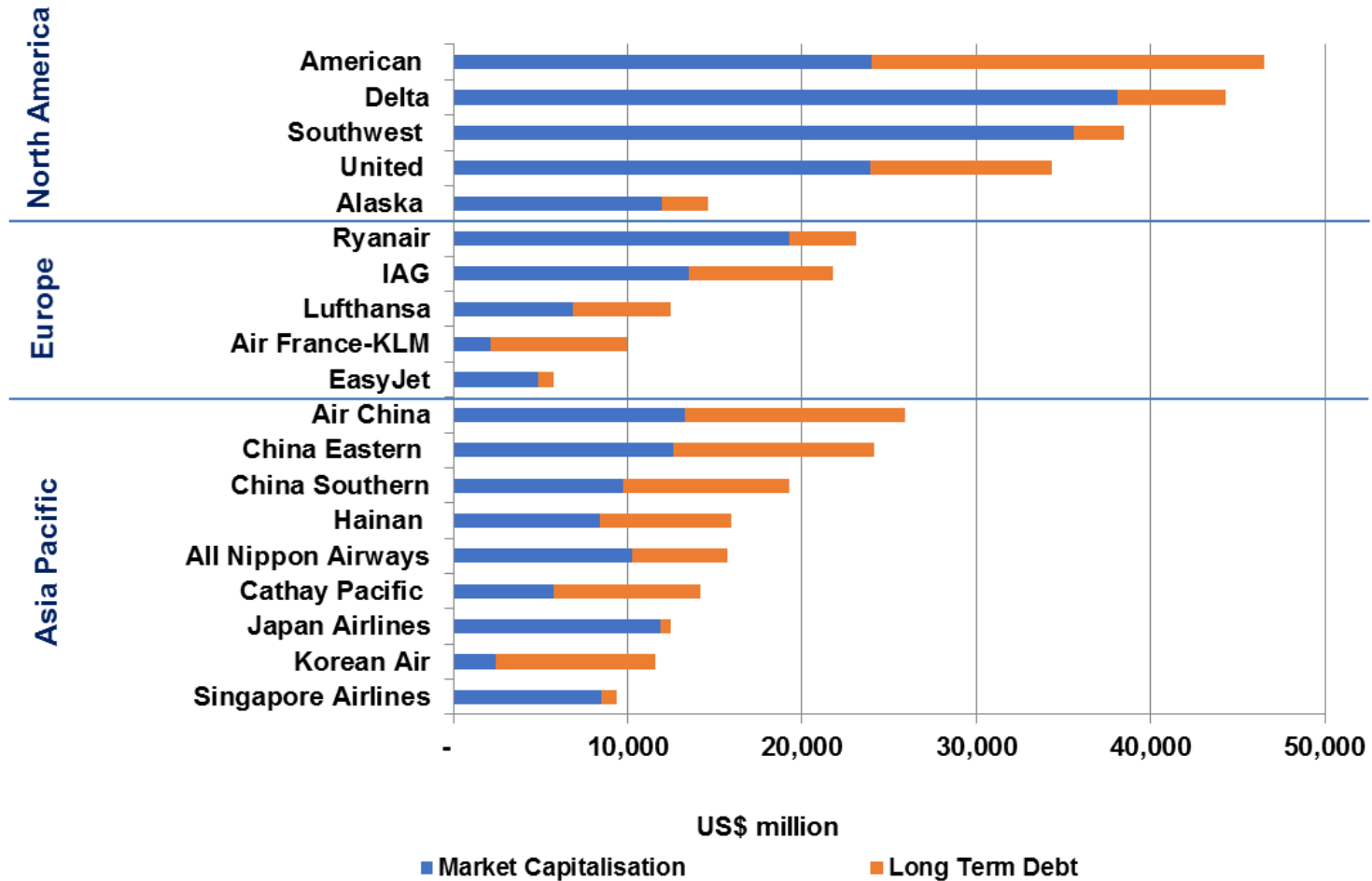
Airline profitability sustained



- **Robust passenger demand and lower oil prices**
- **Profit recovery led by North American carriers**
- **Average profit margin still only 5% or \$9 per passenger**

Source: IATA

Airline Enterprise Values by Region



Market capitalisation as of 24 Feb 2017

Source: AAPA Estimates



Challenges

Risk Management Challenges



Crisis management and emergency response planning must be prepared for a wide range of unpredictable events

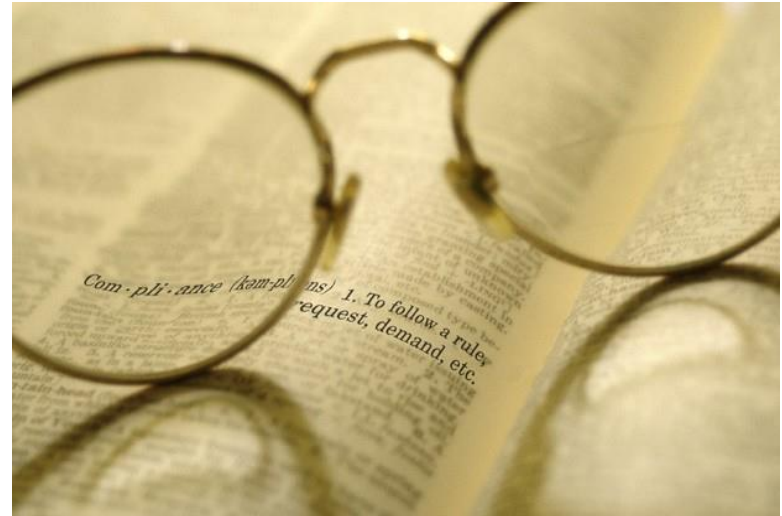
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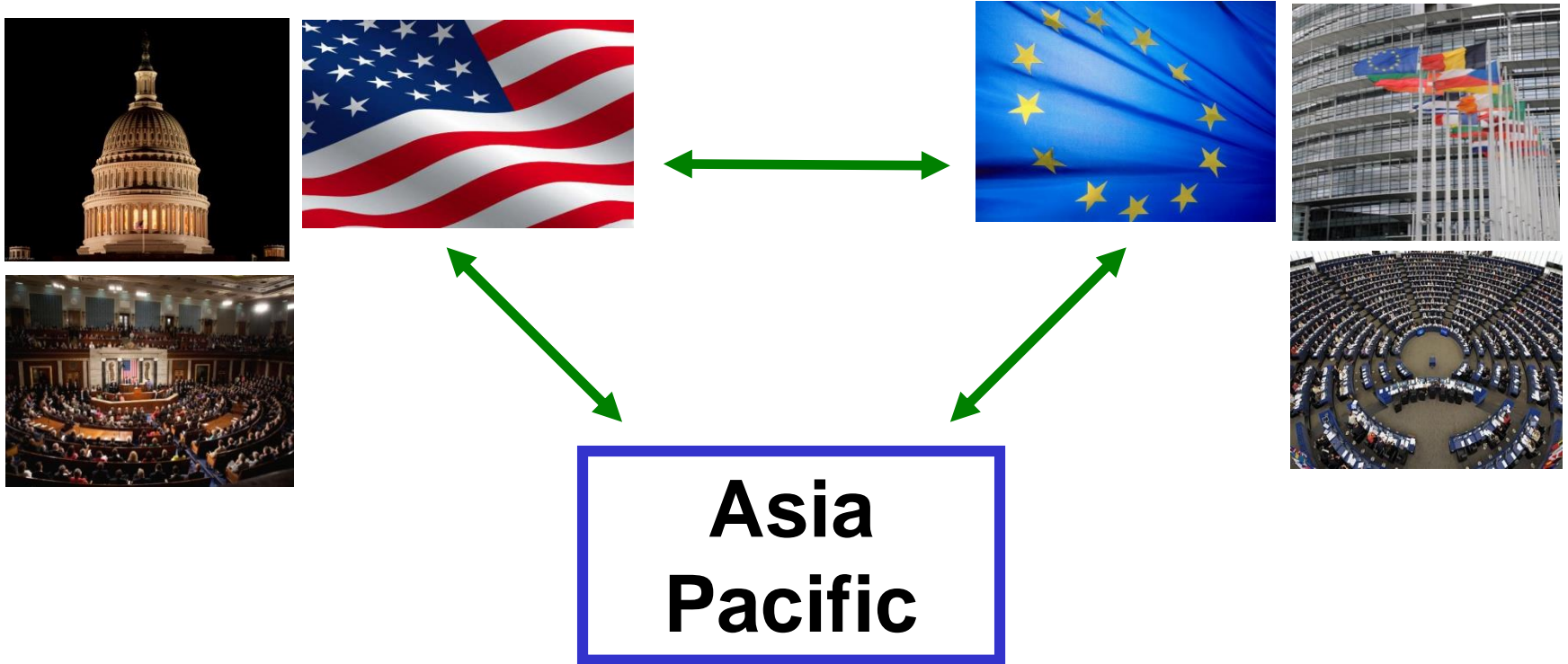
Global Regulatory Challenges

Aviation is subject to intensive regulation

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



Global Regulatory Influences



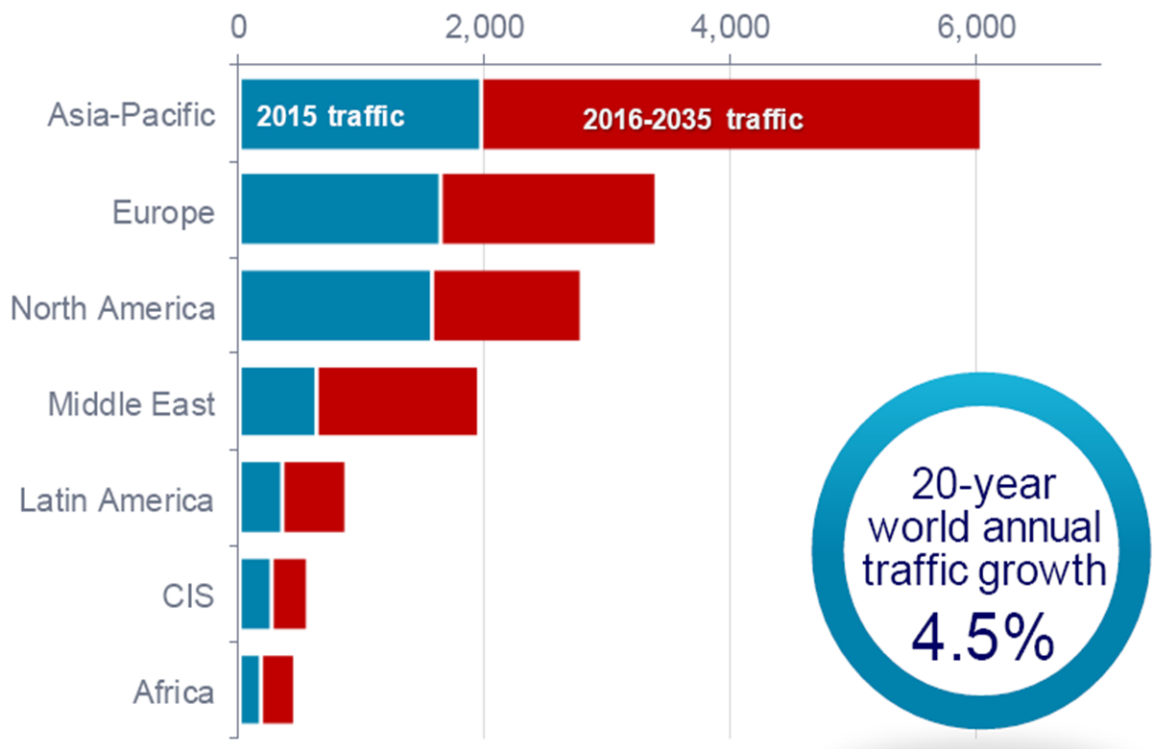
- Wider impact of US and EU regulations
- Asia Pacific needs a unified voice
- Need for harmonised global standards



Future Growth

Asia Pacific markets to lead future growth

RPK traffic by airline domicile (billions)



	% of 2015 world RPK	20-year growth	% of 2035 world RPK
Asia-Pacific	30%	5.7%	36%
Europe	25%	3.7%	22%
North America	24%	2.9%	19%
Middle East	9%	5.7%	11%
Latin America	5%	4.8%	5%
CIS	4%	4.1%	4%
Africa	3%	4.8%	3%

Source: Airbus GMF2016

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

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**
- **Complex risk management issues**

Asia Pacific airlines shaping the development of global aviation

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www.aapairlines.org

**Association of Asia Pacific Airlines
Level 27-1, Menara Prestige
1 Jalan Pinang
50450 Kuala Lumpur
MALAYSIA**

Tel: +60 3 2162 1888

Fax: +60 3 2162 6888



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