Asia Pacific Aviation

Challenges & Opportunities

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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

Source: IATA, ATAG
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

Source: IMF
Growing middle class consumers

Driving consumption, including air travel demand

* Households with yearly income between $20,000 and $150,000 at PPP in constant 2015 prices
** Estimate for 1995 split region

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

Source: Combined AAPA + non-AAPA airlines GMT+5 to GMT+12
Most of the world’s busiest international routes are in the Asia Pacific region

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<th>Rank</th>
<th>Route</th>
<th>PAX(million)</th>
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<tbody>
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<td>Hong Kong - Taipei</td>
<td>5.1</td>
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<tr>
<td>2</td>
<td>Jakarta - Singapore</td>
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Source: IATA WATS 2016, 2015 data
Safety & Security
Global airline deaths

Sources: World Bank; Aviation Safety Network; The Economist

*Passengers and crew on aircraft of ≥14 passengers, excluding military and corporate
†To November 8th. Includes air crash of October 31st in Egypt as a bombing

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

- Passenger traffic +41%
- Air cargo traffic +16%
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

- **North America**
  - American
  - Delta
  - Southwest
  - United
  - Alaska

- **Europe**
  - Ryanair
  - IAG
  - Lufthansa
  - Air France-KLM
  - EasyJet

- **Asia Pacific**
  - Air China
  - China Eastern
  - China Southern
  - Hainan
  - All Nippon Airways
  - Cathay Pacific
  - Japan Airlines
  - Korean Air
  - Singapore Airlines

Market capitalisation as of 24 Feb 2017

Source: AAPA Estimates

AAPA
ASSOCIATION OF ASIA PACIFIC AIRLINES
Challenges
Risk Management Challenges

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

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

Source: Airbus GMF 2016-2035
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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