

DRAGON, TIGERS & AN ELEPHANT



IFFAAD

Address by Pierre J Jeanniot
29 March 2019

During my ten years at the helm of IATA ... “the International Air Transport Association” ... I had the privilege to witness ... and sometimes to be an active agent ... in the change which was ongoing in the Asia-Pacific region.

You could feel a strong desire to emulate ... but also to innovate.

China was yet to become the fearful dragon ... which we all feel it has become.

Jiang Zemin ... was the head of China ... at the same time as I headed IATA.

Jiang Zemin was fond of saying:



China – 15 years ago

It's hard to clap with one hand

Ziang Zemin

At that time ... China felt seriously held back ... and concerned about its shortcomings.

Progress was relatively slow ... but steady.

We all needed to ensure ... that China's commercial aviation expansion ... was not done at the expense of safety.

IATA had not been allowed to set up an office in the Democratic Republic of China ... until a fatal accident ... gave us an opportunity ... to convince the Minister of Transport.

The Asia-Pacific airlines ... were essentially the national airlines which existed at the time ... and still exist today.

Qantas ... Japan Airlines ... Korean Airlines ... Garuda ... Philippine Airlines ... Indian Airlines ... and Cathay Pacific.

Singapore Airlines ... joined later on. ... They wanted to protect their individuality.

They were fond of saying ...

“We all sleep in the same bed ... but we dream different dreams.”

The area went on to develop more flag carriers ... to cope with growing market demand ... and the need for local flag carriers.

FAST FORWARD

- **U.S. Deregulation**
- **E.U. Common Market**
- **Low Cost Expansion**

Going “fast forward” ...

- Meanwhile ... North America was undergoing deregulation ... to free up its domestic market.
 - Consolidation of some legacy carriers followed.
- The first attempt to develop Low Costs ... was not very successful.

A few years later ... the new European Common Market ... decided to conduct its own deregulation.

- Some consolidation of smaller national airlines took place.

Taking advantage of the new freedom ... European Low-Cost airlines ... essentially changed the local landscape.

New attempts to start Low Costs in the U.S.A. ... were more successful.



The Gulf airlines ... taking advantage of

- Their strategic geographic position ...
- the availability of “Open Sky” bi-laterals ... and
- the unrestricted use of 5th Freedoms ...

built new international hubs

Although these new international networks ... led to the creation of new markets ... there is little doubt ... that they diverted some traffic from the existing networks.

Now ... with the economies of Asia growing rapidly ... the middle class was expanding ... creating a greater need ... for business and leisure travel ...

- First, intra-Asia. ... but also linking Asia ... to the rest of the world.

Greater discretionary income ... has favoured the creation of low cost airlines.

Today ... reflecting its rapidly growing economy ... the Asia-Pacific region has become ... *the growth engine* ... of the global air transport industry.

In 2018



Asia/Pacific was 34.5% of world traffic

North America was 22.4%

The IATA report of the results for 2018 ... indicated that the Asia-Pacific share ... of the total international traffic ... was already 34.5% ... and that the increase ... year over year ... was 10.1%.

This was quite remarkable!

By comparison ... North America's share of world international traffic ... had diminished to 22.4% ...



Asians have become avid travellers !

The following IATA table shows

... that 8 of the 10 ... *busiest international* routes in the world ... are in Asia.

Busiest International Routes

(passengers, millions – 2018)

Hong Kong-Taipei	6.7	Hong-Kong-Seoul	2.8
Jakarta-Singapore	3.4	London-New York	2.7
Dubai-London	3.4	Hong-Kong-Singapore	2.6
Bangkok-Hong Kong	3.0	Osaka-Taipei	2.6
Kuala Lumpur-Singapore	2.8	Tokyo-Taipei	2.5

Source: IATA

The volume of traffic ... between Hong Kong and Taipei ... is phenomenal.

Only London-New York ... and Dubai-London ... remain among the busiest routes outside Asia.

The growing dominance of Asian aviation ... is even more evident in the domestic markets. ...

The following table ... shows that all ten of the world's busiest domestic routes ... are now within the Asian countries.

Busiest Domestic Routes (passengers, millions - 2018)

Jeju-Seoul	13.4	Beijing-Shanghai	6.3
Sapporo-Tokyo	7.7	Delhi-Mumbai	5.5
Fukuoka-Tokyo	7.3	Jakarta-Surabaya	4.5
Melbourne-Sydney	7.3	Jeddah-Riyadh	4.4
Hanoi-Ho Chi Minh	6.3	Beijing-Chengdu	4.4

Source: IATA

To further illustrate the dramatic change ...

- a year ago ... North America had 30% of the global airline fleet. ... Asia-Pacific ... including China ... had 29% of the world's fleet. ... And China alone had 19%.
- Today ... these numbers have reversed. ... Asia-Pacific now has 30% of the world's fleet ... while North America now has 29%.

Domestic traffic is *exploding*

China – 13.3% p.a.

India- 17.5% p.a.

Domestic travel is exploding ... and the two most exciting areas of Asia-Pacific ... are ... of course ...

- *China* ... where domestic travel is expanding ... at the rate of 13.3% per year...
- and *India* ... with an increase in domestic travel ... of 17.5% year over year.



***Pressure from the Gulf airlines
on regional “legacy carriers”***



Singapore Airlines ... Malaysian ... Garuda ... and Qantas ... among others ... have had to *adjust* ... to the pressure of the Gulf airlines ... on their core Asia-Europe markets.



Singapore Airlines has tried ... many times ... to operate ... some liaison ... direct between Singapore and North America ... but was unable to economically sustain the operation.

The latest generation of *wide-body airplanes* ... is now making this *possible* – and *economical*.

Singapore Airlines plans to use A-350-900 ... on ultra long-haul routes ... first Singapore-Los Angeles ... and then Singapore-New York.

[Note: A.350-900 seat capacity 280 to 330.]

[The airplane has a range in excess of 17,000 kms and is able to cover the distance (15,523 kms.) in 18 hours.]

LINKING ASIA TO NORTH AMERICA



Linking Asia to North America ... has always been a *strategic cornerstone* ... for Korean Air and Cathay Pacific.

- It is also a growth market for ... ANA and Eva Air.

Cathay Pacific now uses A-350-1000 ... on a route from Hong Kong to Washington.

[Note: An A.350-1000 can accommodate 40 passengers more than an A.350-900.]



One of the oldest carriers ... of the Asia-Pacific region ... Qantas ... has achieved a successful turn-around

- Qantas' new service ... with Boeing 787-9 from Perth to London in 17 hours ... is an economical ... new service ... no longer requiring a stop in the Gulf.

[Note:

B-787-8 capacity 242 passengers, 14,000 km range

B-787-9 capacity 292 to 335 passengers, 14,600 km range

B-787-10 capacity 330 passengers, 12,300 range



Large Asian cities ... many with populations of over 10 million ... and the relatively greater distance ... between them ... are contributing to the growth of *low cost airlines* ... in Asia-Pacific.

The low-cost airlines' share of the market ... has reached close to 28% ... of Asia-Pacific total traffic.

They are now *bigger* ... than their European counterparts.

Last year ... Asian low-cost airlines offered some *478 million seats* ... compared to their European low-costs ... which offered 447 million seats.

DOMESTIC MARKETS' SHARE OF LOW COSTS



India	59.8%
Philippines	55.8%
Malaysia	54.2%
Thailand	51.0%
Indonesia	50.7%

Low cost airlines ... in five countries in the region ... have already achieved ... more than *50% penetration* of their respective markets.

Business models are getting increasingly blurred ... as low cost airlines ... take over more features ... of full service airlines.



Lion Air ... which started in Indonesia ... is the largest group of airlines in South East Asia ... with some 310 airplanes.

The Lion Air group is comprised of five airlines ...

Batik Air

Lion Air

Malindo Air

Thai Lion Air

Wing Air

Of those airlines ... only Batik Air is a full-service airline.

Lion Air had just recently obtained authorization to fly to Europe. ...

However ... its tragic accident late last year ... has once again ... raised a question mark on the airline.

Although the accident investigation is still ongoing ... it points to a *lack of familiarity ... and training* ... with the new model B-737-MAX.



The new narrow-body airplane types ... with new engines ... and very long range ... are improving existing operations ...

Asian low-costs are upgrading their fleets ... to Airbus A.320 NEO and A.321 NEO ... as well as B-737 Max 8 and B-737 Max 9 ... to benefit from more efficient operation ... and longer-range capability ... up to eight hours.



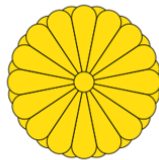
KOREAN LOW COST CARRIERS

Total passenger traffic in South Korea ... has more than doubled ... over the past decade ... from 50 million in 2008 ...to 120 million in 2018.

Korean low costs ... represent some 42% of the seat capacity ... offered in Korea

- Yet ... there is only one ... long haul low-cost carrier operating ... it is Korean Air's JIN AIR.

Korea's biggest opportunity for LCC is Air Seoul ... which is a new low-cost subsidiary of Asiana ... operating international flights.



LOW COST CARRIERS – JAPAN

Largest are foreign!

The two largest LCCs ... operating in Japan ... are *foreign* airlines ... Jeju Air ... and JIN.

The operating costs for Japanese LCCs ... are too high.

- Their costs are comparable to a full-service airline from China ... which is the largest source of foreign visitors.

In an effort to increase its presence ... in the Japanese market ... Japan Airlines (JAL) ... has decided to establish a new low-cost airline for international travel ... with two B.787-8's ... which will be operating next year ... from a low-cost terminal.



LOW COST CARRIERS – THAILAND

Thailand's LCC fleet has more than *tripled* in size over the past five years ... from 42 to 136 aircraft.

- The two largest LCCs in Thailand ... are Thai Air Asia – 59 aircraft – and NOK Air – 28 aircraft.

LCCs are expanding Thailand's international market ... which consists primarily of price-sensitive ... inbound passengers.

- Visitors to Thailand grew last year ... by more than 10% ... reaching *38.7 million*.



CHINA

Fastest growing market in North Asia

The total passenger market ... in China ... has *more than tripled* in the past decade ... from 192 million in 2008 ... to more than 600 million in 2018 ... a growth rate of 13%.

China's international market ... (excluding Hong Kong, Macau and Taiwan) ... has doubled in four years ... from 32 million in 2014 ... to 64 million in 2018.

Today ... 20 Chinese airlines ... operate international services ... and 18 have wide-body aircraft.

Chinese LCCs account for *less than 10%* ... of the domestic capacity.

- The largest – China Southern – ranked 10th largest airline ... in terms of revenue ... in the world.

- It was closely followed by Air China ... and China Eastern

[Note: Cathay Pacific operates 140 wide-body aircraft.

CHINESE AIRLINES *carried*

- ✓ *more passengers to North America than North American airlines*
- ✓ *more European passengers to China than European airlines*

Chinese carriers ... now carry *more passengers ... across the Pacific to North America ...* than North American airlines.

And ... Chinese airlines are said ... to carry *more passengers from Europe to China ...* than their European counterparts.



China is the major contributor to intra-southeast Asia traffic growth

The fastest growing markets ... are from *China ... to Indonesia and Thailand.*

The China to Indonesia market ... has grown from zero to 30% ... of Indonesia's international market ... in three years.

Some 2 million Chinese visitors to Indonesia ... were expected in 2018 ... of which 1.4 million went to Bali.

Thailand is also a favourite destination ... and was expecting 12 million Chinese visitors.



Vietnam ... *the baby tiger* (or Lotus country) ... is one of the fastest growing aviation markets ... in the world.

- In 2018 it expected **14 million tourists** ... of which 4 million were Chinese.
- Vietnamese airlines ... are now targetting the Indian market.

FORECAST - 2022

*China to displace the USA
as the largest domestic aviation market*

According to IATA ... in 2018 ... the U.S. share ... of the world domestic market ... was 14.5%.

China had achieved a 9.1% share ... of the world domestic market ... and was growing at the rate of 13.3% per year.

- The current forecast ... is for *China to displace* the U.S.A. ... as the largest ... domestic aviation market ... in 2022.



[Note: Juneyao aircraft, 13th in size in China with 46 narrow bodies]

Today ... more than 13 Chinese airlines ... will have fleets of 100 wide-body aircraft – or more – by 2020.

Boeing's forecasts ... that China will require over 7000 aircraft over the next 20 years ... many of them wide-body.



INDIA

India's aviation market is *growing fast*. ... 158 million air trips were taken in 2017. ... [Approx. 180 million passengers in 2018.]

India's share of the world's aviation market ... is only 1.4% today ... But ... *it is growing at 17.5% per year*.

Low-cost airlines carry most
of the domestic traffic



Low-cost airlines ... carry the majority of the domestic traffic in India. ... Indigo of India ... is the biggest low-cost carrier. ... It has a fleet of 173 Airbus A.320's ...of which 37 are A.320-NEO.

- **Indigo carries 41% of all traffic in India ... domestic or international.**

The largest full-service airlines are:

- **Jet Airways ... with a 13.7% share**
- **Air India – 12.8% share**

Some 40% of India's international traffic connects through the Gulf hubs ... either in U.A.E. or in Qatar.

Boeing forecasts that by 2037 ... India will have some 2,300 aircraft.

- **The government of India projects 1.1 billion passengers in 2040.**
- **The number of airports will have doubled from 99 to 200.**
- **3 airports in Delhi and Mumbai.**



CLOSING REMARKS

The current rapid increase in domestic and international traffic flows in Asia-Pacific ... is causing a *“tectonic shift”* ... to the world economic aviation landscape.

The past dominance ... of the North American ... and European airlines ... is once again being *challenged*.

Today ... new efficient long-range airplanes ... are providing an opportunity ... for European and Asia-Pacific airlines ... to *counteract the impact of Gulf airlines*.

Similarly ... these new airplane types will help to answer the needs of the Asia-Pacific markets ... more specifically

- The new single aisle ... long range airplane for Low-Cost expansion in South Asia;
- The new *wide-body ... extra long-range* airplane ... enabling new economical liaisons ... half-way around the globe.

The Asia-Pacific region has been growing fast ... and the pace has been accelerating

Their airlines have become very competitive.



One Chinese firm ... which was involved ... in a project in Africa ... was so impressed by an African Muslim proverb ... that it decided to translate it into Mandarin ... and use it with its employees.

This proverb says:

“Every morning a gazelle wakes up.

It knows it must run faster than the fastest lion ... or be killed.

Every morning a lion wakes up.

It knows it must run faster than the slowest gazelle ... or starve.

It does not matter whether you are a lion ... or a gazelle

When the sun comes up ... you better start running.”

China knows that it needs to be competitive to succeed ... and this is both in service and in business efficiency.



The newly concluded Trans-Pacific Trade agreement ... can help increase business and tourist traffic ... from those Asia-Pacific countries ... to Canada ... and decrease its dependency on the U.S.A.

Interestingly ... China ... which is *not* part of that agreement ... has become ... the most important international traffic flow to Canada ... outside of the U.S. ... displacing U.K. ... France ... and Germany.

In closing ... the rapidly increasing travel demand ... by the Asia-Pacific region... presents Canada with both *challenges* ... and *opportunities*.



Canada Tourism last year ...

21.1 million visitors ... of which 14.4 were American ... (Air Transat numbers)

6.7 million from other countries, of which the majority was from China ... more than U.K. ... France ... or Germany.

Note – acknowledgement & disclaimer

This overview is based on information obtained from many sources, and does not necessarily support or agree with the information and views expressed therein.

The various sources consulted include, among others:

- Flight International
- CAPA – Aviation Industry News & Analysis
- Washington Aviation Summary
- Aviation Week & Space Technology
- Some Aviation News Magazines
- A.O.G. Statistics & Summaries
- Wikipedia – various statistics
- Aviation Traffic Technology Industrial Reviews
- Air Transport News
- IATA Magazines & Statistics
- ICAO – various sources
- Releases by Airbus and Boeing
- The Economist magazine
- Air Transport News
- etc.