



International Civil Aviation Organization

**Fourteenth Meeting of the APANPIRG ATM/AIS/SAR Sub-Group
(ATM/AIS/SAR/SG/14)**

Bangkok, Thailand, 28 June – 2 July 2004

Agenda Item 8: Any other business

TRENDS IN AIR TRANSPORT

(Presented by the Secretariat)

SUMMARY

This paper presents information about recent trends in international air transport, particularly prospects for growth. The paper notes the forthcoming 12th Meeting of the Asia/Pacific Area Traffic Forecasting Group when more detailed analyses of trends will be undertaken. Attention is also drawn to changing competitive conditions in international air transport with important strategic implications for traffic flows in Asia/Pacific.

1. INTRODUCTION

1.1 This paper presents a brief overview of trends in air traffic of relevance to the Sub-Group's on-going work. In particular, the paper notes the forthcoming 12th Meeting of the Asia/Pacific Area Traffic Forecasting Group (APA-TFG), it summarizes recent trends, and draws attention to changing competitive positions within the civil aviation industry that have potential to affect traffic flows.

2. ASIA/PACIFIC AREA TRAFFIC FORECASTING GROUP

2.1 ICAO's activities in the forecasting and economic planning field are contained in Appendix C of Resolution A33-19 – *Consolidated statement of continuing ICAO policies in the air transport field* which calls on the Council to develop and maintain long-term and medium-term forecasts of future trends and developments in civil aviation and to disseminate guidance to Contracting States as guidance in their own forecasting. The Resolution also addresses the requirements of the planning of air navigation systems and the assessment of the future environmental impact of civil aviation.

2.2 Traffic forecasts serve an important function in anticipating facilities and services that will be required to meet the demand for air travel and in determining where and when airspace or airport congestion may occur. The forecasts also have a special role in planning the cost-effective implementation of communications, navigation and surveillance/air traffic management (CNS/ATM) systems. In this context, the Council adopted in 1996 a strategy for the evolution of traffic forecasting activity to support more widely the planning and implementation of air navigation systems and a plan of action to establish traffic forecasting groups (TFGs) in all ICAO regions.

2.3 The APA-TFG was established in 1991 and has met on 11 occasions. At its most recent meeting in October 2002, the APA-TFG updated aircraft movement forecasts for the transpacific and intra-Asia/Pacific markets for the period 2000-2005. In addition, five-year passenger forecasts were developed for 41 major city-pair flows within, to and from the Asia/Pacific Region. Aircraft movement forecasts for selected flight information regions (FIRs) were analysed and peak-period parameters were updated.

2.4 The APA-TFG will hold its 12th Meeting from 23 to 30 July in Bangkok, Thailand and will review its forecasts based on the most recent, available information.

2.5 In addition to preparing updated forecasts, the APA/TFG will consider the development of cost/benefit analyses and business cases for CNS/ATM applications, and particularly the application of new guidance material on the development of business cases expected to become available in the last quarter of 2004.

3. RECENT TRENDS

3.1 Over the past decade, scheduled traffic of airlines registered in the Asia/Pacific Region grew at an average annual rate of 5.7 per cent compared to 4.4 per cent for the world. In 1993, the region's airlines performed 298.8 billion passenger-kilometres on international scheduled services and 139.2 billion passenger-kilometres on domestic services. The corresponding figures for 2003 were 497.3 billion and 261.8 billion, respectively. In three of the ten years, 1998, 2001 and 2003, the volume of international traffic declined – most significantly in 2003 when there was a 7.5 per cent reduction in the number of passenger-kilometres. Over the period 1993 to 2003, the volume of international freight tonne-kilometres performed by Asia/Pacific carriers almost doubled to 39.4 billion tonne-kilometres.

3.2 One of the key factors driving the long-term trend for international passenger movements is economic growth. The world's economy grew by 3.0 per cent in 2002 and is expected to expand by 3.9 per cent in 2003. For the period to 2015, the expected annual average rate of growth of the world economy is 2.5 per cent in real terms. Notably, the prediction for Asia/Pacific is higher at 3.1 per cent.

3.3 ICAO's most recent forecast of passenger-kilometres and freight tonne-kilometres for Asia/Pacific and the world were prepared in 2004 and these will be published in ICAO Circular 304, *Outlook for Air Transport to the Year 2015*, which will be available in the second half of 2004. In summary, the world's total passenger-kilometres are predicted to increase at an annual average rate of 4.4 per cent over the period 2002 to 2015, while Asia/Pacific's average growth rate is predicted to be 6.1 per cent. In 2002, Asia/Pacific's share of the world passenger kilometres was 26.7 per cent, but it is expected that this will increase to 33.2 per cent by 2015.

3.4 The APA-TFG will analyse the underlying trends for Asia/Pacific in greater detail at its 12th Meeting in July and will estimate the effects of trends on aircraft movements. In this context, it is notable that the number of jet aircraft in the fleets of airlines based in Asia/Pacific increased from 1,053 in 1993 to 1,625. Two-thirds of these aircraft are B737, B747, B777 or A320.

4. CHANGING COMPETITION IN THE INDUSTRY

4.1 The competition among airlines that is driving changes in fleet development and airline network strategies is entering a new phase. Up until the mid-1980s, the airlines adapted to continuing improvements in aircraft technology to achieve significant reductions in average costs of operation. This made it possible for airline fares to be reduced, and this coincided with a period of sustained economic growth. Airlines, particularly those engaged in longer haul travel markets, took maximum advantage of the economies of larger aircraft and concentrated on building up viable

networks focused on major gateway hubs. As a result, it was common for average aircraft size to increase over time.

4.2 Since the mid 1980's, however, average aircraft size has not increased while the volume of passenger traffic has more than doubled. In effect, airlines have sacrificed some of the economies they could have pursued using larger aircraft and by consolidating traffic at hubs. Instead, they have served new destinations and have increased frequency and offered more direct flights. The result has been a process of filling in the network and increasing connectivity.

4.3 ICAO's Contracting States reaffirmed their commitment to the process of liberalization of international air transport at the Fifth Worldwide Air Transport Conference in Montreal in March 2003. Although the pace and direction of change will be determined by the States, the result is that airlines are gaining increased commercial freedom to enter (and depart) routes and to vary their capacity. In an environment where the airlines have endured volatile market conditions and rising costs, principally fuel, competitive pressures are intense. Based on the evidence and the prospects for new technology, it is reasonable to conclude that increasing liberalization is a key feature of a new phase of development for Asia/Pacific's international air transport.

4.4 One manifestation of that competition is the emergence of what might be described as "low-cost", "no-frills" or "budget" airlines. In North America and Europe, these types of carriers have been able to achieve average costs per seat mile up to 50 per cent below the level of the major, established airlines. These airlines typically have an aggressive approach to reducing costs by paying less for their labour, airport services, and other inputs and by eliminating services that they believe are not valued by customers. But they also derive advantages by specializing in short-haul markets where their focused approach ensures they extract maximum productivity out of their fleets and their crews.

4.5 These "low-cost" airlines have had a major impact on fare levels. For example, the United States Department of Transportation estimated that the average air fare on routes of under 750 miles fell by 36 per cent (adjusted for inflation) from the beginning of deregulation in 1978 to 1997. However, on those short haul routes where the low-cost airlines were not present, the fares increased by 26 per cent over the same period.

4.6 The increasing competition from the low-cost airlines is contributing to the financial difficulties faced by the larger carriers that provide a full range of services across extensive networks. It is clear that the low-cost airlines have captured business from their established rivals. But low-cost airlines also claim that they stimulate market growth. The experience in the United States over the period between 1979 to 1997 was that passenger traffic grew by almost four-fold in those routes contested by low-cost airlines, whereas the increase was only 48 per cent on other short-haul routes. In a recent study by Cranfield University, it was shown that 40 per cent of the passengers traveling between the UK and the EEA countries now travel on a no-frills airline. The London to Barcelona route was cited as one example where 45 percent of the traffic had been captured by the no-frills operators by 2002 and that 55 per cent of the 1.67 million trips between the two cities were new trips – over and above what would have been achieved with natural market growth. The aggressive approach of the low-cost airlines has been a major factor in market growth occurring in North America and Europe.

4.7 In Asia/Pacific, low-cost airlines have been emerging in recent years. A low-cost airline in Australia now has a major share of the domestic market and is venturing into international markets. Similarly, a domestic low-cost operator in Malaysia is in the process of building a pan-Asian operation while new entrants and major carriers are active in establishing new low-cost ventures across Asia. The competition in Southeast Asia is becoming particularly intense. Experienced analysts have raised questions whether the region is about to undergo the same type of experiences seen in North America and Europe with significant expansion of the market, more point-to-point travel, and erosion of the market share held by the major airlines. These claims will be tested in the market over

the coming years, but it remains to be seen how the particular conditions in Asia/Pacific influence the competition.

4.8 Another significant competitive development is the impending introduction of the Airbus A380 into operation from 2006 onwards. The baseline A380-100 will have a capacity of 555 passengers in three classes and will have a range of up to 14,200km (7,650nm). One of the variants of this model, the A380-100R will carry the same payload with a range of 16,200km (8,750nm). Major airports in the region are preparing for the introduction of these aircraft while orders have been placed by Korean Air (8), Malaysia Airlines (6), Qantas Airways (12) and Singapore Airlines (15). Other major Asia/Pacific airlines have the A380 under consideration.

4.9 The A380 promises to deliver a significant reduction in the cost of transporting passengers and will be particularly important in maximizing utilization of slots at congested airports. However, it increases the potential for competition among major hub airports. Notably, Emirates has ordered 43 A380s and it has been expanding its network to take advantage of this fleet expansion and its hub airport at Dubai. Emirates is now the third largest operator flying into Australia and New Zealand in terms of seat capacity and will be second only to Qantas Airways for Australia in January 2005. This raises the possibility that traffic flows will begin to re-orient themselves from 2006 when the A380 enters service. In this context, it also is notable that Virgin Atlantic has been granted traffic rights to fly to Australia via Hong Kong, China. Although Virgin has delayed its order for the A380, this signals increasing scope for hub airport competition for traffic on the Kangaroo route.

5. ACTION BY THE MEETING

5.1 The meeting is invited to note the forthcoming 12th Meeting of the Asia Pacific Area Traffic Forecasting Group and also to note recent and emerging trends in air transport in Asia/Pacific.

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