



Contemporary Issues In Asian Aviation

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Global Scenario

- Airline business characteristically cyclical, high cost industry, with wafer thin margins, typically around 3% at best
- Starting with 9/11, downturn accentuated by SARS, Iraq invasion, Avian Flu & presently by soaring oil prices
- After about USD 42 billion losses in six years, IATA has estimated industry profit of USD 5.6 billion in 2007
- IATA revised forecast for 2008 down from USD 7.8 billion to USD 5 billion, due to credit crunch, high oil prices and slowing world economic growth.
- Globally airline debt has risen to 3 times the equity, a ratio almost double that in 2000.
- Comparatively, operating margins of leading airports are around 20%, engine manufacturers around 14% and aircraft manufacturers around 9%



Global Scenario – 2007 vs 2008

	2007	2008	Growth (%)
IATA airlines revenues (USD billion)	490	514	4.9%
Passengers (billion no.s)	2.243	2.322	3.5%
Freight (million Tons)	41.3	43	4.1%
Growth rates:			
Passenger	5.9%	4.0%	
Cargo	4.5%	4.3%	
World economy	3.7%	3.1%	
Yield	2.7%	0.6%	
Average Crude Oil Price (USD/barrel)	73	78	6.8%
Net Profit (USD billion)	5.6	5.0	-10.7%
Net Margin	1.1%	1.0%	



The Growth of Aviation Markets in Asia – Pacific and Middle East

- IATA forecasts strong growth in Middle East and Asia-Pacific Regions during 2007-2011, driven primarily by the strong economic performance expected in these regions.
- Growth in Middle East being the fastest.
- Annual growth during 2007-2011 in these regions are projected to be:
 - **Asia Pacific** **5.9%**
 - **Middle East** **6.8%**
 - Africa 5.6%
 - Europe 5.0%
 - N. America 4.2%
 - Latin America 4.4%



The Growth of Aviation Markets in Asia – Pacific and Middle East...Contd

- IATA estimates additional 500 million pax by 2011, of which 279 million will be within Asia Pacific region
- Intra Asia-Pacific travel estimated at 742 million by 2010, making Asia the largest passenger market in the world



Growth in Indian Aviation Market

- In Apr 07 - Jan 08, the domestic market has grown at about 29%, from 92,800 to 120,000 pax per day, on a base of 46% growth in Apr 06 – Jan 07 over 05 - 06
- However, Dec 07 and Jan 08 have recorded growth rates of lower than 15%, the lowest ever since Apr 04. This was matched by lower rate of capacity induction of about 16-17% during these months.
- Current aircraft fleet of Indian carriers at 300+, orders for another 400-odd aircraft placed, for delivery between by end-2015



Growth in Indian Aviation Market...Contd

- Indian aviation market has been booming – average growth domestic - 33%; international - 17%, over the past 2 - 3 years
 - 6 new airlines, almost all operating on the LCC model
 - Strong capacity growth in the domestic market, mainly in the LCC segment
 - Strong economic growth
 - Liberalisation of access to foreign airlines under bilaterals
 - Policy to encourage multiple Indian carriers to operate international services



Liberalisation of Air Transport in Asia and India

- In the recent years, the Civil Aviation has been liberalised in Asia
 - Most of the countries including China, Japan, Singapore, Hongkong, Australia have exchanged liberal traffic rights with other countries on bilateral basis.
 - The rights even on some of the most protected routes have also been liberalised.
 - Under ASEAN and SAARC initiatives, it is initially proposed to open up the 3rd/4th freedom markets, with opening up of 5th freedom markets to be pursued later.



Liberalisation of Air Transport in India

- Liberalisation Of Aviation Regulatory Regime
 - Complete Open Sky Agreement with USA
 - Virtual Open Sky with UK, SAARC, ASEAN
 - *UK – in terms of points of call i.e. access allowed to all points of call in India/UK*
 - *SAARC/ASEAN - Unlimited capacity allowed between specified 18 destinations in India and each of ASEAN Countries.*



Liberalisation of Air Transport in India...contd

SAARC Offer formalised with Sri Lanka, Bhutan, Bangladesh and Maldives

ASEAN Offer formalised with Brunei, Cambodia, Malaysia, Thailand, Singapore and Vietnam

- Liberal Agreements with most Other Countries
- Removal of requirement for Foreign Airlines to have Commercial Agreements (with Indian Carriers) to operate to India
- International Operations by Private Carriers
- Open Sky for Cargo



Liberalisation of Air Transport in India...contd

- Airports/ATC – Modernization & Expansion
 - **Restructuring & Modernization:**
Mumbai, Delhi, Kolkata & Chennai
 - **New Greenfield Airports:**
Bangalore, Hyderabad, Goa, Pune, Navi Mumbai,
Greater Noida & Kunnur
 - **Upgradation :** 35 Non-Metro & 55 Other Airports
 - **Investment :** Rs 40,000 Crores (US\$ 9 billion)



Liberalisation of Air Transport in India...contd

- **Strengthening of National Carriers – Air India/Indian**
 - Aircraft Acquisition – 68 for AI + 43 for IA
 - Integrated International/Domestic Networks
 - Economies of Scale/Synergies

Liberalisation of Air Transport in India...contd

- Currently, India has Air Services Agreement with 104 countries, of which:

- Countries where both sides are operating: 26
- Countries where only Indian side operating: 3
- Countries where only Foreign side operating: 27
- Countries where neither side operating : 48

- 70 foreign airlines operating to India as against 61 operating in 2004

- Capacity operated to/from India increased as follows:

(Seats per week in each direction)

	<u>2004</u>	<u>2007</u>	<u>% Inc</u>
	74,728	148,541	99%
	194,135	290,056	49%
	268,863	438,597	63%



Trends in Co-operation and Competition

- Whereas Liberalisation seems to have opened opportunities for carriers, it has its own challenges:
 - Increased number of players
 - Overcapacity
 - Price wars
 - Strain on infra-structure
 - Shortage of skilled man-power



Trends in Co-operation and Competition...Contd

- To combat the challenges of liberalisation, there is a trend for:
 - Consolidations, by way of
 - Mergers
 - cross-border ownerships
 - Outright purchases
 - Equity stakes
 - Carriers joining the global Alliances
 - Bilateral Commercial Co-operation Agreements between airlines
 - Emergence of Low Cost Carriers (LCC)



Trends in Co-operation and Competition...Contd

- Consolidations in India

Air India – Indian Airlines
(Merger)

Jet Airways – Air Sahara
(purchase of Air Shara by Jet Airways)

Kingfisher Airlines – Air Deccan
(equity stake by Kingfisher)



Trends in Co-operation and Competition...Contd

■ Carriers joining the Global Alliances

- Alliances are an important factor in airline development with members generating marketing & operational benefits, viz:
 - Frequent Flyer Programmes
 - Integrated route networks and capability to offer network benefits to customers even on the routes airlines are not flying.
 - Economies of scale by joint purchases viz. of fuel, GDSs etc
- The 3 main Global Alliances – Oneworld, Star and Skyteam, account for 60% of the total world airline capacity (ASKs), unaligned legacy carriers account for 30% and low cost carriers accounting for the remaining 10%.
- 18 of world's 20 biggest airlines are part of these Alliances.



Trends in Co-operation and Competition...Contd

- The recent entrants from Asia/Middle East to the Global Alliances are:

From Asia

Air India	-	Star
Air China & Shanghai Airlines	-	Star
China Southern Airlines	-	Skyteam
Dragon Air	-	OneWorld
Japan Airlines	-	Oneworld

From Middle-East

Royal Jordanian Airlines	-	OneWorld
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- Though until now, major Middle East carriers viz. Emirates, Etihad Airways, Gulf Air etc, being quite strong themselves are not yet a part of any Global Alliance, Qatar Airways is looking to join Star.

Trends in Co-operation and Competition...Contd

- Emergence of Low Cost carriers in Asia/Middle East

	Country	Airlines	Country	Airlines
Asia (excl. Regi- onals)	Australia	Jetstar	Korea	Jeju Air, Purplejet, Hansung Air,
		Virgin Blue		Yeonguan Air
	China	Spring Airlines Okay Airlines	Macao (SAR) China	Viva Macau
	HongKong	Oasis Hongkong	Malaysia	AirAsia
	India	Air India Express		FlyAsiaXpress
		Indigo	Malta	BritishJET
		Spicejet	New Zealand	Freedom Air Int'l
		Air Deccan		Pacific Blue Airlines
		GoAir		
	Paramount Airways			

Trends in Co-operation and Competition...Contd

	Country	Airlines	Country	Airlines
(excl. Regionals)	Indonesia	Adam Air	Pakistan	Aero Asia International
		Lion Air		Air Blue
		Indonesia AirAsia	Phillipines	CEBU Pacific Air
		Citilink Garuda Indonesia		Air Phillipines
	Japan	Air Do	Singapore	Jet Star Asia
		Skymark Airlines		Tiger Airways
		Skynet Asia Airways	Thailand	One-Two-Go
		Starflyer		Nok Air
		Air Next		Thai AirAsia
		Ibex Airlines		Bangkok Airways
		Jal Express	Vietnam	Pacific Airlines
	Gulf/ Middle East	Kuwait	Jazeera Airways	Saudi Arabia
	United Arab Emirates	Air Arabia, RAK Airways		Nas Air



Trends in Co-operation and Competition...Contd

- Whereas LCC concept had emerged to combat declining yields and high costs, now legacy carriers are forced to match low LCC fares, during a time of escalating costs.
- Increasing growth prospects have attracted & likely to attract more LCC players.
- More players – more competition – lower fares – a continuous cycle
- The bottom-line – lower yields for all operators



Privatisation of India/Asian Airlines, Airports and Air Navigation Service providers

■ **Privatisation of India Carriers**

- With AI/IC merger, privatisation of the government owned airlines is stalled.
- No urgent need for privatisation of AI/IC
- Private airline operators in India
 - Jet Airways/Jetlite
 - Kingfisher
 - Air Deccan
 - Go Air
 - Indigo
 - Spicejet
 - Paramount Airways

Privatisation of India/Asian Airlines, Airports and Air Navigation Service providers...Contd

■ **Privatisation of Asian Carriers**

■ **Currently, most of the major carriers in Asia are not wholly owned by Governments viz:**

- Cathay Pacific
- China Southern
- Japan Airlines
- Malaysia Airlines
- Singapore Airlines
- Asiana Airlines
- Korean Air

Privatisation of India/Asian Airlines, Airports and Air Navigation Service providers...Contd

■ **Privatisation of Airports**

- Traditionally, airports and airlines have been considered as essential components of the national aviation system, and hence both were regarded as public utilities.
- Due to this approach, operational and handling activities were contemplated as being fundamental for the development of the airport business, and commercial activities had a less important role to play.
- For that reason, airport assets and property have always been publicly managed and commercial activities have occasionally been contracted or outsourced to private companies.

Privatisation of India/Asian Airlines, Airports and Air Navigation Service providers...Contd



- However, since development of infra-structure has not kept pace with liberalisation, it has caused strain on infra-structure and so the urgency to develop the airports.
- Since development of airports is very cost-intensive and most of the governments have budget constraints, privatisation of airports has gained thoughts.
- After 1987, when UK privatised the BAA, the interest for privatization has been increasing across the world.
- In fact, as per the data in 2006, some of the Asian countries that have completed the sale or lease of airport facilities are: Australia, Cambodia, China, Japan, Malaysia, Singapore.

Privatisation of India/Asian Airlines, Airports and Air Navigation Service providers...Contd

- In India, Delhi and Mumbai airports—the largest revenue earner for the Airport Authority accounting for about Rs1,300 crore in 2005-06—have been handed over to private consortia for the next 30 years and most of the other 35 non-metro airports plan to lease out terminal and retail space to private entrepreneurs.
- In other Asian countries, many major airports are expected to be privatised in the near future.
- Currently, airlines are paying for inadequate Airport and ATC infrastructure in many ways:
 - Higher fuel consumption - long holding times, on ground and in the air
 - Lower utilisation of aircraft - slot constraints and air traffic congestion
 - Sub-optimal route network strategies, due to lack of night parking stands at major airports and navigational aids at many of the smaller airports
 - Increased passenger facilitation costs
- In India, while a start has been made to upgrade infrastructure, the results will be visible only after 2 – 3 years



Privatisation of India/Asian Airlines, Airports and Air Navigation Service providers...Contd

- **Privatisation of Air Navigation Service providers in India**
 - Air traffic services in India, so far the sole domain of airport regulator Airports Authority of India (AAI) and the largest source of that agency's revenues, may soon be hived off as part of a restructuring planned by the civil aviation ministry to set up a specialist entity running air navigation operations—on the lines of the US federal aviation administration—across Indian airports.
 - However, the brief to the consultant for the study is : to “assist in the corporatization of air navigation services (ANS) either by creating a new government company; or separating ANS from AAI to be undertaken by a subsidiary of AAI.”



Summary

In sum:

- The Civil Aviation worldwide is seeing the Liberalisation initiatives – both in bilateral/multilateral forms.
- Asia and Middle East regions are expected to experience the highest growth rates.
- Whereas liberalisation has brought its opportunities, it is also posed with challenges like over-capacity, price wars, strain on infra-structure.



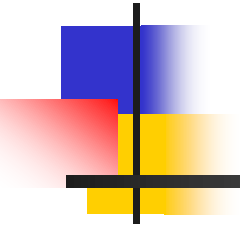
Summary...contd

- To counter these challenges, airlines are increasingly:
 - Consolidating
 - Co-operating with other airlines/joining global alliances, for increasing revenues and reduce costs.
 - Launching Low Cost carriers
- In the context of Global Alliances, Asian region has gained importance because of high growth and the need for reach into this market. As a result, recently quite a few Asian airlines have become members of these global alliances.



Summary...contd

- While Gulf carriers have not joined any Global Alliance, Qatar Airways is likely to join Star.
- Infra-structure needs to be developed keeping in pace with liberalisation, for which privatisation of airports is becoming essential.
- However, in the existing liberalised scenario of civil aviation, where airlines have no control on external input costs viz Fuel etc, AI's strategy is to develop alternative revenue streams viz:
 - Air cargo operations
 - Airframe, engine & component overhaul
 - Ground handling
 - Training
 - Leveraging the internet
 - Access to new markets



Thank You