

THE CONNECTED VISITOR ECONOMY BULLETIN

Asia's catalysts: Driving change in the aviation world



March 2017

If change is good, and on most occasions it is, then aviation in the Asia Pacific (APAC) region would appear to be in a very good position. Over the last five years the pace of change or perhaps evolution in the each of the sub regions has been dramatic. Much of that change has centred upon China and the increasing presence of low-cost airlines across the wider regions. It is however more than a tale about China – it is a broader story of how markets as geographically diverse as Australia, Japan and Vietnam are continuing to reshape the aviation world.

In this article, we examine what will drive that change in the coming years and the likely impact upon travel.

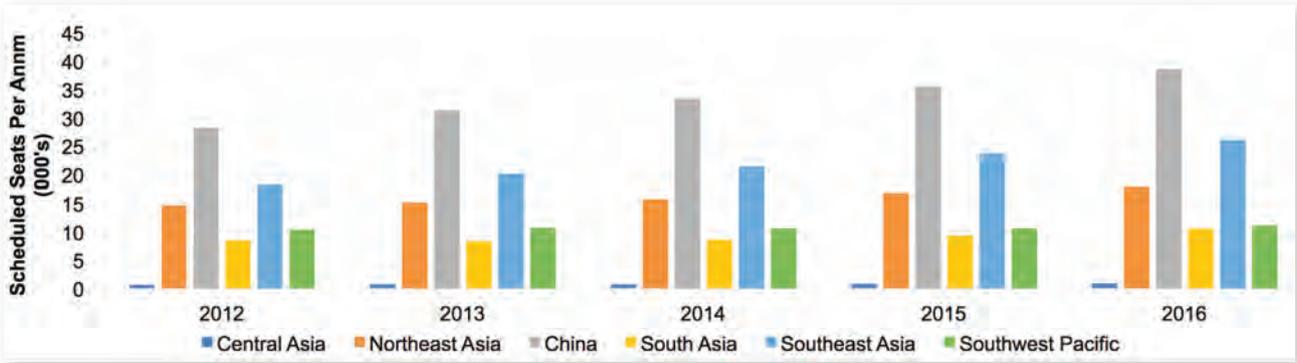




Five regions of growth

Over the last five years, the number of scheduled flights operated within, to and from Asia has increased by an impressive 30 percent, with the number of scheduled flights breaking through the one million mark in 2016. On a daily basis, some 28,600 flights were scheduled to operate in 2016 compared to 22,000 in 2012. As always, more detailed analysis provides greater insight and, as the chart below highlights, China and the Southeast Asia region are the major drivers accounting for 37 percent and 25 percent respectively of the overall flight count - with China being more than double the volume of the remainder of Northeast Asia. What is interesting is that, on a proportional basis, the respective shares between the regions remain largely unchanged over the last five years – indicating that all five regions are reporting similar levels of growth over the time period.

Chart 1: Scheduled flights by IATA region, 2012-2016



Source: OAG Schedules Analyser

The levels of growth reported from major markets such as China saw a 37 percent increase over five years, with Indonesia (47%) and Malaysia’s (29%) growth expected, given the earlier data insights. But what is perhaps enlightening is the rapid growth in markets such as Vietnam (75%), Cambodia (52%) and Macao SAR (53%) all of which whilst relatively small are proving to be increasingly popular.

Naturally the low-cost airline sector has thrived in the last five years, notably in many of the markets mentioned above, and today nearly one in every four flights is operated by a low-cost airline compared to one in five in 2012.

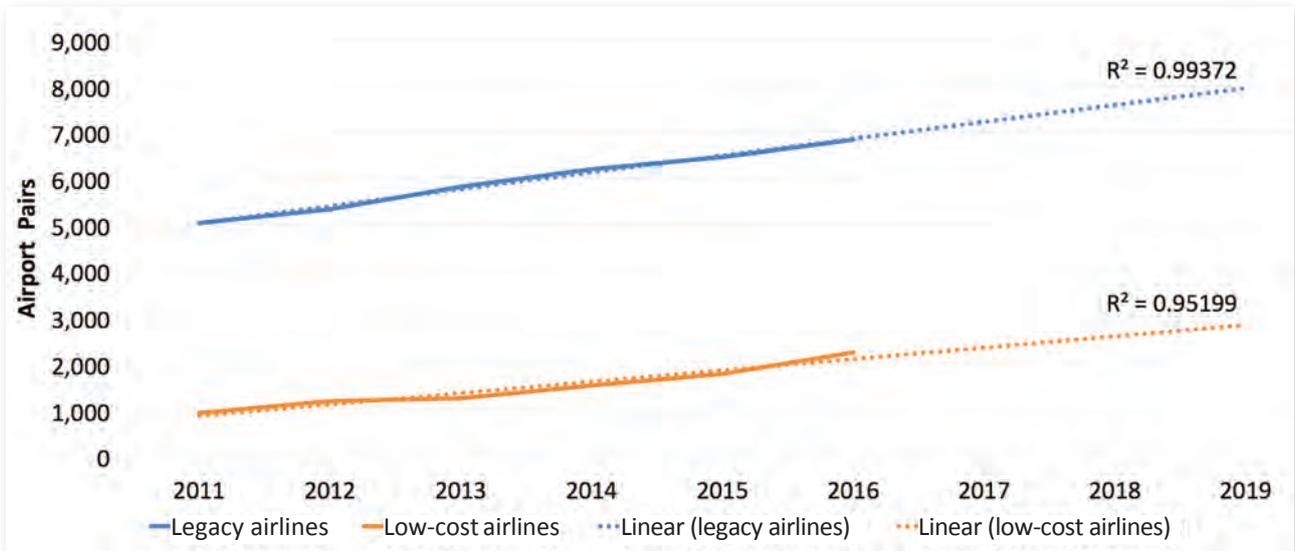
Indeed with much of China’s growth based on legacy carrier development, low-cost frequency remains at just under 10 percent, suggesting significant scope for future development.

Accelerated connectivity growth

Perhaps the greatest metric to confirm that change is good relates to the number of direct airport pairs that are now in operation. In 2011, 5,973 unique airport pairs were in operation and, in 2016, that number had increased by over 50 percent to 9,087 airport pairs.

The chart below highlights the respective shares of growth among the traditional legacy airlines and low-cost carriers and perhaps challenges expected thinking. In the last five years, low-cost airlines have added 1,052 new city pairs to their respective networks whilst among legacy airlines a much larger 1,802 airport pairs have been added as the legacy networks continue to evolve.

Chart 2: Unique airport pairs operated within, to and from Asia Pacific region



Source: OAG Schedules Analyser

Looking forward to the end of the decade and applying a linear trend line to the data suggests that there will be close to 11,000 unique city pairs being operated by the end of 2019, representing growth of over 20 percent on 2016 figures.

Collectively the additional new airport pairs represent a dramatic increase in connectivity within the Asia Pacific region and when each new city pair provides subsequent connectivity to either other regional or longer-haul markets the accessibility for every city in the region is vastly improved.

Such increases in frequency, capacity and connected city pairs can only occur when there are one or more catalysts of change and, in this case, we believe that multiple factors are behind the growth of capacity in the Asia Pacific region.



The catalysts for change

Narrow-bodied aircraft are good news



Advances in technology are frequently linked to changes in consumer attitudes and product acceptance, and the aviation market is no different to any other. In the last decade, the APAC has seen considerable growth in the use of single-aisle jets such as the Boeing 737 and Airbus A320, as the table below highlights. In 2007, just over one million flights within the region were operated by wide-bodied aircraft. In 2016, that figure had increased by some 56,000, or around 154 extra services a day. By means of comparison, the frequency of single-aisle aircraft has more than doubled from 3.695 million flights in 2007 to 7.467 million in 2016 - a staggering 3.772 million additional flights a year or in daily terms an extra 10,335 flights every day.

Table 1: Scheduled flights operated by aircraft type within APAC region

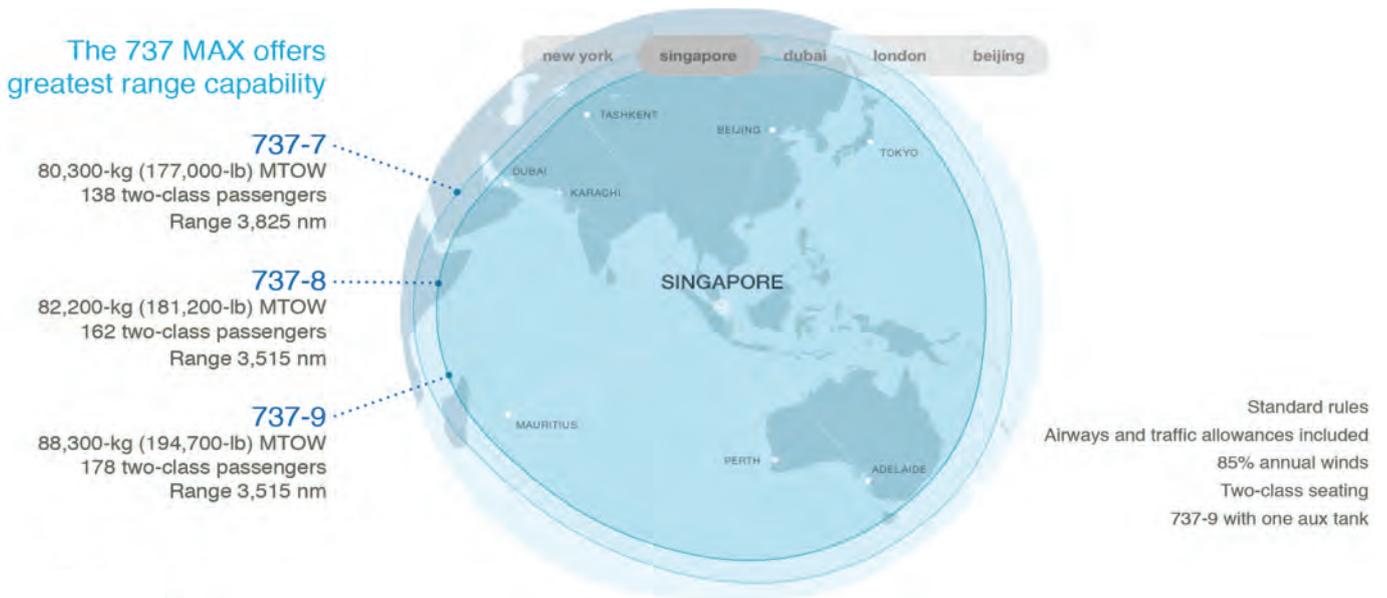
Year	Wide-bodied aircraft	Single-aisle aircraft	Wide-bodied aircraft	Single-aisle aircraft
2007	1,008,381	3,695,052	21.4%	78.6%
2008	1,005,256	3,890,662	20.5%	79.5%
2009	955,089	4,038,641	19.1%	80.9%
2010	936,776	4,560,463	17.0%	83.0%
2011	926,703	5,059,008	15.5%	84.5%
2012	964,219	5,461,345	15.0%	85.0%
2013	981,415	5,963,337	14.1%	85.9%
2014	991,259	6,375,045	13.5%	86.5%
2015	1,016,538	6,859,407	12.9%	87.1%
2016	1,064,856	7,467,144	12.5%	87.5%

Source: OAG Schedules Analyser



In 2017, the Asia Pacific region will benefit from the rapid introduction of the A320neo and, at a slightly later date, the B737 MAX aircraft variants. These aircraft not only have lower operating costs but also operate over extended ranges. These two factors are expected to further stimulate medium and long-haul low-cost network developments. Boeing's predicted payload range of the B737 MAX on page 5 illustrates just how extensive a network could be operated by the aircraft based on a Singapore operation.

Map 1: Payload range of the B737 MAX



Source: Boeing

Both aircraft types will comfortably handle flights of up to eight hours that were once the exclusive domain of wide-bodied aircraft. The operating advantages of this latest generation of narrow-bodied jets will open new markets and spawn connectivity between cities and destinations hitherto poorly served by international carriers.

Sectors such as Singapore – Sydney will be heralding new opportunities for carriers and challenges for others. Airbus currently has on order 1,510 A320neo¹ aircraft, ordered by carriers in the Asia Pacific region, and has to date delivered just 19 - highlighting just how much change will be occurring in the next few years.

In April 2017, the A320neo will be operated across a mix of destinations in the region (as the schedule map below illustrates) across the network of launch airlines such as Air India, Sri Lankan Airlines and Batik Airways/Lion Air. Undoubtedly, within the next two years, these relatively small A320neo networks will have expanded considerably as carriers such as Air Asia introduce new aircraft.

¹ Airbus Order Book, November 2016

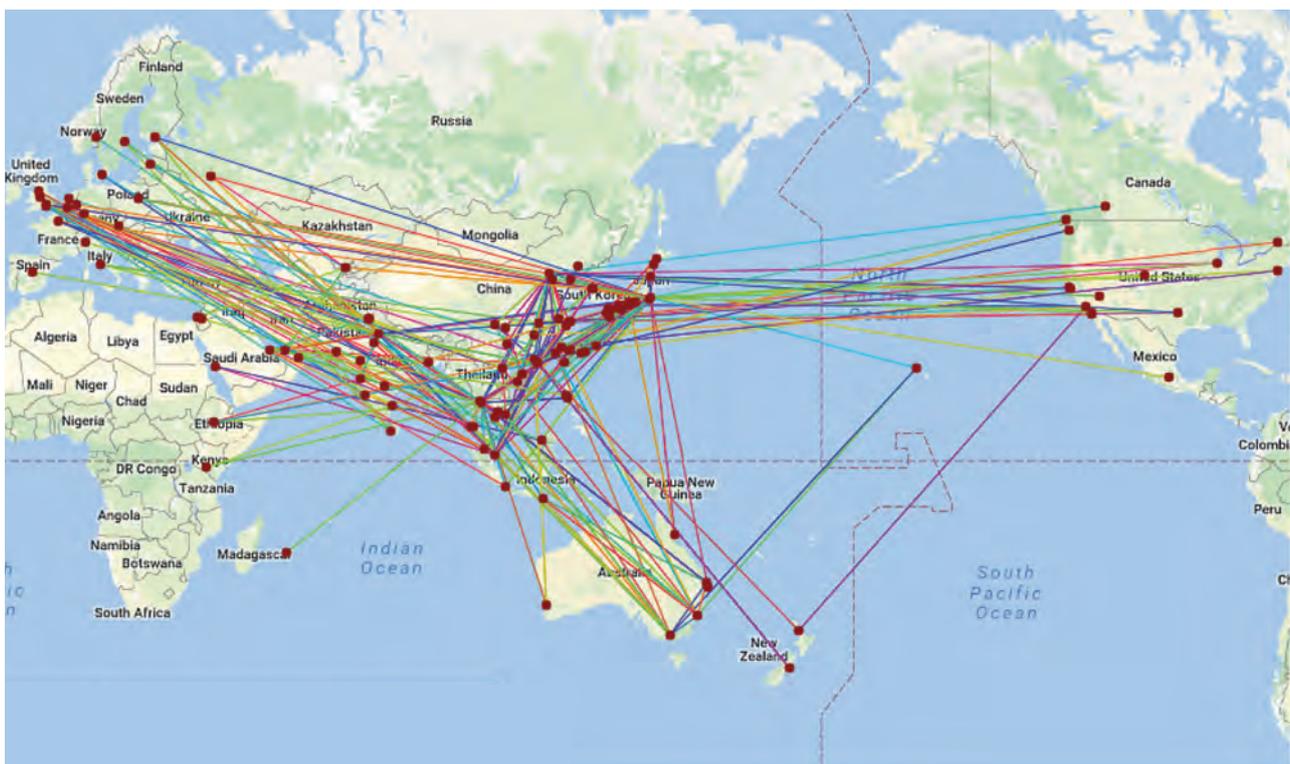
Map 2: Scheduled service operations of the A320NEO, APAC region, April 2017



Source: OAG Schedules Analyser

Such growth in the single-aisle aircraft sector does not however signal the demise of the wide-bodied sector but complements the increasing use of the B787 Dreamliner and A350 among airlines in the APAC region. From March 2017, these two aircraft types will operate services from the region to all major city pairs and encourage the opening of ultra-long-haul sectors such as Doha – Auckland and Perth – London with the latter route in Qantas’ plans for 2018. The map below highlights planned scheduled services of the B787 and A350 in March and the Asia Pacific region has become the focus for the operation of these new aircraft with major deliveries scheduled for later this year to further build networks.

Map 3: March 2017 network of A350 and B787 aircraft from APAC region



Source: OAG Schedules Analyser

■ Ownership flexibility & structure

In a rapidly changing market where there is strong competitive pressure on costs and operating efficiency, aspects such as ownership structures, joint ventures and airline partnerships are all important. The need to reduce risk and increase market presence is equally vital.

For many years the Asia Pacific market was characterised by state-owned airlines, restrictive ownership structures and comparatively high overheads burden. Today the region has transformed itself and is providing leading edge thinking in this area.

The concept of the franchised airline developed in the Asia Pacific region whilst commercial marketing partnerships such as the Value Alliance of eight low-cost airlines brings new meaning to the more conventional legacy airline alliance models. Such initiatives challenge established ownership models, provoking responses in some markets where legacy carriers possibly seek to protect their networks from external competitive threats. In Japan's no-frills segment, six of the seven airlines operating are either 100 percent owned by ANA or JAL or those airlines have significant equity stakes². Such control of the market can be challenging and early examples of such ownership models in other parts of the world failed to deliver the expected results. However carriers such as Jetstar have equally proven that, through its various localised brands and ownership, it can both stimulate markets and rapidly change consumer travel patterns.

■ Easing of regulatory processes



In any market where some form of change in regulatory environment has taken place, aviation is no different as we frequently discuss about concepts such as open skies. For some years, there has been a steady but consistent theme toward open skies largely underpinned by the positive economic impact of such agreements. In 2015, a study by Mott McDonald³, a leading aviation consultancy, estimated that open skies in Indonesia would generate US\$2.7 billion in additional direct GDP and 16,000 direct jobs by 2025.



In the last quarter of 2016, China negotiated open skies agreements with both the United Kingdom and Australia thus firmly establishing a new desire to allow maximum international connectivity. Such agreements will be expanded in 2017 and beyond with key trading markets as the aspiration for various Chinese airlines to increase international services grows.

The increased access of Tokyo Haneda Airport to international services has both stimulated additional frequencies on major long-haul markets and resulted in growth of over 17 percent in capacity in five years. Whilst the 'opening' of Haneda was expected to be at the expense of Narita, the reality could not be further from the truth as the airport continues to see growth in many markets. With the Summer Olympic Games taking place in Tokyo in 2020, that growth will surely continue.



Improvements in visa requirements have also resulted in greater flexibility in travel. Increasing use of processes such as visas on arrival, electronic applications or the waiving of all such requirements in some markets and between selected countries has made travel easier to plan whilst at the same time reduced the costs of such trips.

² www.oag.com/blog/domestic-japan-still-all-about-jal-and-ana

³ www.mottmac.com/article/3964/asean-open-skies-impact-assessment

■ Mobile access developing rapidly



Internet access has changed travel distribution in the last decade. A cocktail of increased consumer access, increased access to consumer credit in many markets, meta search providers and dynamic consumer packaging have created a level of distribution freedom never seen before. Asia currently leads the world in terms of internet usage with 1.8 billion users in June 2016⁴, three times more than the next largest geographic region. And yet, that volume of users equates to only 45.6 percent of the identified population and half the level of penetration seen in North America, highlighting the scope for future growth in both internet usage and changing distribution processes⁵.

The power of social media cannot be underestimated in the change that we have seen in the last decade. Travel planning has become dynamic in every sense of the word. Decisions on travel can frequently be made between groups using social media apps; flight and hotel bookings made immediately using tools such as Skyscanner and Airbnb and ground transfers via Uber - all in less than the time to finish a coffee.

■ The changing traveller

Perhaps the final catalyst to the change we are experiencing is you and me. We are increasingly independent, worldly wise, open to new ideas and opportunities and hungry to stretch our travel boundaries. New routes, greater frequency, lower fares, product transparency, social media and increasing leisure time have all impacted upon how we both think and plan our travel. As indicators suggest, much growth reported in the Asia Pacific region has been generated within the region itself rather than relying on long-haul inbound demand growing. Such market strength and increased connectivity between city pairs makes travel by air an everyday experience rather than an once-in-a-lifetime adventure. As Skyscanner notes in its most recent list of emerging travel destinations for Singaporean residents, eight of those top 10 are located in the Asia Pacific region, confirming there is plenty to see and do without an excessively long-haul flight⁶.



⁴ <http://www.internetworldstats.com/stats.htm>

⁵ <https://www.mobileworldlive.com/asia/asia-news/smartphone-adoption-in-asia-tops-50/>

⁶ <https://www.skyscanner.com.sg/news/inspiration/travel-trends-2017-top-10-emerging-destinations-for-singaporeans/>



■ The next big change

Predicting change is uncertain. By its very nature, change is constant and frequently creeps up on us rather than occurring overnight. On most occasions, the change is not only for the better but also creates new and exciting opportunities.

Long-haul low-cost travel is certainly a topic of much discussion with carriers such as Scoot launching to Europe and Air Asia X securing US authority to operate to Hawaii. Soon the established legacy airlines will face a new series of product and service challenges to their business models.

The more traditional long-haul markets will also see some ground breaking evolution as the B787 and A350 continue to stretch operational ranges. LATAM has already announced a new Santiago – Melbourne service and increased direct connectivity from the Asia Pacific region to South America is inevitable. Markets with selected long-haul demand such as Perth, Auckland, Buenos Aires, Santiago, Cape Town and perhaps Durban are likely to be key benefactors from the new technology aircraft.

The APAC region sits at the heart of the changing aviation market place and will lead the rest of the world through the next few phases of change. The combination of aircraft deliveries, new routes, new airlines, new alliances and a new breed of traveller seeking to disperse to lesser known destinations means that the Asia Pacific region is destined to remain the engine room of global tourism growth for the foreseeable future.

About the Author

OAG is an air travel intelligence company that provides accurate, timely and actionable digital information and applications to the world's airlines, airports, government agencies and travel-related service companies.

With the world's largest network of air travel data we play an integral part in helping power a wide variety of industry solutions. We are able to connect our customers to the traveller by providing a full life-cycle of products and we tell the whole story from scheduling and planning, flight status and day-of-travel updates to post journey analysis and on-time performance review.

With an unrivalled ability to aggregate complex data sets, we deliver real-time insights, compelling visualisations, powerful applications and analytics.

Through an unmatched global network of tools, high-quality data, experts and relationships, OAG can unlock hidden sources of value, enabling its customers to innovate and advance their businesses and deliver up-to-the-second actionable solutions, shape smart applications and optimise business operations to enhance their customers' experience. In short, we connect the world of travel.

Headquartered in the UK, OAG serves the air travel community from its global network of offices situated in the UK, USA, Singapore, Japan and China.

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