

Low Cost Carriers and Startups: Ensuring financial fitness & addressing competition consequences

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The Backdrop

- Economic growth explosion - likely to continue
- This is enabling hundreds of millions of people potentially to have access to international travel
- Bilateral free trade agreements are stimulating **intra-Asian** trade
- There is some evidence that aviation liberalisation is being influenced by these FTAs
- **BUT** - International aviation remains heavily regulated

LCCs – a catalyst for change

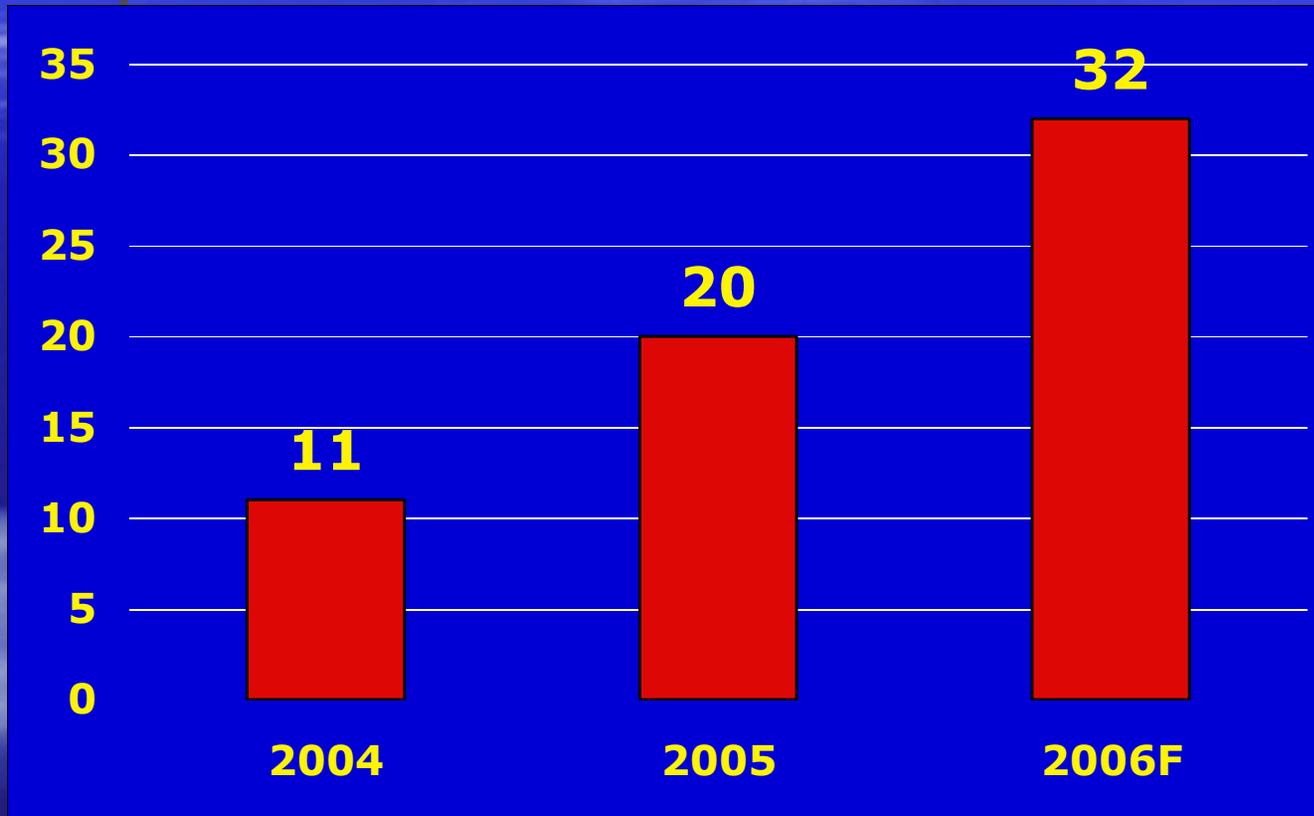
- Liberalisation has accelerated since 2003:
 - New airline entry
 - New routes/city pairs
 - Much faster traffic growth on intra-regional short haul routes
- Airline industry changes – market EXIT soon to become reality
- LCCs provoke new procedures
 - Airport charging and movements
 - Outsourcing of many activities, including aircraft maintenance
 - Pressure on airline incumbents to restructure
 - New pressures on ATC, ANS providers

The Asia Pacific LCC Model

1. International - therefore governments regulate:
 - Route access
 - Airline entry
 - Ownership
2. Flag carriers are dominant - and many govt-owned
3. Distribution is more complex = innovative
4. Joint ventures used, to avoid national ownership constraints (ThaiAirAsia, Jetstar Asia)
5. Outcomes -
 - AsiaPac LCC model includes longer haul operations
 - Subsidiaries of flag carriers WILL be effective
 - Varietal “LCCs” - This involves entry of various new airline types, not just a low cost airline revolution

Asia Pacific LCC Entry 2004-2006

Asia Pacific/Middle East LCCs in Operation
(as at January each year)

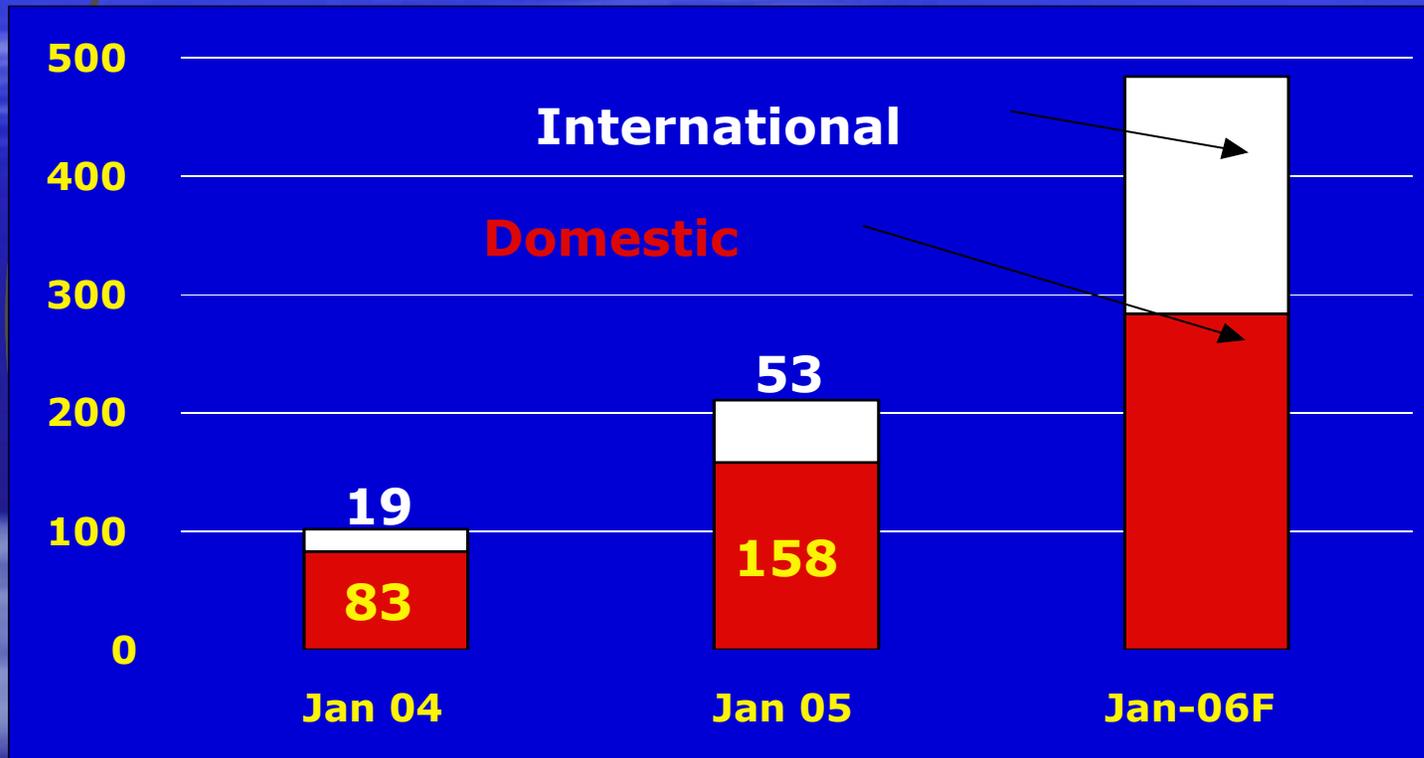


Source: Centre for Asia Pacific Aviation

Includes only announced startups

25% of LCC routes are international

Asia Pacific/Middle East LCC Destinations
- Domestic & Int'l (as at Jan each year)



Source: Centre for Asia Pacific Aviation

Up to 500 Asia Pacific destinations in 2006



New North Asian LCCs

- China Mainland**
- CK Airways
 - Spring International
 - Eagle United Airlines

- Macau**
- WOW!Macau
 - Golden Dragon

- S.Korea**
- Hansung Airlines
 - Jeju Air
 - Korean Air (?)

• - Airports listed by ACI
• - Airports not listed by ACI
 (Year 2000)

The story so far...

The new environment

■ #1 Rapid growth

High growth rates generate human resource shortages – These are quickly becoming serious. In turn this:

- Constrains growth
- Dilutes experience levels
- Increases manpower costs for airlines
- Increases pressure on ATC, ANS providers, as well as airlines and airports

Two reasons to regulate airlines

1. The public interest need to ensure an acceptable level of safety. For airline operations, this level approaches zero tolerance
2. In some circumstances, to protect consumers (and other airlines) from unfair commercial practices or from the effects of airline financial collapse

BUT - because bilateral limits still exist, several other regulatory responses are necessary

The new environment

#2 Route allocation

- **Entry of new airlines – LCCs or others – creates a need to establish procedures for allocating bilateral rights among national airlines. This is essential to:**
 - ensure transparency of process; and
 - encourage effective competition
- **Several governments maintain that bilateral route rights are “confidential” – despite Chicago Convention commitments to register**
- **The Australian model, based on analysis of US, UK and others – International Air Services Commission:**
 - Publish a registry of available capacity/routes (“shelf capacity”)
 - Establish criteria for administrative review of applications (lightly weighted towards new entrants)

The new environment

#3 Safety oversight

- Previous heavy reliance on - and de facto delegation to - the national airline's safety controls and resources
- National authorities need to be able to adapt to multiple airline oversight
- Can require additional resources, different attitudes
- Outsourcing maintenance
 - A core characteristic of LCCs
 - Becoming more widespread as major airlines adjust costs and balance sheets (heavy maintenance largely outsourced in US)
 - Creates new supervisory issues for national administrations

The new environment

#3 Safety oversight

- There is no evidence that LCCs are less safe. Their incentive is very high to ensure highest standards. One aircraft model helps make maintenance and operations simpler
- BUT - there are many new generic market features
- The Bottom Line:
 - Need for improved national oversight practices, adapting to this new environment
 - **Need to coordinate internationally within the region** models include JAA, (FAA, JAROPS), PASO (in South Pacific), Australia-NZ
 - ICAO's audit role increasingly important

Why Safety?

Toronto Globe and Mail

Friday, April 8, 2005

Jetsgo faces safety ultimatum

By BRENT JANG

“The federal government wants to clamp down on insolvent **Jetsgo Corp.**, arguing in a 75-page court filing that **Canada's aerospace reputation could be tarnished if alleged safety infractions at the discount airline are allowed to go unchecked.** The Attorney-General of Canada, representing 10 government departments and agencies, is asking Quebec Superior Court to modify its initial order that granted Jetsgo protection from creditors on March 11.

Ottawa argues that Jetsgo's bankruptcy protection has unduly restricted the ability of regulators to perform their duties. **“This situation is contrary to public interest and the security of users, and also considerably damages Canada's reputation at the international level with respect to aeronautical security and safety,”** the government warns in its submission. “An inspection by representatives of Transport Canada had revealed important deficiencies in numerous areas of Jetsgo's operations.”

The new environment

#4 Consumer protection

1- Default

- LCCs have a different cash profile – advance payment (internet/credit card, sales through 7-11s, post offices)
 - Credit card companies may withhold payment until flights have been operated –“self-protect” system, so customers receive refunds in case of default
 - Escrow accounts could/should be established for all other cash sales. These are potentially an area of concern
- Network airlines have different revenue profiles, usually BSP, delayed payments
 - “insurance” schemes are sub-optimal

The new environment

#4 Consumer protection

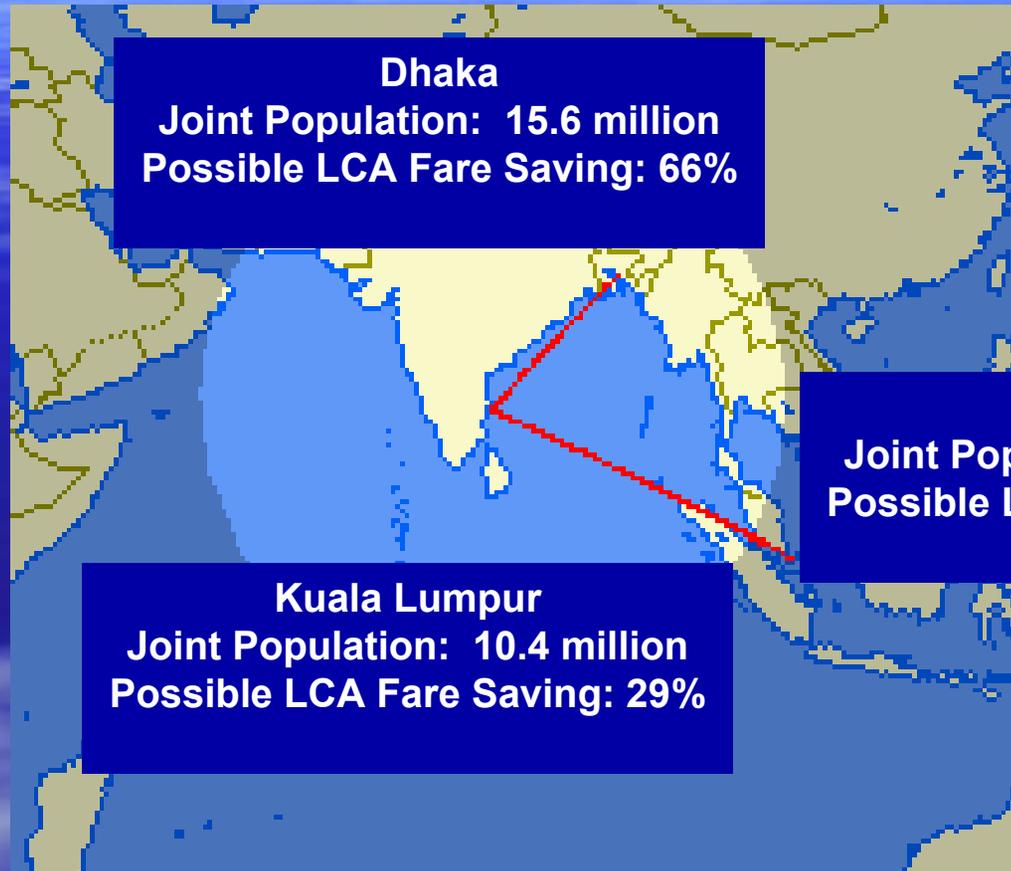
2- Unfair competitive practices

- Misleading advertising
- Overbooking
- Air carrier insurance/liability
- Discrimination
- Disabled pax

The potential fruits of liberalisation

- 235 Asia Pacific cities have populations exceeding 500,000; 130 cities have over one million population
- **ONLY A TINY MINORITY OF THESE** have international connections!
- 339 regional airports are capable of accepting B737NG/A320 equipment

Chennai

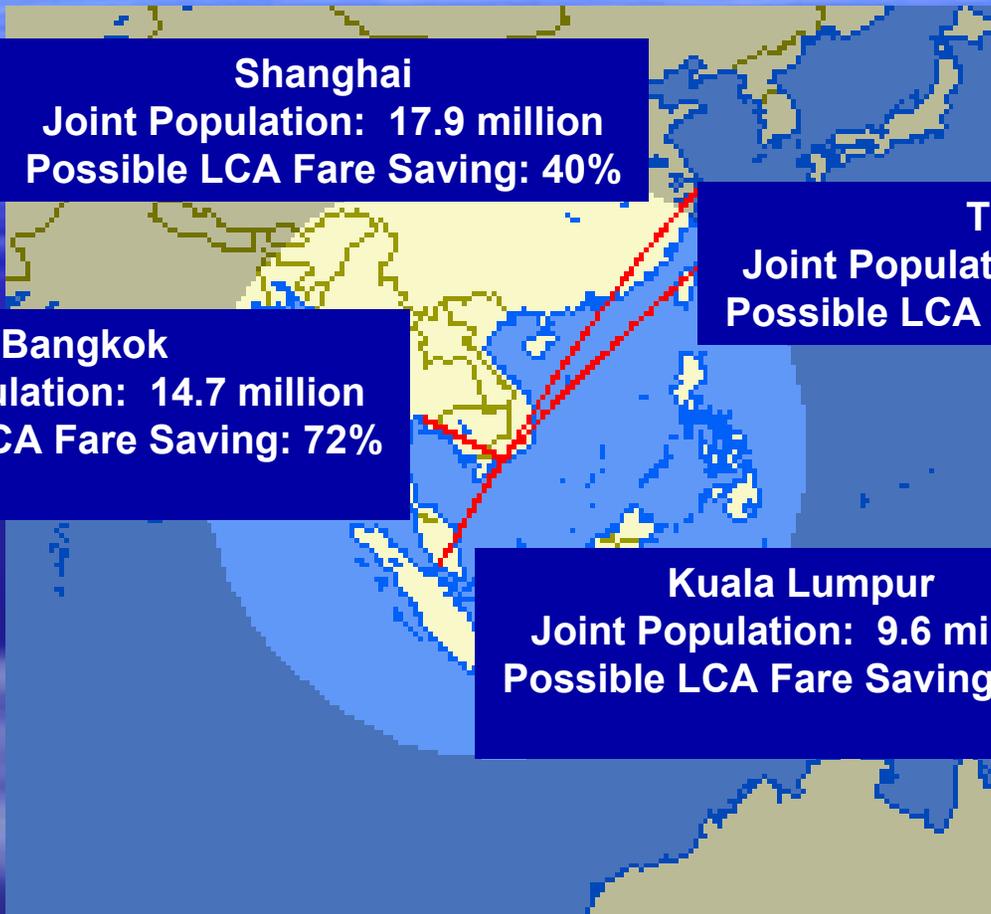


Total Population 1.544 Billion

Metropolitan Areas: 98

Metropolitan Populations 213 million

Ho Chi Minh



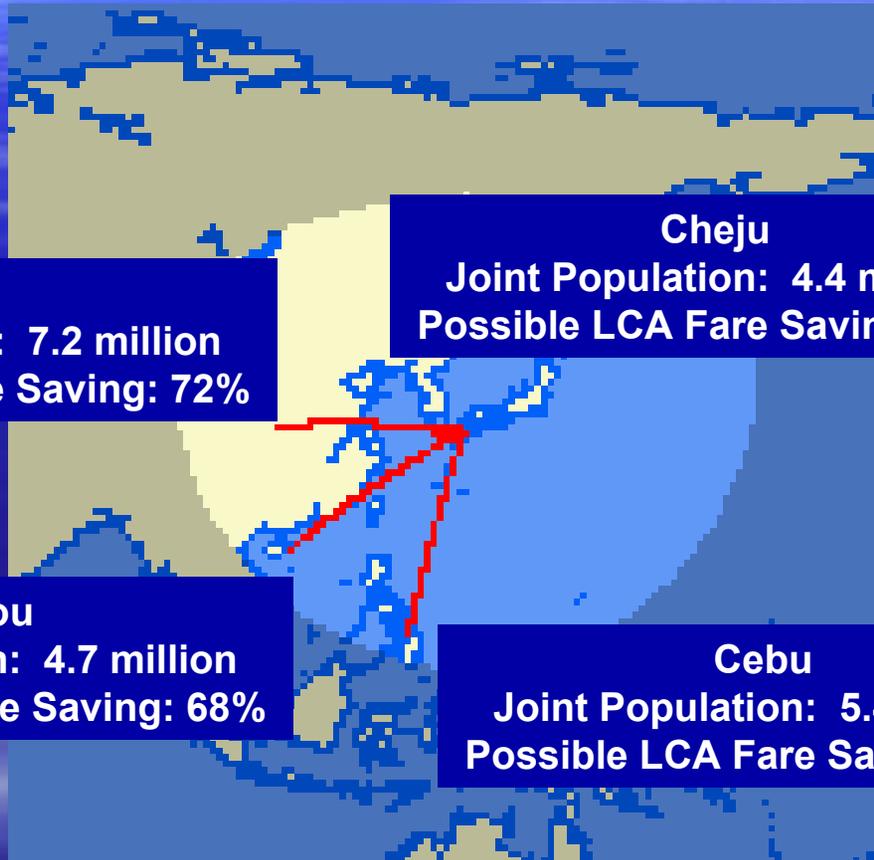
Shanghai
Joint Population: 17.9 million
Possible LCA Fare Saving: 40%

Taipei
Joint Population: 13.8 million
Possible LCA Fare Saving: 58%

Bangkok
Joint Population: 14.7 million
Possible LCA Fare Saving: 72%

Kuala Lumpur
Joint Population: 9.6 million
Possible LCA Fare Saving: 68%

Total Population: 916 Million
Metropolitan Areas: 51
Metropolitan Populations 165 million



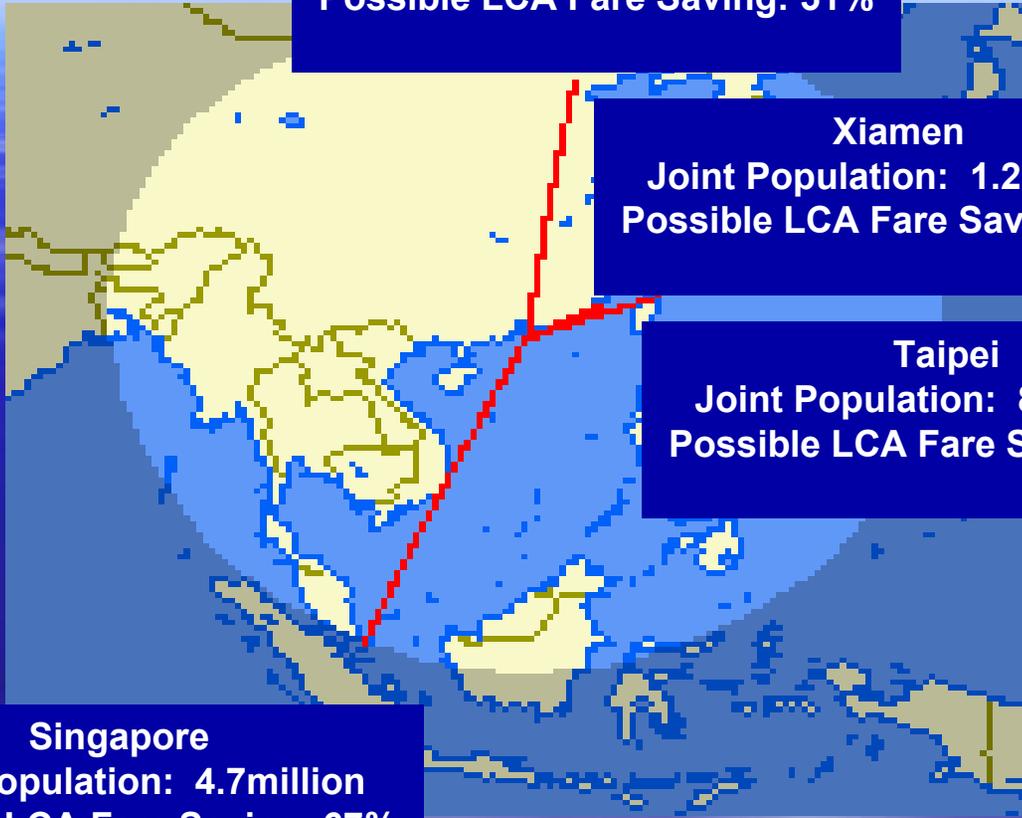
Xian
Joint Population: 7.2 million
Possible LCA Fare Saving: 72%

Cheju
Joint Population: 4.4 million
Possible LCA Fare Saving: 84%

Haikou
Joint Population: 4.7 million
Possible LCA Fare Saving: 68%

Cebu
Joint Population: 5.4 million
Possible LCA Fare Saving: 53%

Total Population: 1.511 Billion
Metropolitan Areas: 148
Metropolitan Populations 277 Million



Beijing
Joint Population: 9.8 million
Possible LCA Fare Saving: 51%

Xiamen
Joint Population: 1.2 million
Possible LCA Fare Saving: 72%

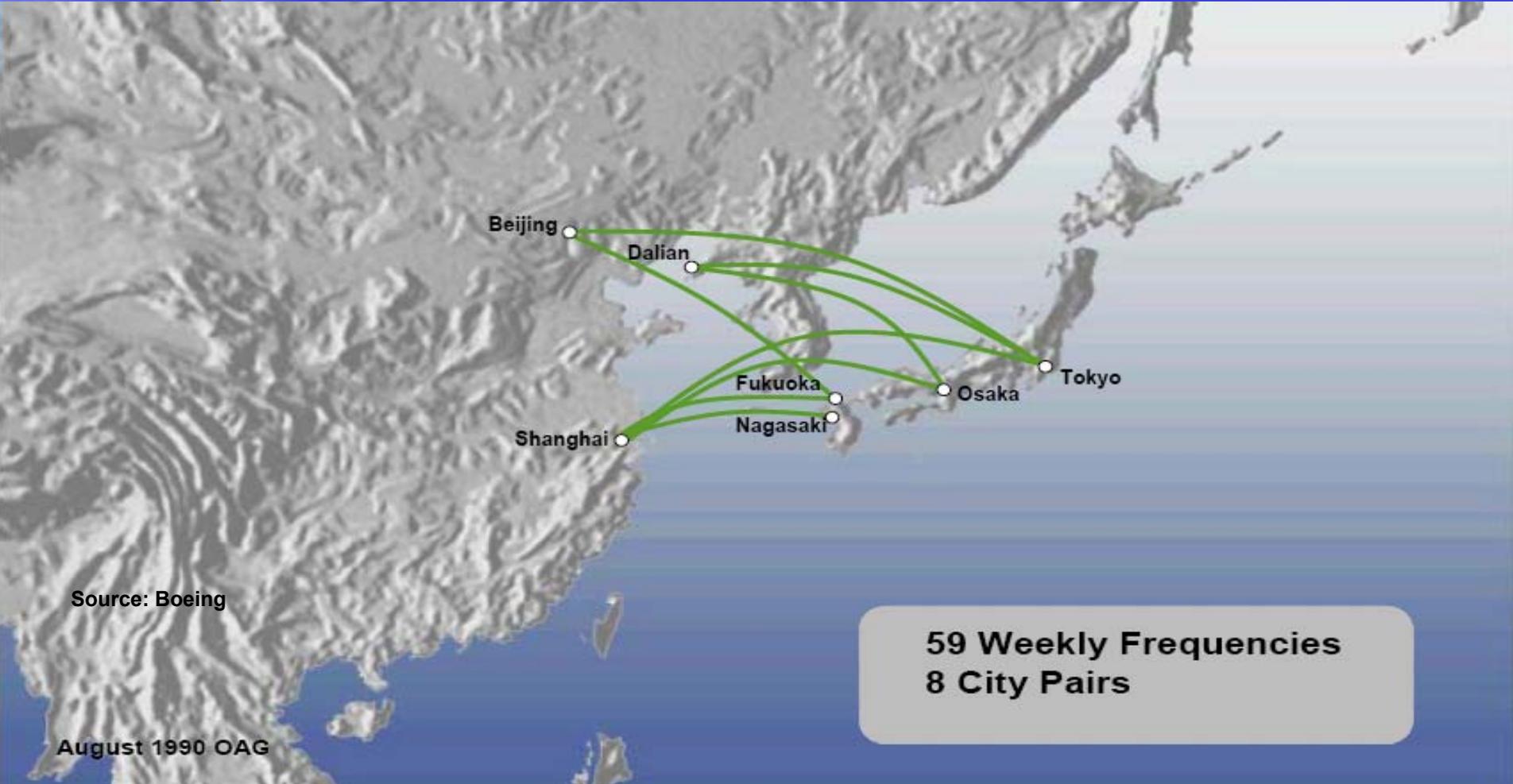
Taipei
Joint Population: 8.3 million
Possible LCA Fare Saving: 68%

Singapore
Joint Population: 4.7million
Possible LCA Fare Saving: 67%

Total Catchment Population: 1.92 Billion
Metropolitan Areas: 161
Metropolitan Populations 331 Million

The impact of point-to-point connections - 1990

Source: Boeing



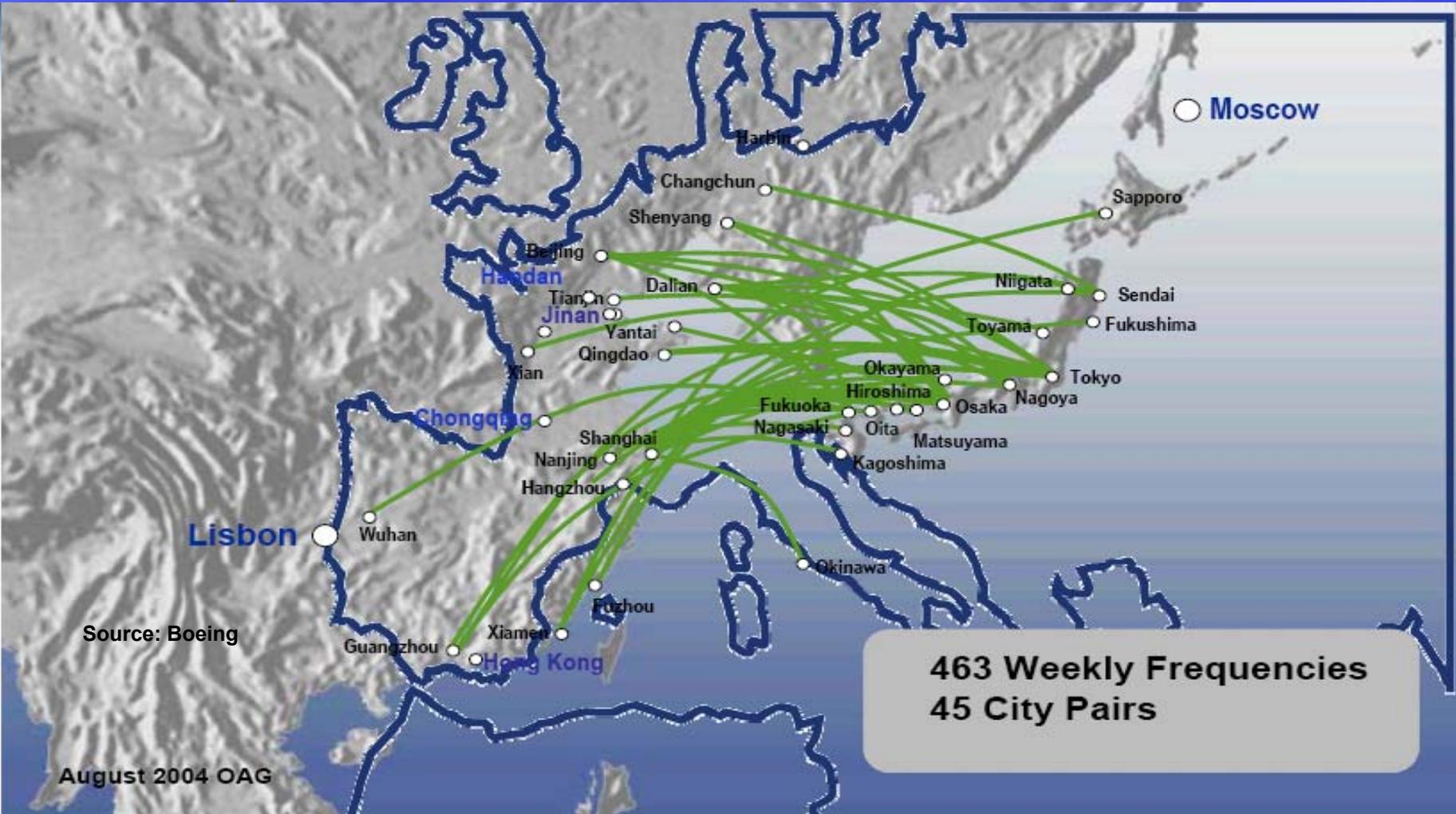
Source: Boeing

August 1990 OAG

**59 Weekly Frequencies
8 City Pairs**

The impact of point-to-point connections - 2004

Source: Boeing



Thankyou!

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