



HARNESSING LIBERALIZATION FOR TOURISM AND ECONOMIC DEVELOPMENT

25 May 2005

ICAO SYMPOSIUM, SHANGHAI

UDOM TANTIPRASONGCHAI

One-Two-GO by Orient Thai Airlines



EXECUTIVE SUMMARY

Strong growth in passenger traffic experienced in the region...

Yet business operations of S.E. Asia players are not profitable

Current business model does not entail sustainable value creation

Severe price competition in the market

Major cost components unavoidably rising

Superior services required as Asian Consumers are more demanding

Market dynamics shifting from “Low Cost” to “Low Fare” market

Further liberalization of airports expected, in hope to expand routes and feed traffic

Suvarnapume, Chiangmai and Phuket airports expected to expand operations

Current corruption scandal will slow down progress

Three potential impacts created to the overall aviation industry and Thai economy

Infrastructure – Airport expanding terminals for low cost

Equity market – Expansion requires public funding

Consumers – Market become spoiled to low price

Key action steps required are

1. Transparent Control by The Government Authorities
2. Improve the related infrastructure and human resources
3. Market Identification



AGENDA

Overview of Thai aviation and tourism industry

- Supply
- Demand
- Consumer
- Regulations

Potential impact to tourism and economic development

Proposed key action steps required



AGENDA

Overview of Thai aviation and tourism industry

- Supply
- Demand
- Consumer
- Regulations

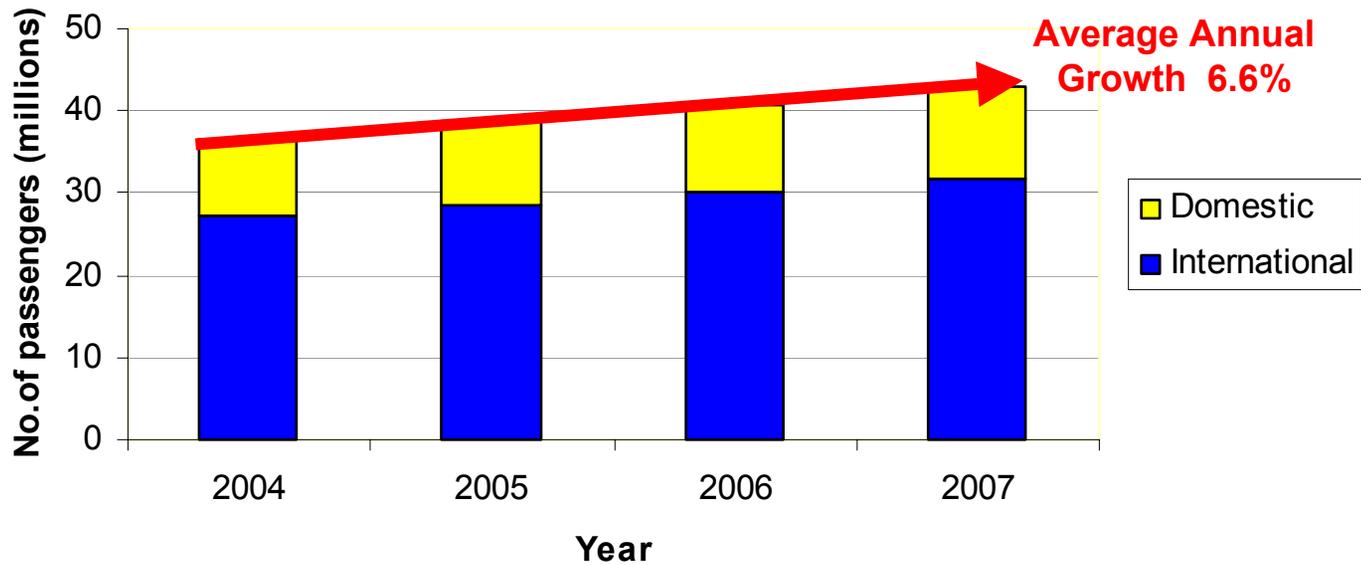
Potential impact to tourism and economic development

Proposed key action steps required



POST OPEN-SKIES PROJECTED TO SPUR GROWTH IN AVIATION INDUSTRY

Bangkok International Airport Passengers Forecast



YET BUSINESS IS TOUGH FOR THE INDUSTRY

***'Mr.Boonklee said Thai Air Asia
needed to raise its load factor
to boost revenues' ,
'ThaiAirAsia had net losses of
106 MB at the end of June'***

Bangkok Post,
October 2, 2004

***'Nok Air: Break-even not likely
till 2006'***

The Nation,
October 7. 2004



HOW DOES AN AIRLINE ACHIEVE HAPPINESS?

PROFITABILITY

DEMAND POTENTIAL

Pricing

Pricing

Volume

Market/ airport selection
Sources of competitive
advantage – branding,
services and offerings

SUPPLY POTENTIAL

Cost

Fuel price
Maintenance

Capacity

Supply density compared
to demand

The airline must identify the *pool of revenue* that it has advantage in capturing

It must *spend less money* serving the pool than the pool can provide



VARIOUS FORCES AFFECTING BUSINESS

SUPPLY

- Seasonal Business causes periodic excess capacity
 - industry avg. load factor at 70%
- Excess supply leads to price wars which disrupts business economics
- Rising fuel price further ruins profitability

REGULATIONS

- AOT privatization
- Construction scandal

Low Cost Airlines

CONSUMERS

- What do they want?

DEMAND

Recent natural disaster disrupts Thai tourism, hence demand for air travelling



VARIOUS FORCES AFFECTING BUSINESS

SUPPLY

- Seasonal Business causes periodic excess capacity
 - industry avg. load factor at 70%
- Excess supply leads to price wars which disrupts business economics
- Rising fuel price further ruins profitability

REGULATIONS

- AOT privatization
- Construction scandal

Low Cost Airlines

CONSUMERS

- What do they want?

DEMAND

Recent natural disaster disrupts Thai tourism, hence demand for air travelling



NEW ENTRANTS COMPETE ON PRICE TO ATTRACT CONSUMERS...

**SMALL FARES,
BIG SAVINGS!**

FROM **\$14.98*** ONE WAY

BANGKOK
CHIANG MAI
HANOI
HAT YAI
HO CHI MINH CITY
MACAU
MANILA (CLARK)
PADANG
PHUKET

**BOOK FROM 5 - 10 MAY '05
TRAVEL BETWEEN 1 JULY - 31 AUG '05
(BOTH DATES INCLUSIVE)**

*PRICE STATED IS VALID FOR ONE DESTINATION PER WAY. FLIGHTS AND FARES SUBJECT TO AVAILABILITY. FARES EXCLUDE AIRPORT TAXES, SURCHARGES AND FEES.

April All Seats All Flights
Mid Week Sale

Travel Period: 1 - 30 April 2005

Book Now!

Fly to **Kuala Lumpur**

Hat Yai	From	719
Phuket	From	919
Bangkok	From	2,159

Buy Online Get Online Rewards

airasia.com 02-515 9999

**Fly to Hong Kong
from only S\$88.**

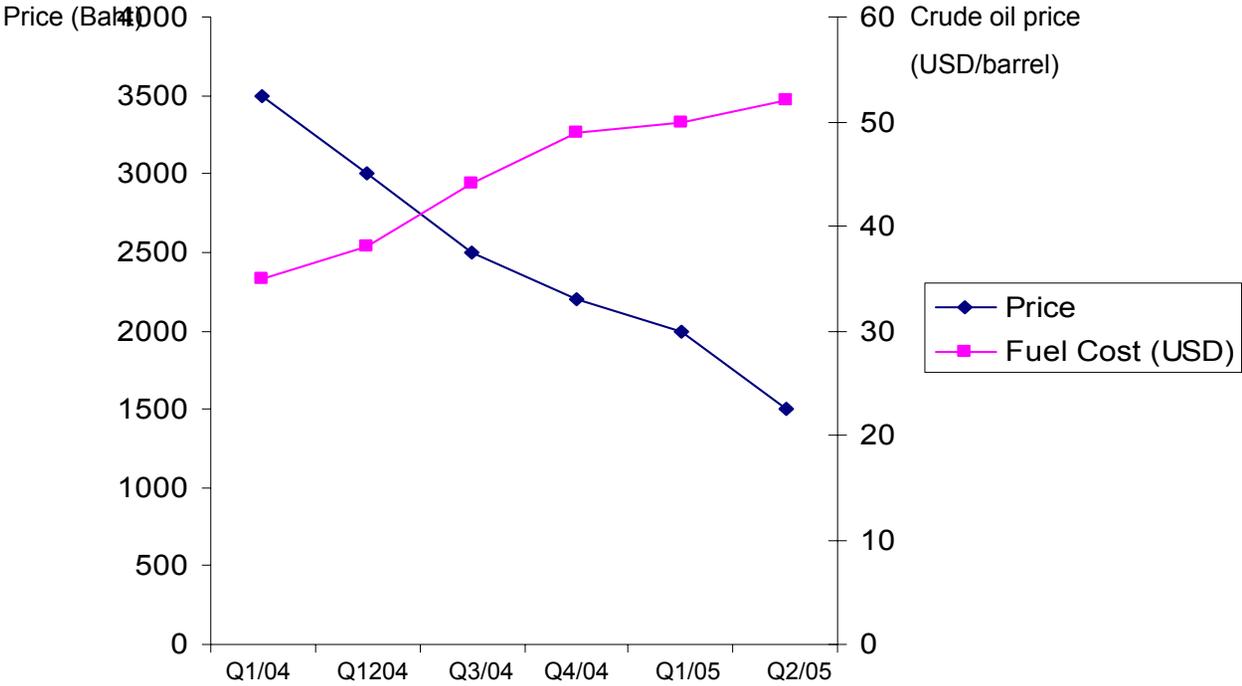
Bangkok S\$38 Taipei S\$118
Manila S\$128

Entire industry suffers as a result



REVENUE AND COST COMPONENT MOVE IN OPPOSITE DIRECTION

Price and Fuel cost (Q1/04 –Q2/05)



Source: West Texas Intermediate, Internet prices

VARIOUS FORCES AFFECTING BUSINESS

SUPPLY

- Seasonal Business causes periodic excess capacity
 - industry avg. load factor at 70%
- Excess supply leads to price wars which disrupts business economics
- Rising fuel price further ruins profitability

REGULATIONS

- AOT privatization
- Construction scandal

Low Cost Airlines

CONSUMERS

- What do they want?

DEMAND

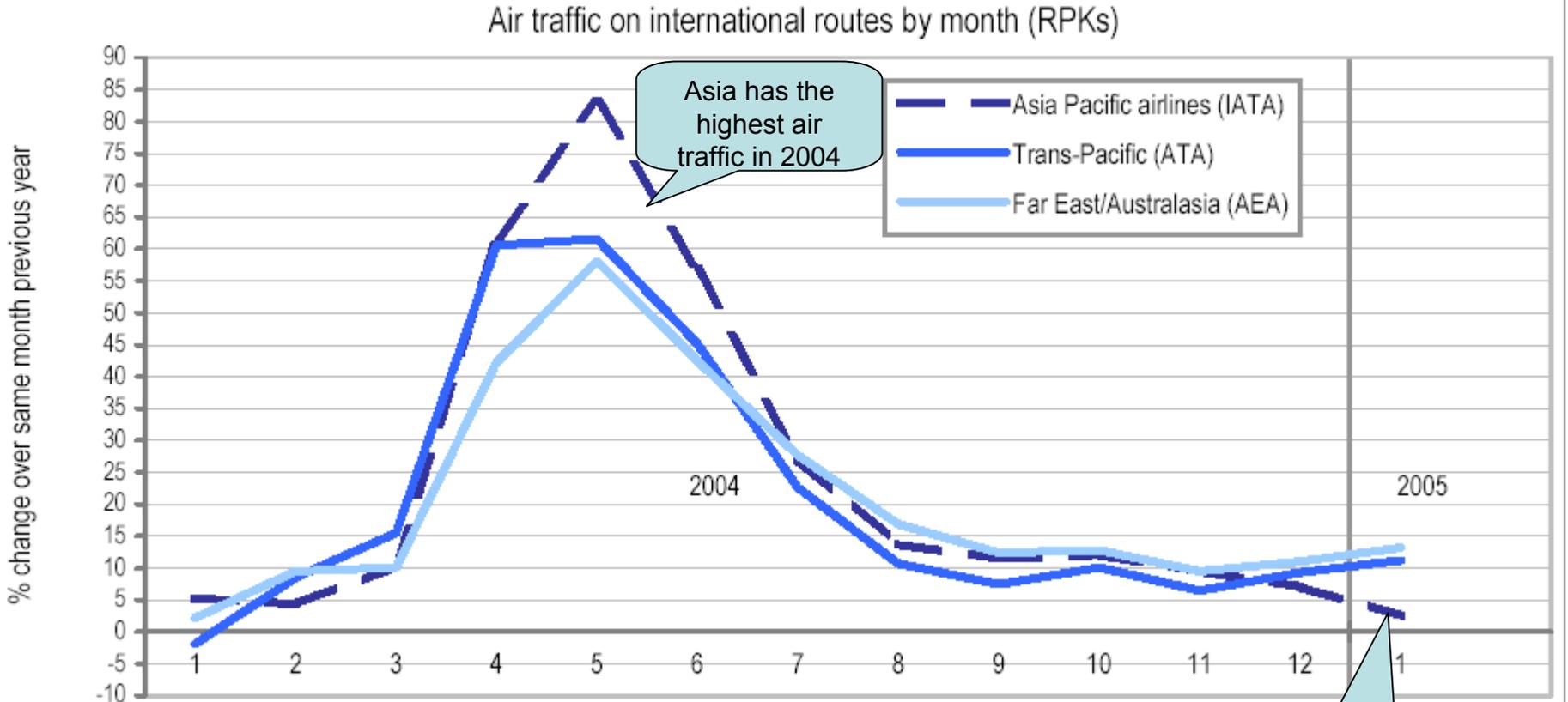
- Recent natural disaster disrupts Thai tourism, hence demand for air travelling



DEMAND IMPACTED BY UNFORTUNATE PHENOMENON OF NATURE



RESULTED IN A DROP OF INTERNATIONAL TRAFFIC



Asia has the highest air traffic in 2004

Which dropped post tsunami



VARIOUS FORCES AFFECTING BUSINESS

SUPPLY

- Seasonal Business causes periodic excess capacity
 - industry avg. load factor at 70%
- Excess supply leads to price wars which disrupts business economics
- Rising fuel price further ruins profitability

REGULATIONS

- AOT privatization
- Construction scandal

Low Cost Airlines

CONSUMERS

- What do they want?

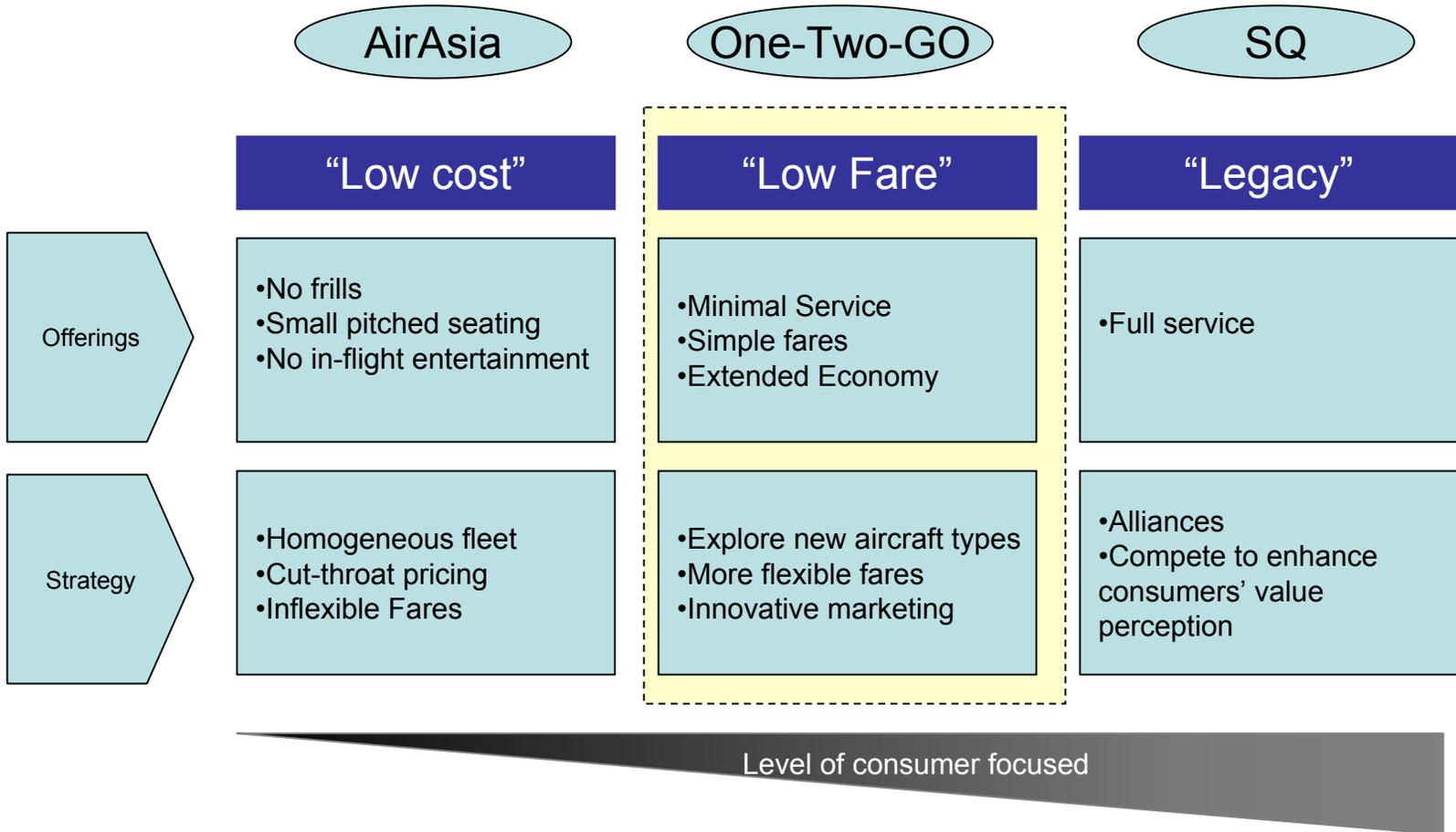
DEMAND

Recent natural disaster disrupts Thai tourism, hence demand for air travelling



ASIAN CONSUMERS ARE INHERENTLY DIFFERENT

“Low Cost” Shifting To “Low Fare”



VARIOUS FORCES AFFECTING BUSINESS

SUPPLY

- Seasonal Business causes periodic excess capacity
 - industry avg. load factor at 70%
- Excess supply leads to price wars which disrupts business economics
- Rising fuel price further ruins profitability

REGULATIONS

- Standards
- AOT privatization
- Construction scandal

DEMAND

- Potential growing demand from economic recovery
 - SEA GDP is growing
 - roughly 5-8% per annum
- Close ties to China and India boosts trade and tourism
- Local demand stimulated by govt. expansionary policies

Low Cost Airlines

CONSUMERS

- What do they want?



NEW AIRPORT CONSTRUCTION SCANDAL SLOWS DOWN PROGRESS

Possible to delay airport launch

Bangkok Post, May 18th, 2005

Airports of Thailand cannot clarify why it is continuing to pay installments to contractor ITO Joint Venture to procure bomb-detection X-ray scanners for Suvarnabhumi airport, two months after the supplier, GE InVision, agreed to deal directly with AoT.

AoT paid 339.57 million baht to ITO Joint Venture on Jan 5 and another 371.91 million baht on Feb 9, even though the airport contractor was well aware of GE InVision's decision to sell the 26 CTX 9000 machines directly to AoT

Bangkok Post
news



AIRPORT PRIVATISATION EXPECTED TO CREATE AVIATION HUB, FOLLOWED BY MASSIVE INFRASTRUCTURE INVESTMENT



Further airport expansion very likely due to inadequate resources

Apron capacity

Run way

Passenger terminal

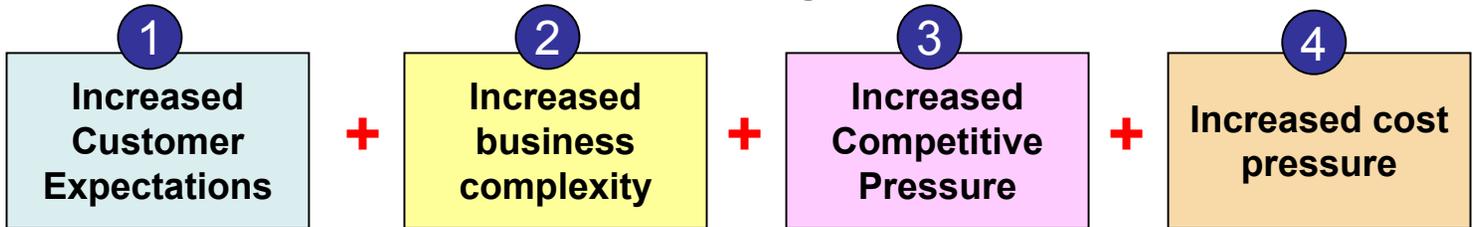
	<u>Phuket</u>	<u>Chiangmai</u>
	Six 747s	Four 747s
	Five Airbus 300s	Eight 737s
	14 ATR 400s	7 ATR 40s
		14 ATR 40s
	Single – 3,000 metres	Single – 3,000 metres
	5.1 Mn/ yr	3.2 Mn/ yr

Critical to ensure enough resources to match the growth



CONCLUSION: GENERIC LCCs NEED TO IMPROVE VALUE PROPOSITION

Four Factors Affecting Market



Market Shifts

- Improved onboard product
- Premium space seating options

- Increased connection opportunities
- Foray into network airlines primary hubs
- Purchase and deployment of regional jets

- Proliferation of LCCs in head-to-head competition
- Increased capital commitment by investment community
- Increased flexibility of network carriers post-bankruptcy/restructuring

- Increased complexity and improved value proposition pressures cost

Simple/no-frills offerings will no longer be competitive. Generic LCCs will need to consider improved value proposition to be in the game



AGENDA

Overview of Thai aviation and tourism industry

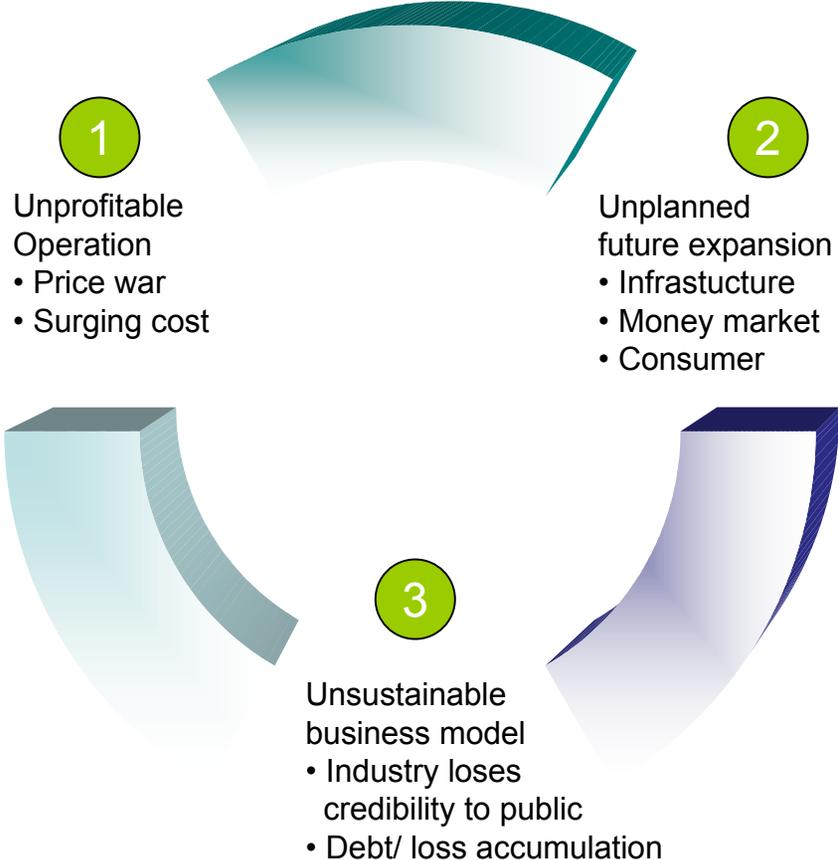
- Supply
- Demand
- Consumer
- Regulations

Potential impact to tourism and economic development

Proposed key action steps required

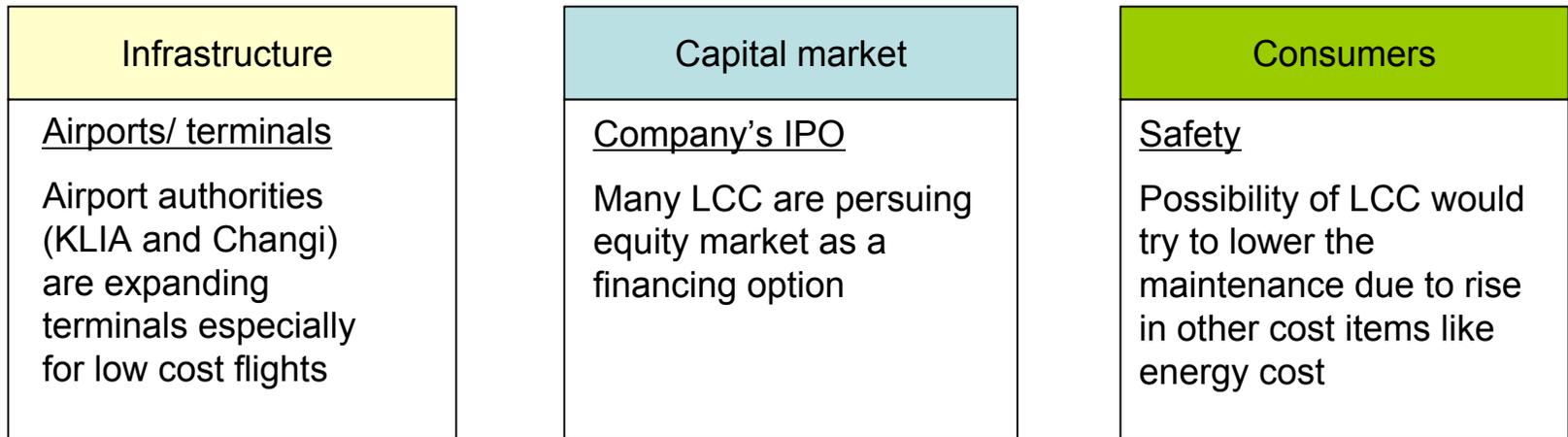


UNPROFITABLE OPERATION IMPACTS OVERALL ECONOMY



THREE IMPACTS FROM AVIATION INDUSTRY ACTIVITIES

Three Key Pillars Likely To Be Highly Affected



Given the current market situation on the cost side and cut throat price war, it is unlikely that the current business model would work. Hence the relevant parts of the economy namely infrastructure, capital market and consumers are at risk



AGENDA

Overview of Thai aviation and tourism industry

- Supply
- Demand
- Consumer
- Regulations

Potential impact to tourism and economic development

Proposed key action steps required



KEY ACTION STEPS REQUIRED: *SHIFTING TOWARDS A TRULY OPEN-SKY POLICY*

- More transparent control of aviation sector
- Government to invest in related infrastructure and human resources to match the industry's rapid growth



Thank You!

