

# Asia Pacific Airline profitability declined amidst competition and trade tariffs

By **Hibah Noor** on May, 11 2020 | Airlines & Airports



Asia Pacific airlines earnings declined 25% in 2019 over 2018, at US\$3.8 billion as compared to US\$5.1 billion, according to the Association of Asia Pacific Airlines (AAPA).

Intense competition played a part in this decline, as it affected yields. Additionally, air cargo demand declined because of the escalation of trade disputes, including the trade tariffs between the US and China.

## Revenue passenger km growth and Freight tonne km both fell

Asia Pacific airlines' international revenue passenger kilometres (RPK) growth fell to 4.2% from 7.2% in 2018, and international air cargo traffic as measured in freight tonne kilometres (FTK) declined by 5%.

Air cargo markets were affected doubly, by lower demand and the lower rates caused by competition. Cargo revenue fell by 14.5%, reversing the double-digit gains achieved in 2018. Trade tensions disproportionately affect Asian airlines, as they collectively account for one-third of global air cargo.

## Revenue vs expenses

The region's carriers achieved operating revenues of US\$210.5 billion in 2019 collectively, a slight decrease from 2018's operating revenue of US\$211.2 billion. Passenger revenue increased by 1.5% to US\$167.1 billion; regional economic expansion supported growth in both leisure and business travel markets.

Operating expenses, meanwhile, totalled US\$200.4 billion, unchanged from 2018. Jet fuel costs fell by 7.2% and therefore fuel expenditure was down by 4.5% in 2019; fuel as percentage of operating costs declined by 1.3 percentage points to 26.4% of total. However, non-fuel expenditure rose by 1.8%. Fuel expenditure totalled US\$52.8 billion and non-fuel expenditure totalled US\$147.6 billion. Consequently, overall operating profit declined by 7.4% to US\$10.1 billion, and the operating margin dropped 0.4 percentage points, to 4.8% for the year.

## Challenging environment

"International passenger traffic on Asia Pacific airlines set new records in 2019, but the operating environment became increasingly challenging. The average profit was just US\$4 per passenger flown, slimming net margin to a meagre 2%," said Mr. Subhas Menon, AAPA Director General.

"Given the current crisis, it is sobering to look back on a time when we all took safe and affordable air travel for granted, and Asian airlines were carrying over four million passengers a day. Since the end

of January 2020, that number has plunged dramatically as almost all countries introduced lockdowns and severe restrictions on international travel. Airlines have been forced to ground thousands of aircraft and are currently operating only skeletal networks to meet demand for repatriation flights as well as for shipments of medical supplies and essential goods.”

He concluded, “Airlines worldwide are fighting for their very survival, given the collapse of demand. Hopes of a V-shaped recovery have waned. It may take years for the industry to recover to pre-COVID levels. Nevertheless, the early restart of aviation will spur global recovery from the current crisis. To this end, the Asia Pacific aviation community is committed to working closely with governments, public health authorities, and other international bodies in charting a course for a timely and measured restoration of air services.”