Global air transport: developments and issues

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Airlines continue to connect more cities at ever lower real cost to users

Unique city-pairs and real transport costs

- Unique city pairs
- Real cost of air transport (inc. ancillaries) for users

Source: ICAO, SRS Analyser, IATA
Facilitating economic flows: goods, people (capital, competition, ideas)

Value of trade carried by air and the spending of tourists

Value of traded goods carried by air
Spending by tourists carried by air

Source: UNWTO, Oxford Economics, IATA
But the research on the micro-economic benefits is mostly missing.

Globalization has moved into reverse – now we have localization

**FIGURE 6.1**
At comparable stages in the reporting cycle, resort to protectionism in 2015 is 50% higher than in 2014

Source: Global Trade Alert
Causing structural change to world trade and Global Value Chains

World trade/IP ratio vs. measure of global supply chains

Index (Oct 2008=100)

Source: UNCTAD, Netherlands CPB
There are increasing barriers to free movement of people as well.
Air travel is resilient but some shocks have slowed trend growth

Source: IATA Statistics

Int'l RPKs flown by European airlines (natural logs, seasonally adjusted)

- Actual
- Trend (early 1990s-early 2000s)
- Trend (early 2000s - mid-2008)
- Trend (early 2009-pre-Paris)

Key events:
- 9/11
- SARS
- GFC
- Icelandic ash cloud
- Paris and Brussels terrorist attacks

Source: IATA Statistics
Air travel has powerful economic drivers in emerging economies

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2017
Large further expansion highly likely – infrastructure challenges ahead

Global passengers (O-D basis, billion)

- Policy stimulus and market liberalization
- Constant policies scenario
- A Pick-up in Protectionism

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2017
Is the economic regulation of infrastructure working?

Unit cost of airport and ATC infrastructure use

Airline non-fuel unit cost

Source: ACI, IACO, FAA, IATA
Airport competition looks weak if you dig deeper into the data.

 Isochrones? not reflective of actual consumer choice

‘Footloose’ passengers? Transactions data show strong local airport preference

‘Footloose’ airlines? (Slowing) route ‘churn’ reflects airline not airport competition. Major switching costs

Airlines have seen above cost-of-capital returns – but mostly in the US

Source: McKinsey and IATA
The bigger puzzle is how decades of capital destruction persisted.

Difference between investing in airlines and investing in similar assets elsewhere.

Source: McKinsey and IATA
Climate change is a potential constraint – limited abatement options

**2030 Marginal Abatement Cost Curve**

- **Jet fuel price**: 135 US$/barrel
- **Carbon price**: 40 US$/tCO₂
- **USD/tCO₂ 1,200**

- **2030 Marginal Abatement Cost Curve**
  - **European ATM Improvements**
  - **Gulf region**
  - **Airspace China redesign**
  - **Flexible tracks North Pacific**
  - **Flexible Usage of Military airspace**
  - **Optimizing cost index**
  - **Taxiing with some engines shut down**
  - **Cabin weight reductions**
  - **Wingtips**
  - **Drag reduction**
  - **Use of ground power**
  - **Takeoff and Landing Procedures**
  - **Fuel Management**
  - **Early retirement**
  - **Engine retrofit/upgrades**
  - **No tankering**
  - **Re-engining**
  - **Reduced speed operation with current fleet**

Source: McKinsey for IATA
We need policy instruments to deliver low carbon aviation fuels

CO$_2$ emissions from worldwide commercial airlines, million tonnes

Airlines' CO$_2$ without additional abatement from technology, operations, infrastructure

CORSIA cap from 2020

Offsets

2050 industry target

Source: IATA Carbon Model
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