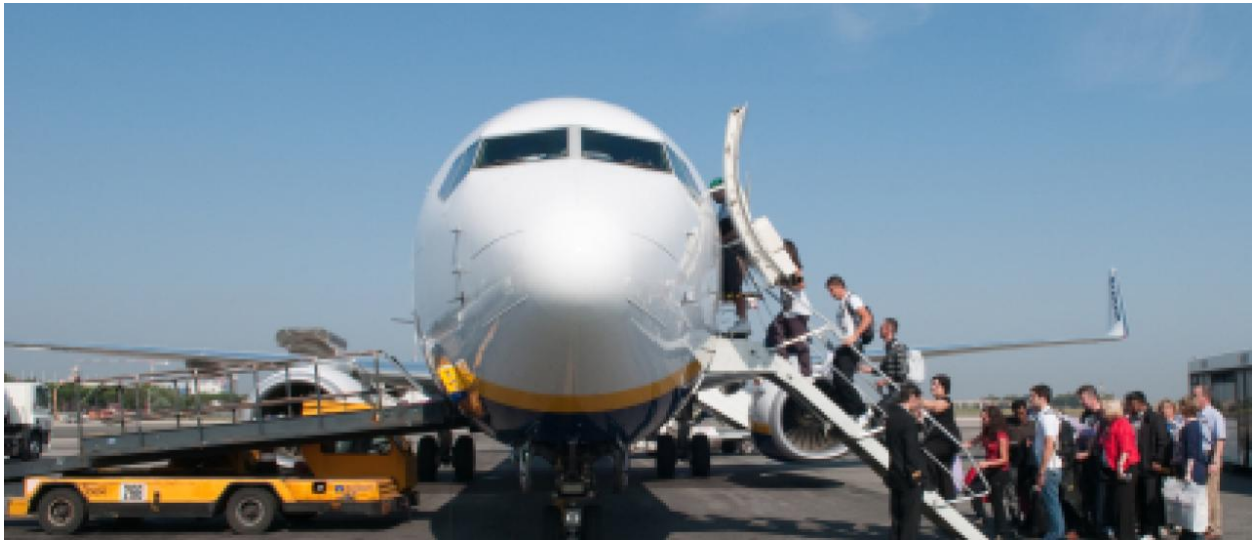

The Changing Face of Air Travel



By Peter Dollé, Berlin Correspondent

More aircraft aloft but fewer seats... blame the boom on Asia, where the desire to travel has given a new lease on life to the airline industry.

The menu at this traditional Bavarian restaurant was hard to read, even before the beers. It was all in Chinese. Paulaner's Bremen on the German North Sea coast has bowed to reality and begun communicating directly with their Chinese guests, at least through their menu.

The number of Chinese tourists visiting Europe is expected to multiply in the coming years as consumers in the Asian country acquire wealth and venture out into the world. According to the European Commission, the number of visa applications in China for travel to Europe surged to 1.03 million annually in 2011 – an 81 percent increase over 2008.

The sharp rise in spending by Chinese and other Asian travellers is fuelling an increase in aircraft orders in the West. "There are three mega markets right now – you've got Asia Pacific, the U.S. and Western Europe," **John Leahy**, Airbus COO-Customers told INSEAD Knowledge at the Berlin Air Show in September. "But in 20 years that is going to shift dramatically - about a third is going to be in Asia-Pacific, about 20 percent Europe, and only 20

percent in the United States. The biggest market is going to be out there in Asia-Pacific.”

The World Tourism Organization reports international tourism generated a whopping US\$1.2 trillion in 2011, with the steepest rate of growth in Southeast Asia. Oddly, the terrorist attacks on the World Trade Center and the Pentagon in 2000, as well as the SARS epidemic and the 2008/9 financial crisis barely impacted the growth rate of international travel, which continues to grow nearly 5 percent each year. The growth of Asian travel also reflects the increase in global trade.

Airbus estimates that airlines in the Asia-Pacific region will take delivery of around 9,370 new aircraft over the next 20 years – a book value of 1.3 trillion dollars. The Brazilian regional jet maker, Embraer, says China alone will need 1005 new short-haul aircraft by 2031 to accommodate the increase in air travel. The sheer potential of the Asian market is an aircraft maker’s dream.

Different market perceptions and different strategies

Airbus is locked in a head-to-head battle with the American Boeing Company for a greater share of the global aerospace market. The two manufacturers sell about 1000 single and double-isle jets each year and have a backlog of several thousand on order. Airbus is a subsidiary of EADS, the European Aeronautic and Defence Systems, and is betting that its new A380 double-decker aircraft, which can carry over 550 passengers, will fill a specific need in Europe. Leahy believes air traffic will continue to double every 15 years, exhausting the capacity of Western airports and flight control. “We can’t keep increasing the number of flights,” insists Leahy. “Flying on business, flying on pleasure, flying back and forth to see our families, that’s going to be done from hub to hub, but those are getting congested today. The only way to do it is with bigger aircraft, more fuel-efficient aircraft, and quieter, more environmentally-friendly aircraft.”

Boeing has a slightly different strategy. It has stretched its 747 jumbos and introduced a smaller aircraft - the Dreamliner - which can carry up to 290 passengers 15,750 km, or slightly more than the distance between London and Singapore. Boeing believes that travellers want non-stop flights to most destinations (the “point-to-point” theory, as opposed to “hub and spoke”).

The Dreamliner brings “big-jet ranges to mid-size airplanes” and will consume 20 percent less fuel, Boeing boasts on its website.

Aircraft makers are under considerable pressure to increase fuel-efficiency to keep airline ticket prices lower. They’re also under pressure to minimise CO² emissions and reduce noise, especially in Europe. This has led to quieter, cleaner-burning engines and newer types of “bio” fuels. Many airports in heavily-populated areas, like Berlin-Tegel, are not permitted to operate overnight due to noise, a restriction that limits airline cargo business.

“People are more annoyed worldwide, if you live in the vicinity of airports,” **Rolf Henke** of the German Aerospace Center, the DLR, told INSEAD Knowledge in September. “If you want to have an increase in air traffic, then you have to solve the noise problem. And in the very end, we’re looking for 24/7 aircraft – being in service 24 hours a day, 7 days a week.”

China itself has been following the boom in domestic air travel with plans of its own. At present, its boldest efforts are actually on the ground, with moves to build 97 new civilian airports by 2020. In the air, the state-run Commercial Aircraft Corporation of China is developing a regional jet to compete with Airbus and Boeing and is seeking regulatory approval from Western aviation authorities for its Comac ARJ21. It has faced a number of production delays but hopes to deliver the first aircraft this year.

Despite the entry of the Chinese into the commercial aircraft market, Leahy doesn’t view them as an immediate threat. “That’s going to take at least 20 years. If you say ‘am I worried about the Chinese being a major player,’ I say ‘yes, in 20 years.’ If I’m worried in the next ten years, the answer is ‘no,’” Leahy explains. “To become a major player like that in the market takes a lot of money, a lot of technology, and a lot of time. The Chinese have the money, and they have the time - the question is do they have the technology? I think they’ll buy it over the years.”

The Chinese are well underway to acquire the necessary technology to enter the long-haul market. The Aviation Industry Corporation of China entered a limited agreement with Airbus in 2008 to build the medium-range A320 in Tianjin. By August 2012, the Chinese plant had delivered its 100th Airbus jet.

At present, China doesn’t appear willing to commit itself to the massive investments necessary to create an entire line of long-haul jets to give

customers a bigger choice. Development of the double-decker A380 cost Airbus a reported US\$10 billion . “It might cost you 10 billion euros to develop that airplane but then it’s one airplane,” says Leahy. “We have a family of single isles and so does Boeing. Then they’ll have to stretch and shrink it to make a whole family.”

So how long can Airbus and Boeing continue to dominate the industry for large jets? Over the next ten years the market is expected to consolidate as governments cut back on military spending. Rolf Henke of the DLR indicates the major Western players still have a strong technological advantage. In the near term, he says growing environmental concerns will fuel sales. “The specific demand in all of the developed countries in America, Europe and other parts of the world, will come from issues of noise, and of environment... This will drive future technologies and future development of aircraft.”

Aircraft makers have a bright future, given the steady rise in traffic and the demands for new, more fuel-efficient aircraft. The future of the industry will change with the passengers on board. So too will the restaurant menus in destination countries.

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