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SHEDDING THE PAST TO RE-SHAPE THE FUTURE

CEO Goh Choon Phong resets SIA to compete in a fast changing world

Orient aviation 21 YEARS

U.S. carriers top the Asia-Pacific in profits race

Jetstar loses bid to launch budget carrier in Hong Kong

Market conditions test A380's appeal

SPECIAL REPORT
Asia-Pacific leads cabin connectivity

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ORIENT AVIATION MEDIA GROUP
Mailing address:
GPO Box 11435 Hong Kong
Office:
17/F Hang Wai Commercial Building,
231-233 Queen's Road East,
Wanchai, Hong Kong
Tel: Editorial (852) 2865 1013
Fax: Editorial (852) 2865 3966
E-mail: info@orientaviation.com
Website: www.orientaviation.com

Publisher & Editor-in-Chief
Christine McGee
E-mail: cmcgee@netvigator.com

Chief Correspondent
Tom Ballantyne
Tel: (612) 9638 6895
Fax: (612) 9684 2776
E-mail: tomball@ozemail.com.au

Greater China Correspondent
Dominic Lalk
Tel: (852) 2865 1013
Fax: (852) 2865 3966
E-mail: dominic@orientaviation.com

North Asia Correspondent
Geoffrey Tudor
Tel: (813) 3373 8368
E-mail: tudorgeoffrey47@gmail.com

India Correspondent
R. Thomas
Tel: (852) 2865 1013
E-mail: info@orientaviation.com

Photographers
Rob Finlayson, Colin Parker,
Graham Uden

Design & Production
Chan Ping Kwan

Printing
Printing Station(2008)

ADMINISTRATION

General Manager
Shirley Ho
E-mail: shirley@orientaviation.com

ADVERTISING

South East Asia and Pacific
Tan Kay Hui
Tel: (65) 9790 6090
E-mail: tankayhui@tankayhuimedia.com

The Americas / Canada
Barnes Media Associates
Ray Barnes
Tel: (1 434) 770 4108
Fax: (1 434) 927 5101
E-mail: barnesrv@gmail.com

Europe & the Middle East
REM International
Stephane de Rémusat
Tel: (33 5) 34 27 01 30
Fax: (33 5) 34 27 01 31
E-mail: sremusat@rem-intl.com

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COMMENT

Have Asia-Pacific airlines over ordered?

Boeing and Airbus released updated 20-year forecasts for global aircraft demand at the Paris Air Show last month which increased their fleet projections on the basis of demand from the Asia-Pacific and particularly Mainland China.

"The Asia-Pacific will lead the world in traffic by 2034 and China will be the world's biggest aviation market within 10 years. Clearly, Asia and emerging markets are the catalysts for strong air traffic growth," said Airbus chief operating officer customers, John Leahy.

Boeing forecast the region will take delivery of 14,330 new jets in the next two decades and would dominate the world's fleet.

The rush of orders from Asian airlines at Le Bourget made up almost half of the total commitments announced in Paris. They demonstrate that the region's airlines, from full service carriers to budget airlines, are confident the upward trend in traffic growth will continue.

Of course, many of these planes, as well as hundreds of others already ordered from the region, will be arriving over a long period of time. But as discussions revealed at the International Air Transport Association (IATA) annual general meeting last month, Asia-Pacific carriers have yet to get the capacity/demand balance right.

The world's airlines may be heading for near $30 billion in profits this year, but half of the money is coming from U.S. carriers. Airlines in the Asia-Pacific will still be profitable, but only to the tune of $5.1 billion, or a slim 2.5% net margin. Many carriers are losing money or operating at near breakeven.

Hit by stagnant cargo demand and an economic slowdown in China, there are already more seats available in the region than there are passengers to fill them. As Association of Asia Pacific Airlines director general, Andrew Herdman, pointed out at the IATA AGM last month, 2014 was a year of growth in both passenger and cargo volume in Asia, but the revenue growth did not lead to profitability.

"In aggregate, Asian airlines were barely above break-even and there was a very wide dispersion of results," he said. And while he thought the outlook for this is a little better than 12 months ago, he also believed the region's airlines need to take a long hard look at capacity.

Capacity is still slightly ahead of demand, which has taken away pricing power and squeezed margins, said Herdman. He is right. If our airlines order too many planes, or bring them in too quickly, sustained world beating growth might be more of a prediction than an outcome. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

Jetstar loses bid to launch budget carrier in Hong Kong

Almost three years after the Qantas Group announced it would launch joint venture carrier, Jetstar Hong Kong, the Hong Kong government has said the proposed budget airline does not qualify as a local airline.

After four months of deliberation, the Air Transport Licensing Authority (ATLA) decided "that Jetstar Hong Kong does not have its principal place of business in Hong Kong and hence refuses its application for a licence".

Jetstar Hong Kong CEO, Edward Lau said; "Jetstar Hong Kong is extremely disappointed by the decision. We will take time to review it and consider our next steps. We genuinely believe that Hong Kong is Jetstar Hong Kong's principal place of business. The carrier is chaired by Hong Kong business woman, Ms Pansy Ho, with a local CEO and management team who lead and manage the business."

Cathay Pacific Airways director corporate affairs, James Tong said: "It is the right decision for Hong Kong. As we said during the ATLA hearings [in January], any airline with its principal place of business not in Hong Kong does not comply with Article 134 of the Basic Law. The ATLA decision ensures that important Hong Kong economic assets, its air traffic rights, are used for the benefit of the people and economy of Hong Kong."

The 153-page ATLA decision said: "Even though there is no dispute that the day-to-day management would be conducted in Hong Kong and managed by the Jetstar Hong Kong CEO in Hong Kong, as the cases unequivocally indicate, that is not sufficient to establish and meet any principal place of business criteria."

"The airline has to have independent control and management in Hong Kong, free from directions or decisions elsewhere."

ATLA said Jetstar Hong Kong "cannot make its decisions independently from that of the two foreign shareholders (Qantas and China Eastern Airlines)" in critical matters such aircraft purchases, route planning, senior management and its business strategy. If the application had been approved, Jetstar Hong Kong would have been the fifth airline to be set up in Hong Kong after Cathay Pacific Airways, Dragonair, Hong Kong Airlines and HK Express. ■

"Red ink company" will be profitable, predicts JAL Chairman

As for another part of Jetstar's business, JAL's investment in low-cost carrier, Jetstar Japan, Japan Airlines chairman, Masaru Onishi said: "We are not satisfied. Who would be satisfied with a red ink company?

"We are investors so we do not make comments about their business model, but as an investor we don't like any red ink company."

Neverthless, when the joint venture with the Qantas Group was originally signed off, it was accepted the airline would lose money for a period of time.

"It is a longer term investment and Alan (Alan Joyce CEO of the Qantas Group) has confidence Jetstar Japan will be in the black," he said.

Onishi believed Jetstar Japan should be flying internationally to as many cities as feasible as soon as possible, particularly into China.

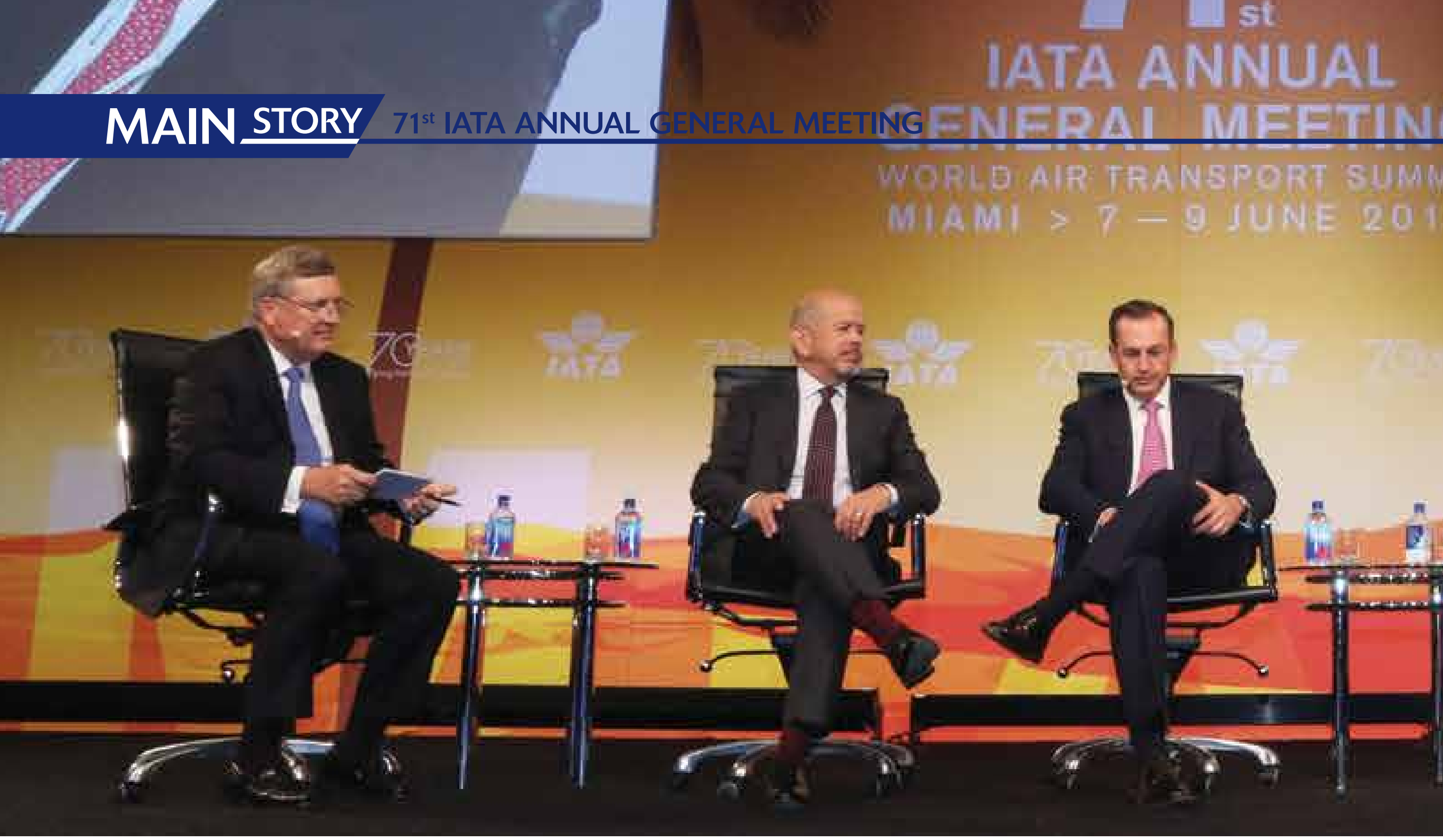
"How can we compete with the very low costs of the Chinese airlines. They don't care about supply and demand. There is huge supply available, and with ticket prices going down, how can we compete? We cannot, so Jetstar Japan must expand onto short haul routes into China," he said. Jetstar Japan opened its first international route, to Hong Kong, earlier this year. ■

Founder of China's biggest aircraft lessor resigns in mysterious circumstances

Speculation surrounds the whereabouts of China Aircraft Leasing Group's (CALC) founder and his finance chief after the aircraft lessor received a resignation letter from Mike Poon Ho-man on June 17. Media companies, Apple Daily and the South China Morning Post, reported Poon, the founder of the company, had been on leave since May 18, amid conjecture "he was involved in investigations related to the lessor's first customer, China Southern Airlines (CSA)". At the beginning of the year, CSA's chief financial officer, Xu Jiebo, and three other senior executives, were removed from their positions after the Chinese authorities had commenced an investigation at the Guangzhou-based airline.

At press time, staff said they have not had any contact with Poon, who resigned without explanation. Former chief financial officer, Yu Tau Tei, also resigned, on May 22, "to pursue personal goals", with effect on June 18.

Majority shareholder, the China Everbright Group (CEB), has appointed CALC chairman and non-executive director, Chen Shuang, to replace Hong Konger Poon and very new employee at CALC, Mok Chung Tat, as chief financial officer. CEB, which is controlled by Chinese government state-owned enterprise, China Everbright Ltd, is considered a buyer for Poon's 33.72% holding in CALC. ■



REVERSAL OF FORTUNES

The world's airlines are collectively forecast to report their best profit for almost 50 years in 2015, but the most frequent top earners, the Asia-Pacific carriers, have slipped down the results table. Over-capacity, uneven air cargo performance and intense competition are taking a toll on the region's earnings.

Tom Ballantyne reports from Miami

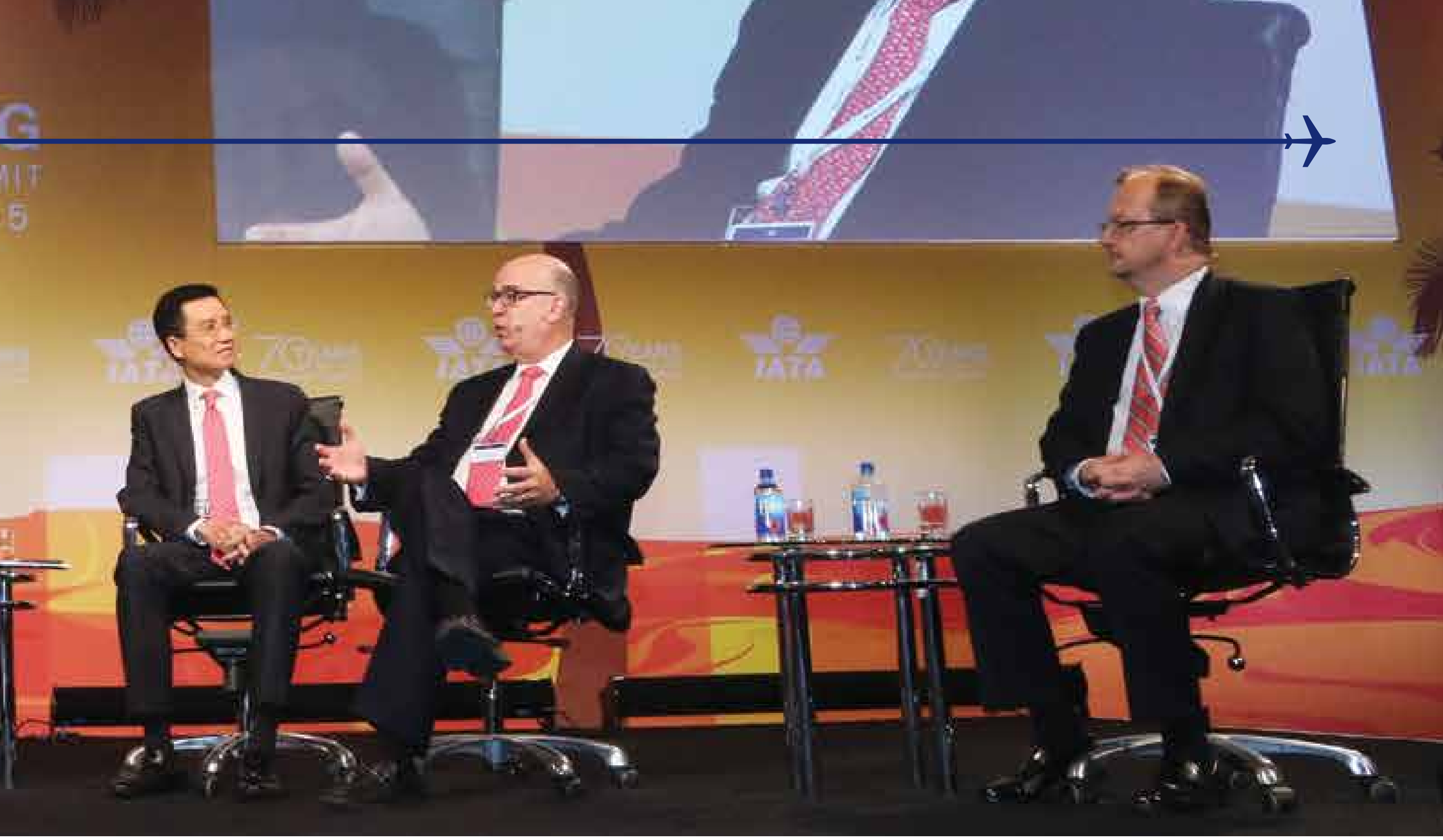
For the industry it was an historic moment. At the annual general meeting of the International Air Transport Association (IATA), held this year in Miami, the organisation's director general and CEO, Tony Tyler, announced that the global airline industry is forecast to report its highest profit margin since the mid-1960s in 2015.

For first time since IATA began collecting comprehensive data on airline profits more than two decades ago, the industry's return on investment (ROI) will be 7.5%, exceeding its cost of capital (6.8%), Tyler said. Global airlines are collectively forecast to earn a net profits of US$29.3 billion, on revenues of $727 billion, for the year.

In 2015, North American carriers will replace Asia-Pacific airlines as the industry's top earners. U.S. airlines are expected to generate more than half of the industry's global profits, at $15.7 billion, up from $11.2 billion in 2014. On a per passenger basis, U.S. airlines are making an average profit of $18.12 per passenger.

For Asia-Pacific airlines, who have been the industry's outperformers since the 1990s, the devil is in the detail – and it is not all good news.

Airlines in the region will still be profitable, but only to the tune of $5.1 billion, for a 2.5% net margin, or $4.24 per



passenger. The average non-U.S. airline is struggling with returns below the cost of capital and holds significant debt.

Asia-Pacific airlines have suffered, said IATA, because they have been disproportionately impacted by air cargo losses in a market where they hold 40% of global air freight business. The slowdown in Mainland China's economy also has had a dampening impact on profitability.

Lower fuel costs will improve profits, but an rising U.S.dollar will reduce the benefit for Asia-Pacific carriers.

"Historically, Asian airlines have been the outperformers," the director general of the Association of Asia Pacific Airlines (AAPA), Andrew Herdman, told Orient Aviation during the Miami Beach gathering.

"The normal rule of thumb was that Asia-Pacific airlines accounted for about half of the profit pool. That honour has now gone to the United States. They have been in a sweet spot where they are delivering good levels of profitability."

Herdman said it was clear 2014 was a year of growth in both passenger and cargo volume in Asia, but that revenue growth did not lead to profitability. "In aggregate, Asian airlines were barely above break-even. There was a very wide dispersion of results," he said.

"Chinese carriers and Japanese carriers, for example, tended to do rather better. But Southeast Asia is ultra-competitive, regardless of any business model being used, so even the low-cost carriers are struggling to be profitable."

The outlook for 2015 is a bit better, because of lower fuel prices, Herdman said. "Some of that will be passed on in lower fares. It will stimulate travel demand and travel itself is going to be very affordable because of lower fares.

"So overall, the demand side should look pretty firm. I'd expect some of that benefit to show up in improvements in margins for Asian airlines."

Analysts said the strong U.S. performance clearly shows the significant benefits consolidation has brought to North American airlines in the last five years. Six big U.S. airlines are now three giant carriers: American Airlines, Delta Air Lines and United Airlines.

> **"Global aviation spans 16,485 city-pairs, which is nearly double the number of 1994. In the same time, average airfares have fallen around 64% (after inflation), which has been a major stimulus for trade, tourism, and foreign direct investment associated with global supply chains"**
>
> Director General and CEO International Air Transport Association, Tony Tyler, speaking at the 71st AGM of the industry association, held this year in Miami

With a recovering economy and a lower fuel price in play, U.S. carriers are using their profits to renew fleets, pay down debt and deliver a normal return to investors through dividends and share buy-backs.

Can Asia-Pacific airlines duplicate the consolidation that has taken place in the U.S.? It is a development many industry insiders believe could be a key to long-term industry viability.

Said Herdman: "It's hard to envisage anything like that happening in Asia because of the national ownership and control rules. I can't see a situation where cross-border consolidation into large groups could happen. That's not the answer.

"On the other hand, if consolidation in the region means that some smaller players go out of business that will happen. We are already witnessing this among some of the smaller LCCs."

Unlike Europe, where LCCs are doing exceptionally well, Asian budget carriers are finding it's a tough business, said Herdman. "The competitive pressure the LCCs are experiencing is the same for all airlines," he said.

"LCCs and full-service airlines are overlapping. They are not separate segments or separate markets. All the airlines are competing on the same routes against each other."

One airline chief, newly arrived in the Asia-Pacific, begged to differ. At Miami, Malaysia Airlines' new chief executive, Christoph Mueller, told media industry consolidation will happen much quicker in Asia than it has in Europe or the U.S.

He expected "major progress" in that regard within the next five years as countries in the region continue to liberalize air service agreements and allow their national carriers to combine forces. Few would agree with Mueller, given the huge diversity of cultures in Asia and the shield many governments throw up to allow their flag carriers to survive.

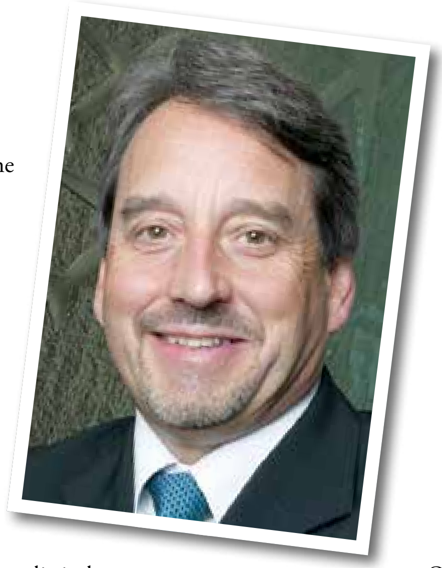
The AAPA boss said Asia-Pacific airlines must focus on capacity because it was slightly ahead of demand. "Over-capacity took away pricing power. Margins were squeezed. The solution is to carefully manage capacity to match the growth in demand by taking a hard look at new deliveries, retirements and so on. I think we will see a better supply demand situation this year," he said.

In the critical air freight area, regional analysts described the sector as having "mixed signals" for 2015. However, Herdman believed the sector is undergoing a sustained recovery. "It will be some time before we achieve a complete supply-demand balance, but it's on the mend. I'm an optimist on medium-term freighter demand," he said.

IATA's security wish list

Airlines want governments need to pay urgent attention to three key areas of security, Tony Tyler said at the annual IATA AGM in June. They are:

* To link known traveler programs across borders and harmonise Advance Passenger Information rules based on International Civil Aviation Organisation (ICAO) standards
* Eliminate redundant paper documentation and reduce queuing times
* Drive cargo efficiency through harmonized processes facilitated by global standards that created by co-operation between IATA, ICAO and the World Customs Organization.



Asia-Pacific LCCs and full-service airlines are overlapping. They are not separate segments or separate markets. All the airlines are competing on the same routes against each other

Andrew Herdman
Director General of the Association of Asia-Pacific Airlines

On the wider industry front, Tyler and his member airlines were far from smug about the industry's improved profits. "For the airline business, 2015 is turning out to be a positive year," said Tyler. "Since the tragic events of September 2001, the global airline industry has transformed itself, with major gains in efficiency.

"This is clearly evident in the expected record high passenger load factor of 80.2% for the year. The result is a hard-earned 4% net profit margin. On average, airlines will retain $8.27 for every passenger carried."

He added: "Apple, a single company, earned $13.6 billion in in the second quarter of this year. That's just under half the expected full-year profit of the entire airline industry. We don't begrudge anyone their business success. But it is important for our stakeholders, particularly governments, to understand the business of providing global connectivity is still a very tough one."

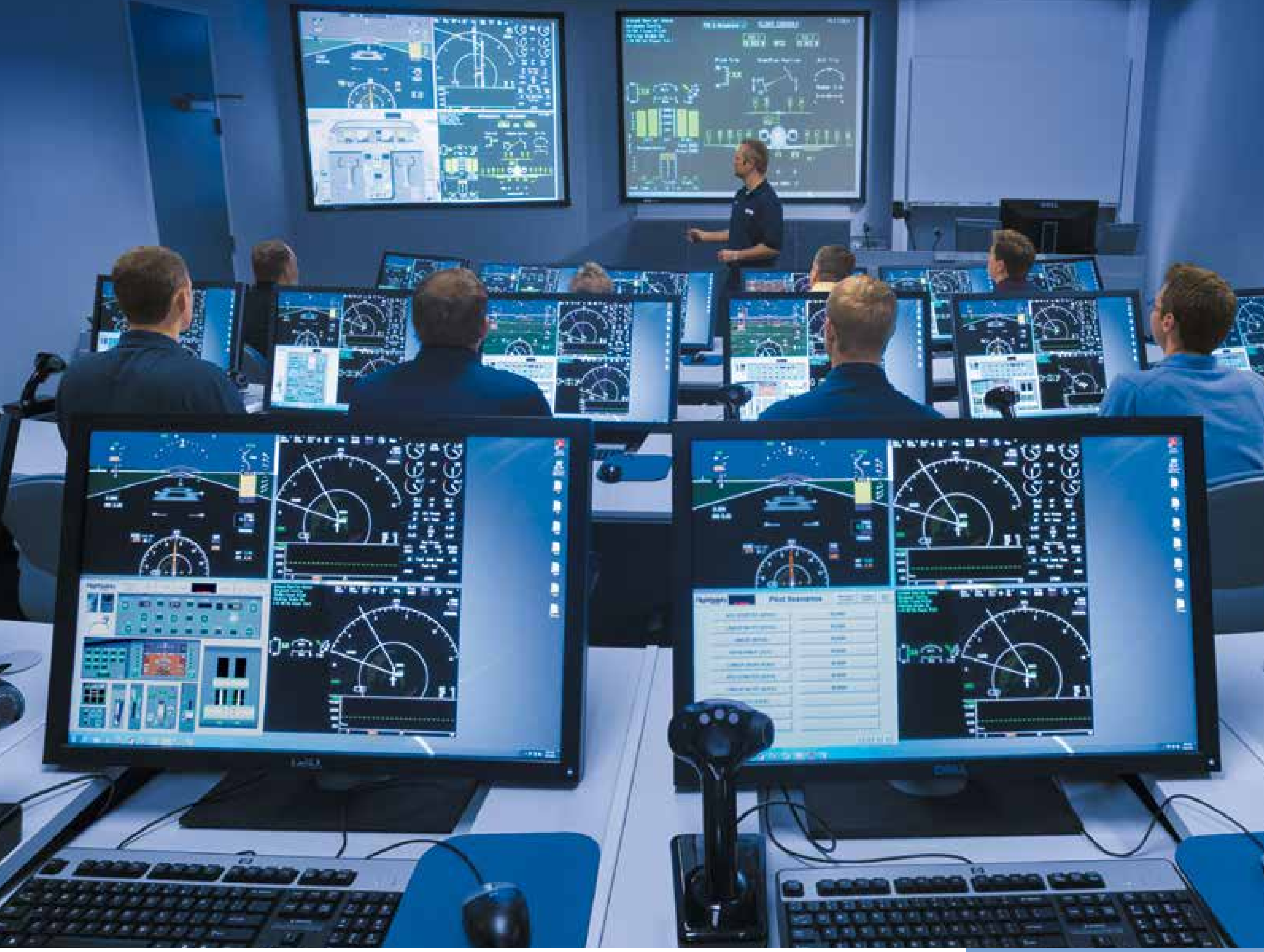
Willie Walsh, chief executive of International Airlines Group (IAG), the parent company of British Airways, said it was "unacceptable" that the industry is only just earning its cost of capital, a sentiment shared by many at the AGM.

Leading up to the AGM, there were expectations of a clash between U.S. and Gulf airlines over alleged subsidies. The big three American carriers claim the largest Gulf airlines have received US$42 billion in government aid in the last decade and that these funds breech international Open Skies agreements.

Gulf carriers have counter claimed U.S. airlines have been subsidised by bankruptcy protection, and government assistance after 9/11 and for industry pension support.

But there were no fireworks. The heads of two U.S. airlines, Delta's chief executive, Richard Anderson, and United's president and chief executive, Jeff Smisek, attended the closed door IATA Board of Governor's meeting at the beginning of the AGM and then disappeared for the two days of debate that was open to the press.

American's chairman and chief executive, Doug Parker, was left to sidestep the repeated media inquiries about the row. Clearly trying to take the heat out of the situation, he



said he had met with Qatar Airways boss, Akbar Al Baker, "and we had a nice talk".

Parker insisted the campaign by the three U.S. carriers "has nothing to do with protectionism", but was about "competing with governments". He reiterated that he expected the U.S. government "to take some action in the future".

Not surprisingly, the outspoken Al Baker attempted to bring the debate into the AGM's general session. After Tyler's keynote address, the Qatar boss called on IATA to stand up against "protectionism". He told the gathering he saw a risk that Open Skies and liberalization policies could be rolled back because of the U.S. airlines actions. He said any changes to U.S. policy and the interpretation of the Open Skies deals in question would "reverberate around the world" and lead to more "protectionism".

IATA should reassert the "agenda for freedom" it adopted in 2008, he said and added he did "not agree that we should not comment".

Tyler, however, made it clear the airline association was staying out of the dispute. He said IATA represented all its members and did not have a mandate to take a position on the issue, He said it was no secret that there was "an underlying tension in our industry" but said "IATA is not the battleground on which a solution can be found". The matter was not on the official agenda but Tyler did say the group backed liberalization and free and fair competition.

At the AGM, IATA called for a deeper partnership with governments based on global standards in the critical areas of safety, infrastructure, security, regulation, and environment. Tyler said aviation is built on partnerships and its relationship with governments was critical.

"Airlines and governments are well-aligned on safety, but in other areas of government responsibility including infrastructure, security, regulation, and environment, there are opportunities for a deeper partnership," Tyler said.

This year 3.5 billion people and 55 million tonnes of cargo will travel safety by air over a global network of 51,000 routes. Airlines directly employ 2.5 million people and support another 56 million jobs in the industry's value chain. Its role as a catalyst of economic growth is evident as some $6 trillion of goods find their way to global markets via air transport," he said.

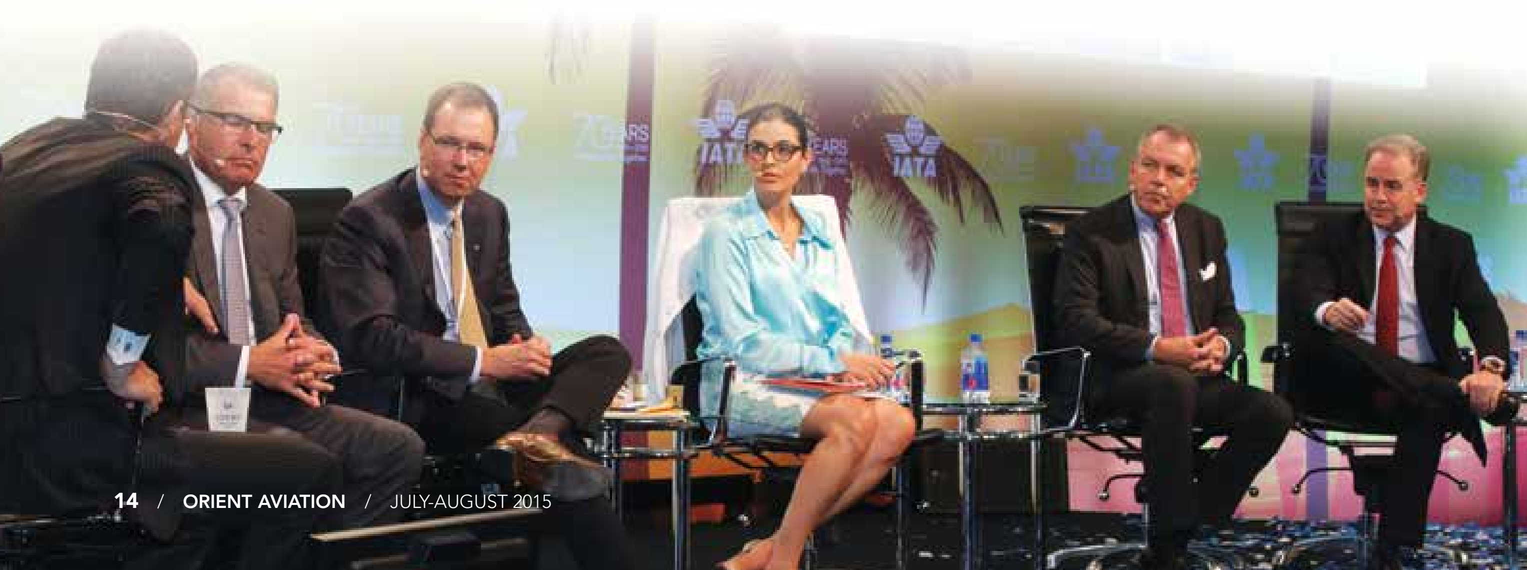
"For nations, connectivity is much more than a competitive advantage. It is an economic necessity. And aviation's intangible benefits make it a force for good in the world. So there is a tremendous common interest with governments to support safe, efficient and sustainable global connectivity that only air transport can provide," said Tyler. He warned that aviation can only deliver its significant social and economic benefits if it has adequate, cost-efficient infrastructure capacity to meet growing demand. He noted several critical infrastructure challenges where more alignment is needed, including keeping costs at Hong Kong International Airport competitive as it funds construction of a third runway, and improving efficiency in Chinese air traffic management.

Another critical ongoing issue for airlines that continues to concern airlines is security. Tyler said the aviation industry and governments are partners in aviation security. "We have a common interest in keeping our passengers, crew and cargo secure with efficient and respectful processes built around global standards," he said. "While there has been tremendous progress over the last few years, our customers regard security and border controls as big pain points in their journeys." ■

Carbon offset option gathers support

Airlines are urging governments and the industry to focus on global solutions to manage aviation's carbon footprint in the run-up to the ICAO Assembly next year. "We've always understood that our common interests and those of the environment are best served by a united industry position and a global approach," said Tyler.

"There is considerable interest from governments in the mandatory carbon offset approach. It would be the easiest type of scheme to implement. It could be administered on a cost-effective basis and has the scope to allow for the different political interests at play to be taken into consideration."



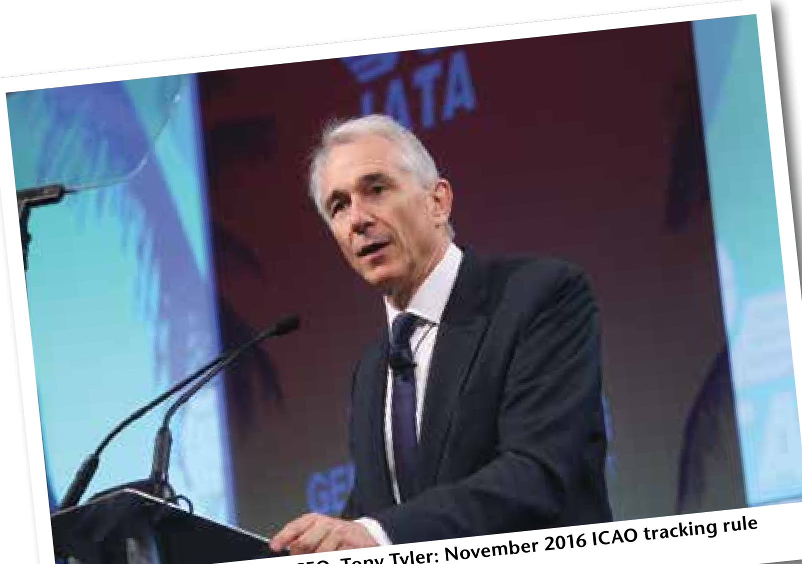
Some airlines may not meet ICAO's revised tracking deadline

After several unique air accidents that have taken hundreds of lives in the last 18 months, efforts to maintain the highest air safety levels have been redoubled, but it has emerged some IATA members will struggle to meet the 2016 deadline for upgraded tracking standards.

The November 2016 deadline for improving global aircraft tracking over remote areas will require all airlines to report the positions of their aircraft fleets every 15 minutes.

That date "may be a bit early for full implementation", IATA director general and CEO, Tony Tyler, said at a press briefing during this year's IATA AGM.

Many newer aircraft have equipment that can be tracked by satellites, but older aircraft do not, raising questions about the capability and cost of systems those planes will need.



IATA director general and CEO, Tony Tyler: November 2016 ICAO tracking rule "might be a bit early for full implementation"

Tyler said there is significant public pressure on the industry to find speedy solutions to safety issues as they arise.

But he would prefer that airlines and policy makers continue to rely on long proven systems on safety, including careful investigation of incidents before introducing revised safety regulations.

"As accidents become ever rarer, it is clear sustainable future gains will come from a systemic, data-driven approach to safety that builds on continuous improvement, supported by cooperation and partnership among safety stakeholders.

"A global perspective that develops standards through the sharing of expertise is vital to this strategy. While we must always try to be ready for the unexpected, future safety gains will come increasingly from analyzing data from all flights, not just the infinitesimal percentage of flights where something goes wrong."

IATA director of safety, Rodolfo Quevedo, said position updates could be made by radio and initial trials of tracking technology are in the works. The cost of upgrades remained unclear, he said, and IATA would like to see the results of trials before committing to a deadline.

Earlier, ICAO president, Olumuyiwa Aliu, said: "I want to reassure you that I am very sensitive to the financial and operations burden that this represents for you as flight operators," he told IATA AGM delegates.

Most of the world's major airlines, including Malaysia Airlines, which suffered the loss of two aircraft, their crew and hundreds of passengers last year, have taken steps to track their aircraft more frequently.

Emirates Airline president, Sir Tim Clark, said he knew where his planes are all the time. "They spew data down through ACARS (Aircraft Communication And Reporting System).

"While that's expensive, and more difficult when out of radar coverage, you don't lose a plane for seven hours," he said.

IATA released preliminary aviation safety performance data, to March 31, at the AGM.

It showed the global jet accident rate (measured in hull losses per one million flights) was 0.38, the equivalent of one accident for every 2.6 million flights.

This was an improvement over the five-year rate (2010-2014), when the global hull loss rate stood at 0.45, but above the full year 2014 rate of 0.23, which was the lowest in aviation history.

Tyler said the industry was so reliable that relatively small variations in safety, from year to year, can skew the numbers. He added the safety performance over one quarter is insufficient to come to any conclusions.

"However, as the data fits within the five-year trend of improvement, it reassures us that the industry strategy is driving us in the right direction," Tyler said. ■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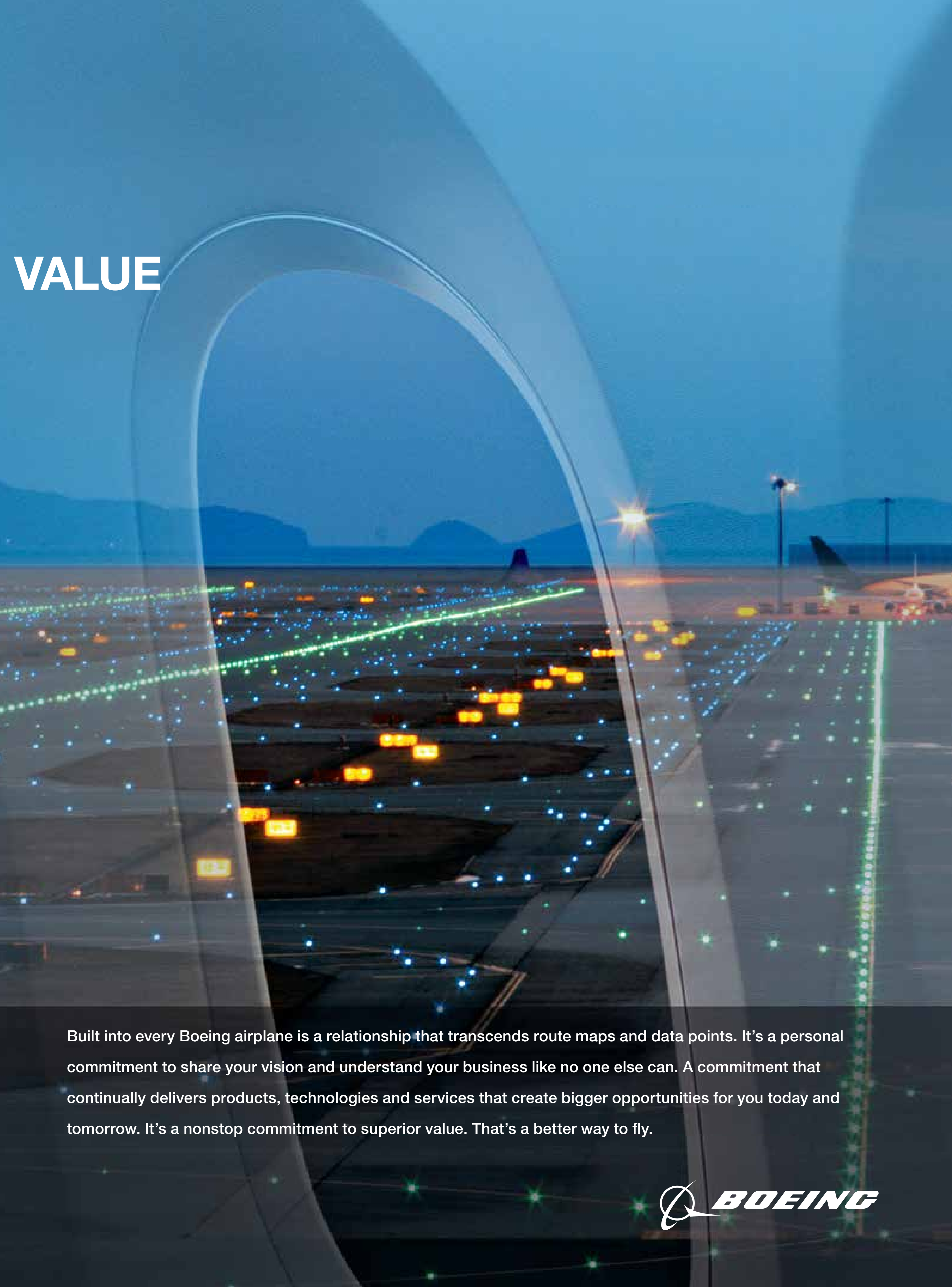

VALUE
Built into every Boeing airplane is a relationship that transcends route maps and data points. It's a personal commitment to share your vision and understand your business like no one else can. A commitment that continually delivers products, technologies and services that create bigger opportunities for you today and tomorrow. It's a nonstop commitment to superior value. That's a better way to fly.
BOEING

American Airlines and Qantas expand Pacific partnership

By Tom Ballantyne

Competition between Australia and the U.S. will escalate in December after Qantas Airways and American Airlines announced a major expansion of their joint business agreement that will see the U.S. carrier return to Sydney after an absence of more than 20 years.

Qantas also will add capacity into the U.S, including the launch of flights from Sydney to San Francisco, breaking the United Airlines monopoly on the route.

The expanded network is expected to spark a price war between the oneworld alliance pair and rivals, Virgin Australia-Delta (Delta is a Skyteam airline) and Star Alliance's United and Air New Zealand.

Announcing the deal at the conclusion of the International Air Transport Association's annual general meeting in Miami last month, American's chairman and chief executive, Doug Parker, indicated his airline might soon launch direct flights to New Zealand.

At a joint press conference with Parker, Qantas Group chief executive, Alan Joyce, said the expansion "represents a natural evolution of the existing alliance between Qantas and American, providing the airlines with a platform for growth, closer commercial ties and an even more seamless customer experience on routes between North America and Australia/New Zealand".

Speaking in Hong Kong a few weeks after the announcement, Parker said his carrier is receiving a new airplane every four days and that Asia and the Pacific are very important growth markets for American.

The airline has invested more than $2 billion in improving its product, including a multi-million dollar upgrade of its cabin, lie flat beds on the wide-body fleet and a better Admirals Club airport lounge network. "We believe we are as good as any carrier in the region and all we are asking is: 'Give us a shot'" Parker said.

Three U.S. carriers – Delta Air Lines, United Airlines and Hawaiian Airlines – fly into Australia. Qantas and American told Australia's Competition and Consumer Commission (ACCC) the entry of AA onto the Sydney-Los Angeles route would "create an entirely new competitive dynamic by incentivizing American to sharpen its strategic focus on Australia. In turn, this will stimulate responses from its fierce U.S.-based counterparts, who will view this as a challenge to their international network offerings".

Qantas and AA have an anti-trust agreement for their partnership across the Pacific, but the expanded joint business agreement takes their co-operation to a new level. As part of the changes, their joint venture will shift to a revenue sharing agreement.

Chairman and CEO of American Airlines, Doug Parker: "we are certainly now on a par with Asia-Pacific airlines"

American's arrival on the Sydney route frees up Qantas's B747-400s, which are refurbished with the same interiors as its A380 fleet, to re-enter the San Francisco market.

Joyce said: "together with American, we can offer direct flights and unrivalled frequencies from Australia to Hawaii, Los Angeles, San Francisco, Dallas Fort Worth, seasonal services to Vancouver and one stop services to New York via Los Angeles. We also offer coordinated schedules that allow seamless travel within the U. S. and Australia."

San Francisco is the most popular onward destination for Qantas' customers travelling to the U.S. "We know there is a strong demand for direct flights, particularly from our corporate clients, who will save about four hours each way by not having to connect through LAX. We expect to see the strong growth in U.S. visitors coming to Australia to continue, because of the strengthening U.S. economy, but also because of the investment AA will make in promoting their new route.

"The world's largest airline, which is the result of a merger between American and U.S. Airways, will be talking a lot more about Australia in their home market and that's great news for tourism," said Joyce.

In Hong Kong, where the airline celebrated the one year anniversary of its Hong Kong-Dallas-Fort Worth route in June, Parker said the coming together of American and U.S. Airways "is going completely well, but we are not done yet".

"We are embarking on the difficult part of the reservations system," he said. "We have to merge two very big data bases, but hope to have it done by the end of the year."

The American giant and Qantas will operate 45 return flights a week out of Australia from Brisbane, Melbourne and Sydney to Dallas/Fort Worth, Los Angeles and San Francisco. Qantas will fly to Honolulu and between Los Angeles and New York, lifting capacity across the Pacific by 9%.

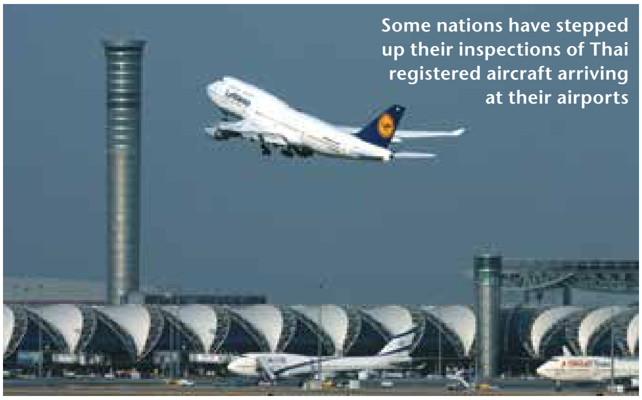
The Australian carrier and its low-cost subsidiary, Jetstar, had 45.9% of the passenger market between Australia and the U.S. in 2014, a figure that includes passengers flying on Jetstar to Honolulu. The next largest carrier in passengers carried last year was Virgin Australia with 12.6%, followed by United Airlines (10.1%) and Delta (5%).

San Francisco was Qantas' first U.S. destination, which was launched in 1954. It withdrew from the route in 1995, returned for a period and abandoned the route again in 2011. ■

Under ICAO scrutiny

Thailand vows to restore its top air safety rating by year-end.

By Tom Ballantyne



Some nations have stepped up their inspections of Thai registered aircraft arriving at their airports

A certain fatalism greeted the news last month that the United Nation's aviation body had "red flagged" Thailand and downgraded its safety rating to category 2 after Thai regulators failed to meet a 90-day deadline to improve "Significant Safety Concerns (SSC) present in the country's aviation standards system.

Days before the International Civil Aviation Organisation (ICAO) posted a red flag against Thailand on its data base, the director general of the Department of Civil Aviation had been dismissed because he had failed to promptly address ICAO's concerns.

As well, it was generally known that the regulators were running out of time to comply to the improvements ICAO required, especially after a Thai delegation had flown to ICAO headquarters to plead for more time to fix its problems.

Once the decision was announced, Thai aviation industry leaders came out fighting. Thai Airways International (THAI) president, Charamporn Jotikasthira, assured the travelling public that his airline maintained high safety standards. He added the report did not mean air transport services, airlines, aircraft and airports of Thailand were substandard.

He said THAI had obtained certification from international organisations concerned with aviation safety, including the International Air Transport Association, the European Air Safety Agency, Federal Aviation Administration of the U. S., the Australian Civil Aviation Safety Authority, the Civil Aviation Administration of China and Japan Civil Aviation Bureau.

"Since February 2015, when ICAO issued the SSC note on Thai DCA, Thai Airways International has had to rely on other states' civil aviation authorities to provide oversight for where THAI operates. As such, THAI has undergone additional and more frequent safety audits and station inspections by these authorities, the THAI president said.

"THAI has been able to continue operating regular flights to these countries. In the very near future, THAI will be audited at the company's base by other states' civil aviation authorities."

Thailand's deputy transport minister, Arkhom Termpittayapaisith, said he would improve flight safety conditions before ICAO returns for its next scheduled inspection in October or November.

"We have to be thorough before they come for the re-audit. Every problem must be fixed by then," he said. The nation's transport minister, Prajin Junthong, has started a training program for 25 aviation officials so they can carry out re-certification inspections on 28 airlines, a task Thailand's aviation authorities expect to complete by November.

In March, ICAO gave Thailand 90 days to resolve issues that included insufficient personnel inspection, issues with certification of transportation of hazardous goods and leniency in issuing air transport licences. ICAO found a conflict of interest in that the Department of Civil Aviation is both the regulator and the operator of several Provincial airports in the country.

The shift from category 1 to category 2 means that Thailand's airlines cannot add routes to their network or start up new airline partnerships. Long haul budget carrier, NokScoot, would be effected by the negative re-rating as would other low-cost carriers planning to use Bangkok as a region hub for expansion.

The decision is a severe blow to Thailand's aviation reputation. It now takes its place on an ICAO red flag list along side Angola, Botswana, Djibouti, Eritrea, Georgia, Haiti, Kazakhstan, Lebanon, Malawi, Nepal, Sierra Leone and Uruguay.

It is also bad news for the country's economy, which is still recovering from political upheaval, that lead to a military coup, and the arrest and upcoming trial of the country's last prime minister.

Since the ICAO audit was completed, some nations have raised serious concerns about Thai airlines and have stepped up their inspections of Thai-registered aircraft arriving at their airports.

In a recent report, which was cited in the Bangkok Post newspaper, the Economic Intelligence Centre of the Siam Commercial Bank warned a red flag could cause international aviation agencies to re-evaluate the safety of Thai aviation facilities. "If Thailand's air safety rating is downgraded by international aviation agencies, Thai airlines will face the loss of goodwill, higher operating costs, and increasing competition from foreign carriers.

"Charter carriers will lose out as their operating licences are issued on a case-by-case basis. Full-service airlines and medium-haul low-cost carriers will experience setbacks in their growth plans from the inability to establish new routes or to increase their flight frequencies," it said.

Officials at Thailand's DCA didn't immediately respond to the decision, but an un-named source in the department did suggest the red flag might not lead to any more adverse results. It said the international community was aware Thai authorities were improving their aviation certification standards, including a review of all certificates of Thai-registered airlines and the training of personnel. ■

SHEDDING THE PAST TO RE-SHAPE THE FUTURE

As rival flag carriers in Malaysia and Thailand attempt turnarounds in the glare of global publicity, their neighbour to the south, Singapore Airlines, has been conducting a re-engineering of its own, while deliberately travelling below the media radar. The carrier has been re-made into a diversified group that includes a joint venture airline in India, majority equity in three budget airlines, offshore hubs to generate traffic flows and a brief to build new businesses wherever opportunities arise. SIA's CEO, Goh Choon Phong, explains his strategy to secure the SIA Group's future to chief correspondent, Tom Ballantyne, in Singapore.

When Goh Choon Phong, then 49, took charge of Singapore Airlines (SIA) on January 1, 2011, few in the industry anticipated the radical path he would take at an airline that had become an industry institution.

A 21-year veteran of the carrier, Goh came into the business soon after he graduated with a Master's degree in electrical engineering and computer science from the Massachusetts Institute of Technology in the U.S. Immediately before he succeeded Chew Choon Seng in the top job, he was executive vice president marketing and the regions. He was assumed to be steeped in the culture of SIA.

But perhaps it was this experience that made Goh and his team recognize the old ways of running an international airline were not going to work for much longer. A different future had to be was mapped out for SIA, including the once unthinkable step for the premium carrier – buying into the low-cost sector.

Goh said there was a realization at Singapore Airlines House that the airline environment had radically changed. Aggressive budget operators were growing at a phenomenal speed, particularly in Southeast Asia, the centrifugal market for SIA and SilkAir.

As well, Gulf airlines were putting ever more capacity into the region and successfully taking market share from the region's carriers. It didn't help that they were also wooing passengers away from the long established Kangaroo route from Australia to Europe via Singapore.

"When we saw that happening we thought it was something fundamentally different. It wasn't going to be a phenomenon with a short life. It was actually going to last for quite a long time. It was structural to us. We began to look at it and ask: 'what is it we have to do'?" he said.

The answer was a strategy based on four pillars: a renewed focus on product, services and network; the building a portfolio of airline brands that covered all market sectors; establishment of offshore hubs to tap into new traffic flows and a focus on new, third party companies, that would generate new revenue streams.

Goh and his lieutenants have since added the launch of a joint venture full service carrier in India, the development of third party ventures such as flight training, and an increasingly successful effort to leverage operating costs, frequent flyer partnerships and customer management systems across all four of the group's airlines, their global partners and its related businesses.

Four years down the track, all four strategy tenets are well advanced, as is the difficult task of changing the staff mindset at an airline that was pretty much set in its ways. "When you are as successful as SIA, doing what we have done before, it is actually very challenging to say let's try new things," said Goh.

"We had to be ahead of the curve when it came to making all these changes. Our people had to realize this and accept that none of this change was going to be an immediate fix."

But change has come and today SIA is performing far better than many of its regional competitors in a tough operating environment. In the year to March 31, its net profit improved by 2.34%, to $277 million, from $270.7 million a year earlier. Revenue increased 2.1% to $11.7 billion.

Operating a fleet of 108 wide-body jets, SIA has 110 aircraft on order, including 70 A350-900s that will begin arriving early next year and will replace 25 B777-200s. Also on order are 30 B787-10s, which will be delivered to SIA in 2018-2019. The airline flies 19 A380s and has five of the type scheduled for delivery in the same years as the B787-10s.

> **It is not a walk in the park. It's a challenging market, but it has huge potential. We believe that with our skill set and with Tata's understanding of the Indian market, this is a hugely advantageous combination for Vistara**
>
> **Goh Choon Phong**
> Singapore Airlines CEO

Probably SIA's most unexpected strategic decision was its expansion into the LCC sector, initially with an investment in budget carrier, Tiger Airways (now Tigerair). It was followed by the launch of the airline's wholly-owned long-haul budget carrier, Scoot, in 2012. Along with its existing regional full-service subsidiary, Silk Air, they make up the group's four brand portfolio that covers all market sectors.

"Realizing the LCCs were here to stay and that the growth was there, we felt we should participate in that growth. We believe we have the right skill set to do so," said Goh. "It's not that we are unwilling to take risks. Setting up an LCC sector for our business was one part of that."

Scoot is in the process of switching from older B777-200s to B787s. "So far, it has been very well received and it is progressing in its business plan," said Goh.

Scoot also is part of Bangkok-based NokScoot, a joint venture with Thailand's Nok Air, in Bangkok. "Really, it is a complimentary hub because Bangkok has a lot of appeal to budget travelers. Singapore usually attracts people with a little bit more to spend. But between the two, you allow them to actually cross with each other. With both of them you can go to many other places. NokScoot is a way to grow outside Singapore," said Goh.

Taking on Tigerair, which lost $198.9 million in the year to March 31, added another pillar to the strategy. "At one stage, we did not participate that much in Tiger's management. It was left very much to run on its own," Goh said.

"Now, Tiger is viewed as an integral part of the group, particularly for Scoot, because if you want to have medium or long-haul growth you need the regional feed. Tiger is the vehicle to provide that."

SIA has moved to repair Tiger's battered financial performance. "Tiger had a few misadventures," said Goh. "We have gone in and helped it to consolidate and strengthen itself."

A 20-year veteran of SIA, Lee Lik Hsin, has taken leave of absence from the parent carrier to run the LCC. "With his wealth of experience, Tiger's performance has gone up over the last couple of quarters," Goh said.

"It will continue to do so as Scoot and Tigerair become more integrated and can leverage some of the synergies I mentioned, both across the group, as well as the connectivity with Scoot."

For Goh, it's not just about having four different brands. It's about having them work together to the advantage of the whole group. Scoot and Tigerair have anti-trust immunity, which allows them to operate together on pricing, network planning, marketing and sales. They now have joint flights between Bangkok and Hong Kong.

"There's a lot more that's going to happen by feeding each other. It's the tip of the iceberg. Then, across the four airlines in the group, there are synergies to be tapped in operations and in purchasing and backroom support," he said.

"Fuel is one of the areas we are looking at to see where we can synergize its cost across the whole portfolio of airlines. Even insurance. We can tap its synergies with both costs and revenue. It all contributes to reducing group expenditure and increasing competitiveness."

SilkAir , which has been growing at double digit rates in the last few years, also is changing. "For a time, SilkAir was run very much independently, but with a realization that the landscape was shifting, we needed to strengthen that [arrangement[and therefore strengthen the Southeast Asian network," said Goh.

"Between ourselves and SilkAir we set up a common revenue management section. It makes no difference whether it is SilkAir flights or SIA flights because the same revenue management unit looks at how to connect passengers from one airline to the other," said Goh. Schedule planning has been improved to ensure better connectivity between SIA and SilkAir.

Goh is well aware that each brand can't be considered in isolation. Individual travelers could sometimes travel on a budget carrier or opt for a full service airline, depending on the purpose of their travel.

Singapore Airlines CEO, Goh Choon Phong: "Realizing the LCCs were here to stay and that the growth was there, we felt we should participate in that growth."

Codeshares quadrupled

"In the past we didn't have as much codeshare co-operation with carriers, but the world has changed and partnerships have become much more important. We have gone all out to strike up relationships with a lot of other like-minded carriers who we think we can work with for mutual benefit," said Goh.

"In 2011 we had somewhere around 2,000 code-share agreements. Now we have more than 8,000. Each year, the growth is phenomenal - this year and last year more than 60% in terms of the number of code-share sectors. That's not going to stop because there are quite a few more airlines with which we can work closely."

"There is a blurring," he said. "One of the things we have done is operate a common FFP (frequent flyer program) for all four airlines. So Scoot and Tiger passengers can make use of KrisFlyer (SIA's FFP). We have a common database of all customers who travel on any of the four airlines.

"This information allows us to offer targeted travel, promotional benefits to travelers depending on where they want to travel and how - whether it's a budget or a full-service flight, they can choose one of the four. We are barely scratching the surface. In recent years, we have been building up our data base to increase opportunities for our customers and our [frequent flyer] members to accrue and burn points.

"The other part is the non-air component. Traditionally, we worked with credit card companies, banks and the like. Now, we are pushing on to other retail options such as health products, supermarkets and pharmacies, to offer a wider spectrum of redemption. We will continue to do this, not just in Singapore but beyond."

In a first for the industry, SIA has introduced a mileage conversion system between its KrisFlyer program and Velocity, the frequent flyer programme of Virgin Australia. SIA has 22.1% equity in the Australian airline. The partnership is a departure from the conventional approach of focusing solely on core businesses.

A recent example is the establishment of a flight crew training centre with Airbus, in which SIA holds 45%. It will provide flight training on full-flight simulators for all in-production Airbus aircraft types.

"It has only just been set up, but requests are already coming in," said Goh. "We are interested in looking at other new adjacent business, with or without partners. We want to diversify our revenue sources. All these things are quite a departure from what we use to do."

The group's most recent project, the Indian joint venture with India's Tata group, full service airline Vistara, also was regarded as high risk, given the state of the sub-continent's market.

"We are not risk averse," Goh insisted. "We take the risk after we have evaluated it and decided it would be the right thing to do." Talks with Tata about setting up a full service carrier started in late 2011, but it was New Delhi's decision to allow liberalization and foreign participation in airlines that opened the door to Vistara's launch in January this year.

"To me, this is as good a time as you could ever get," said Goh. "Firstly, it is a time when fuel prices are relatively low. Secondly, the Modi government has been very pro-business and is creating a lot of excitement and growth in the Indian economy itself."

He said India's move towards the abolition of the 5/20 rule, which demands Indian airlines must operate for five years and have a minimum fleet of 20 aircraft before they can fly internationally, also is important.

"The 5/20 rule, from our perspective, doesn't quite make sense, especially for Indian carriers. Why would you limit your own carriers on a 5/20 rule when anyone else outside of India could operate the day after it is created on the same route? Together, with our partners at Tata and Vistara management we have been conveying these views to the authorities in India."

Goh does not want to subordinate Vistara's interests to SIA. "Vistara must grow in the manner that is best suited to itself. It must tap the growth potential of India and, internationally, to elsewhere in the world," he said.

"There will be synergies between Vistara and SIA on India-Singapore routes . SIA can provide important international feed into Vistara while it is not being allowed to operate internationally.

"It is not a walk in the park. It's a challenging market, but it has huge potential. We believe that with our skill set and with Tata's understanding of the Indian market, this is a hugely advantageous combination for Vistara."

And India won't be the last foreign venture for the group. Goh confirmed that discussions with Korean carrier,

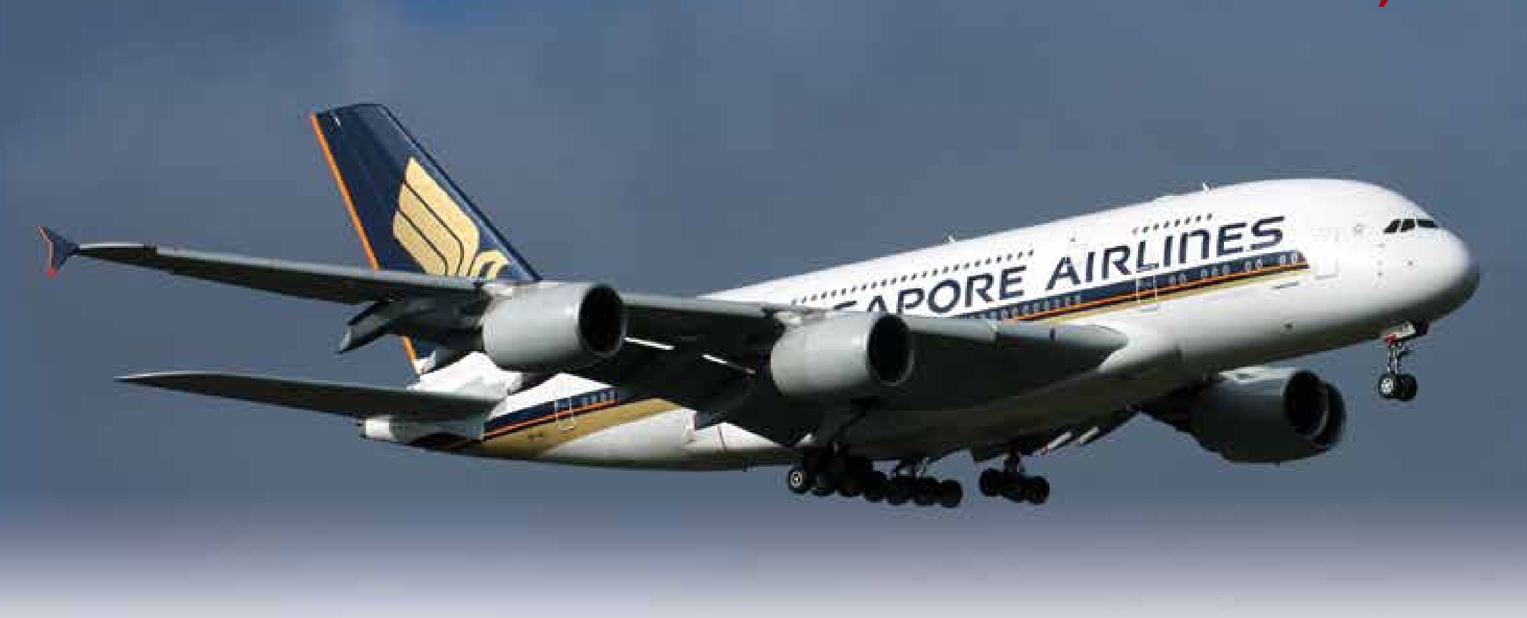
The importance of China

Like most airlines, SIA regards China as an important market. "Firstly, China has the opportunity for organic growth. Because of our portfolio approach we can actually identify different markets because many cities in China are in different stages of growth and have different passenger demands," Goh said.

"So between SIA, Silk Air, Scoot and Tiger, which interestingly all fly to different points, there is no overlap in China. You can see the power of the portfolio in serving different markets. We remain open to equity holdings, commercial co-operation, code-shares and all that."

SIA has no codeshares that provide access to China's domestic market. "The current air services agreement has to be updated to allow for domestic codeshares in China and that is something we have to work on first," he said.

"In the meantime, we will continue to discuss [the issues] with potential partners to understand, once approval is secured, how we can launch code shares. It is clearly an area where we would like to see more progress."



Jeju Air, about investing in the carrier are continuing.

"How that pans out and how it would fit into our overall strategy is not finalized. If this becomes a reality, we will talk more about it. It is premature to comment now. We will remain open to JVs or investments elsewhere. We will look at investments if they fit with our strategic plan."

Goh places a strong focus on network connectivity through partnerships with other airlines. It has strong penetration in the South West Pacific as a result of its co-operation with fellow Star Alliance member, Air New Zealand, and non-alliance partner, Virgin Australia.

One market that is challenging is the U.S., where SIA recently terminated its non-stop service to New York because the A340 it flew on the route was not economically viable. SIA flies daily through Seoul to San Francisco and daily from Hong Kong to San Francisco using B777-300ERs. It operates A380s daily through Tokyo to Los Angeles and to New York via Frankfurt. It also flies five times a week to Houston via Moscow, again with a B777.

Above all, however, Goh is determined SIA will maintain its well-earned reputation for product leadership and service excellence, despite the tough competition, especially from the Gulf carriers.

"Product leadership wise we have announced that premium economy will be introduced on SIA later this year," he said. "We believe it is the right time to do it given the feedback we have had. The market is mature [enough] and we think our premium economy is better than any others in the market - which we always do when we introduce products."

An upgrade of the airline's first and business class cabins, to cost $325 million, is underway on the B777-300ER fleet. Lounges also are being revamped. Beyond that, planning has commenced on a new "ground-up" design for first and business class on the five new A380s that will begin arriving at SIA in two years. "It is based on a new concept. We have gone through some preliminary conceptualization and it looks very exciting. So no, we are not sitting still."

Also groundbreaking is a new system, Customer Experience Management (CEM), that SIA has been developing since 2011, which is a step change in customer service.

"The idea is to have a system to help our front line people interact with customers, to actually highlight pertinent information about individuals so they know the customers' profile and preferences and can deliver that service in a much more personalized way. Our staff certainly gives customers a personal service, but until now there has not been a system to do it with consistency," Goh said.

Crews on board SIA have iPad minis to update them about customers preferences whether a passenger is in the air or on the ground.

"We reached phase one at the end of last year. Phase two will be sometime next year when we will build in more work flow rules so there are prompts and triggers to alert staff on certain possible service actions," explained Goh.

"Ultimately, we will make the experience so comfortable for each and every customer because we are treating them individually in the way they would like. They will feel like they are at home, with everything in the right place.

"It is what SIA has been doing, pushing the boundaries and taking it a step beyond what we have been doing until now."

It has been four years of hard work to bring about change and Goh is acutely aware there is still a long way to go. "If you look at this part of the world, it is still flush with capacity, whether it's the LCCs or the Gulf carriers and so forth," he said.

"It has been very challenging for everyone. Look at how few airlines actually manage to make some money. But importantly, while we are managing these nearer term challenges, we have our minds set on how to position the airline for the future.

"None of it is short term. All of it is about how you position the airline for ten years or twenty years ahead and how you actually produce other engines of growth that will allow us to be stronger." ■

JAL hunts for growth after radical turnaround

Bankrupt just four years ago, Japan Airlines (JAL) has returned to robust financial health and is preparing for expansion, the airline's chairman, Masaru Onishi, told Orient Aviation's chief correspondent, *Tom Ballantyne*.

Four years ago, Japan Airlines (JAL) was on the financial ropes, with nowhere to go except controversial, government supported rehabilitation.

It was a humiliating period for Japan's flag carrier and there were many critics, both in Japan and abroad, who did not think JAL could make itself into a competitive global force in aviation.

Fast forward to 2015 and JAL, with $12.4 billion in revenue last year, is a top performing carrier, ahead of low-cost airlines Ryanair and Easyjet and legacy rivals such as American Airlines and Singapore Airlines.

"We spent three or four years after bankruptcy building up a stable foundation for our re-structured business," said JAL chairman, Masaru Onishi, speaking on the side lines of the International Air Transport Association AGM in June, held this year in Miami.

"That was very important. During that time, we did not concentrate heavily on expansion. But from now, we would like to focus on growth."

Onishi made it clear JAL would not embark on rapid growth. JAL wanted a cautious and measured expansion that will include significant changes to the fleet of 164 jets, including 59 B737s, 47 B767s, 46 B777s and 21 B787-800 Dreamliners.

It has ordered four more B787-800s and 20 787-900s, as well as 25 A350s, the first Airbus order from JAL in the history of the Tokyo-headquartered airline group.

Onishi said putting JAL's finances in better shape, by cutting costs, eliminating "red ink" routes and ordering new planes weren't the only factors in JAL's new success.

After bankruptcy, it was decided the airline would start from scratch. The two pillars that drove JAL's success were radical surgery on the company's business model and the re-setting of a deep seated mindset at the airline.

"Historically, everybody in Japan Airlines thought we were in the transportation business. Now, everybody thinks we are in the service industry. That is a very dramatic change," Onishi said.

He also revealed that JAL is now taking on more fundamental changes. While it remains a major domestic operator, it faces a problem common to its rival, All Nippon Airways - Japan has one of the most mature air traffic markets in the region so domestic traffic growth is slowing.

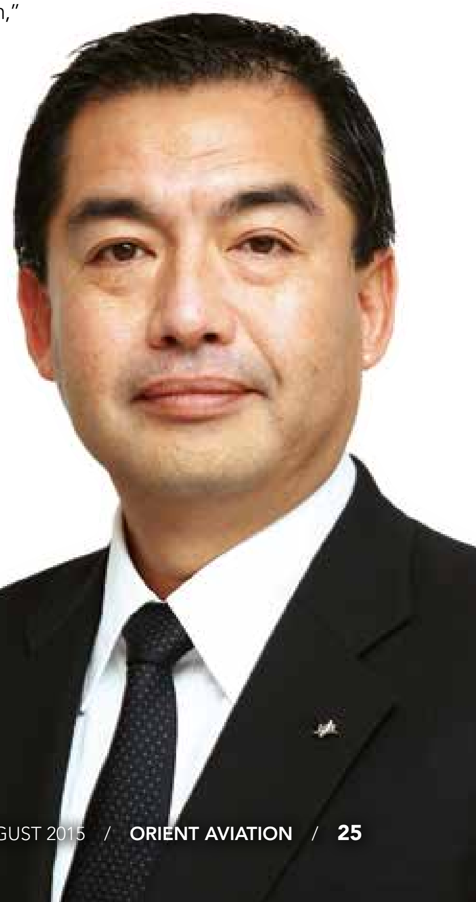
"Of course we would like to keep our position in this domestic market, but there are big opportunities outside Japan," said Onishi.

"In the past, our station managers outside Japan focussed on selling JAL tickets to Japanese companies in their regions. Take our American station manager .What did he do historically? He went to Japanese companies in the U.S. to convince them to use JAL.

"But we have a big blue ocean for us. We are now changing our personnel. We are hiring and promoting local people who know their own market and their own people. So we are putting a lot of effort into attracting foreign travellers to fly on JAL."

Onishi said JAL receives support from its oneworld alliance partners, such as American Airlines in the U.S., British Airways and Finnair in Europe, Cathay Pacific Airways in Hong Kong and Qantas in Australia.

> "Historically, everybody working for Japan Airlines thought we were in the transportation business. Now, everybody thinks we are in the service industry. That is a very dramatic change"
>
> **Masaru Onishi**
> Japan Airlines chairman



But there are challenges too. JAL has no alliance partners in the critical Mainland Chinese market and no partnership agreements with any of the big Chinese carriers.

Onishi's solution is to find friendly travel agents to sell JAL. "It's the same in Southeast Asia, where we also don't have an airline partner. But the market in that region is heavily dependent on travel agencies so we want to focus on building good relationship with travel agencies."

One aspect of today's competitive landscape that isn't causing Onishi any angst is the presence of the Gulf Carriers. They are not players in the Japanese market.

He thinks Japan, being so far east in Asia has geopolitical advantages. Carriers in Southeast Asia can't operate non-stop to the U.S., which means travellers from that region have to fly one stop, primarily through Japan or Korea.

Even if viable long-haul aircraft came along that were capable of linking Southeast Asia non-stop with the U.S. Onishi believed most passengers would still want to make the journey one-stop.

"Human beings cannot be changed so easily. Maybe the maximum flight hours they can tolerate will be 14 to 15 hours. Even that can be a pain," he said.

"Japan is located at the end of the East and that's a big geographical advantage when Indian or Southeast Asian people want one-stop journeys. They can break their journeys in Narita or Incheon on the way to the U.S." ■

More Skymark dramas

By Geoffrey Tudor in Tokyo

In a highly unusual move, a Tokyo court supervising bankruptcy proceedings has ruled that creditors of bankrupt domestic carrier, Skymark Airlines, must decide between two proposed rehabilitation plans. The deadline for the decision is August 5.

In Japan, it is usual for only one rehabilitation scheme to be submitted to the court in bankruptcy proceedings, but like so much else about Skymark, the situation varies from the norm.

Creditors can chose between a Japan backed plan put together by Skymark and three other Japanese partners or the rescue package assembled by major U.S. leasing company, Intrepid Aviation.

Before its entry into bankruptcy protection in January, Skymark was a "third force" in the Japanese domestic airline market, challenging the duopoly of Japan Airlines (JAL) and All Nippon Airways (ANA). The two big carriers command almost 80% of the market, the third biggest in the world.

The carrier came to grief after former president, Shinichi Nishikubo, recklessly over-stretched the airline when he ordered six A380s for long haul services, configured with 114 business class and 280 premium economy seats, respectively.

Additionally, enigmatic Nishikubo introduced leased A330 aircraft on domestic trunk routes, in the hope he could capture the high-yield business market from JAL and ANA. The A330s were configured in premium economy class with 271 seats that were more spacious and cheaper than those of key competitors.

Unable to maintain the payment schedule for the A380s and failing to attract enough passengers for the A330s, Skymark moved into loss. Airbus cancelled the A380 contract and sought compensation. Skymark grounded the A330s, leased from Intrepid.

Claims from Airbus amount to 88 billion yen and Intrepid wants 115 billion yen in compensation. Together, the two foreign companies are demanding 65% of all claims against Skymark.

Skymark's three partners are finance company Integral (50.1%), UDS Investments, a joint venture between the Development Bank of Japan and the Sumitomo Mitsui Banking Corporation (33.4%) and ANA Holdings, parent company of ANA (16.5%)

Intrepid originally had the impression that ANA was interested in introducing the Skymark A330s, now sitting on the ground at Tokyo's Haneda Airport, into its fleet, but it was not the case.

ANA executive, Toyoyuki Nagamine, said in June the airline was "not going to acquire a new aircraft just because we have become Skymark's sponsor".

ANA hopes to cooperate with the airline by joining in code share flights, making use of Skymark's Haneda slots.

JAL, itself recently rehabilitated, was approached by Skymark late last year and was willing to help with code share flights and other cooperation, but was prevented from making the investment because of restraints placed on it by the Ministry of Transport.

At press time, Intrepid's invitation for Delta Air Lines to join its rehabilitation plan had received no official response. Delta, a member of the SkyTeam alliance, has no Japanese partner, whereas its rival, American Airlines, is a member of oneworld, like JAL, and United Airlines and ANA are Star Alliance members.

Finding buyers for the A380s and the A330s is a tough call, especially because Skymark's configuration of its cabin interiors. As yet, there is no aftermarket for the A380 and Skymark's A330s would need to be modified, an extra cost, to appeal to prospective clients.

To be accepted by the courts, the winning plan should be supported by at least 50% of the creditors by debt value and by 50% of creditors by number. That would appear to put Airbus and Intrepid at the head of the queue, if they work together. Intrepid is the biggest single creditor, with about 37% of the debt.

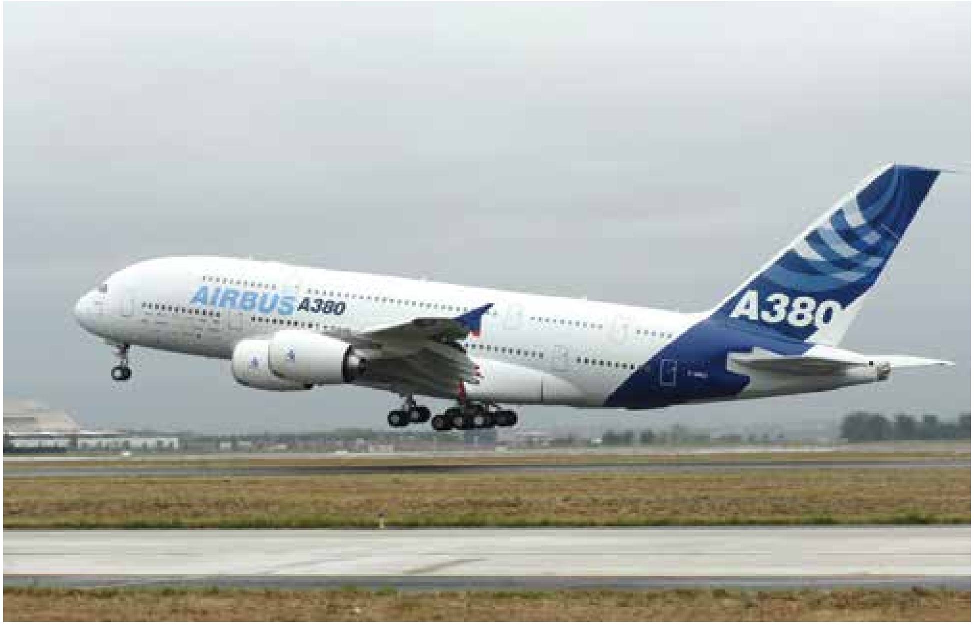
Unsurprisingly, Skymark argued the true debt owed to Airbus and Intrepid is much lower than has been stated to date.

At the Paris Air Show, Airbus CEO, Fabrice Bregier, said the French manufacturer was studying the two proposals to revive Skymark and would favour any plan that gives the bankrupt Japanese airline a future and also considers Airbus' interests. Analysis of the plans would be "complex", he said. ■

Market conditions test A380's appeal to airlines

Just ten years after it first flew and less than eight years since it first entered service with Singapore Airlines, the A380 is about to make an unexpected early debut in the used aircraft market. The big question is: who will buy the plane second hand when Airbus is having trouble selling new A380s?

TOM BALLANTYNE reports from Toulouse



Christoph Mueller, the 52-year-old German who took over Malaysia Airlines (MAS) in May has not taken long to wield the knife. Along with massive staff cuts and route downsizing, he has decided to sell the entire MAS fleet of six A380s.

In one fell swoop, MAS is creating what until now had not existed - an aftermarket for used A380s - and it may only be the beginning of a trend. It is rumoured that another financially challenged airline, Thai Airways International (THAI), is considering reducing its six-strong A380 fleet.

And there is a possibility that more A380s might come onto the market as big operators of the aircraft type, for example Emirates Airlines and Singapore Airlines, begin to turn over some of their older A380s.

The MAS decision came at a time when Airbus is finding it hard to sign up new customers for the plane in a market where most airlines are clearly focused on smaller wide-bodies such as the A350, the B787 and B777.

Complicating matters is the availability of newer A380s such as the six cancelled by Japan's Skymark Airlines last year. Dublin-based lessor, Amedeo, which signed up for 20 A380s last year, has not found customers for any of the aircraft, although its chief executive, Mark Lapidus, believes there is a possibility of two customers signing on this year.

Industry analysts question whether there is a genuine market for used A380s at the present time, or even for most of the new A380s that have become available. Airbus begs to differ.

Asked if Emirates, the biggest A380 operator, could become a competitor when it starts unloading second hand A380s onto the market, Airbus' ever bullish top salesman, chief operating officer customers, John Leahy, said he didn't believe so.

"No, I don't see Emirates as a competitor but these aircraft - used aircraft - I see as a big opportunity, if you take an airplane at its half-life point," he told media at Airbus' annual Innovation Days in Toulouse in May.

"Let's say they are coming back with a value of around $100 million. So $100 million dollars, at the 1% rule a lessor uses, will pay you about $1 million a month. It works. It's very serviceable.

"Passengers like it. Clean up the interior, repaint it. What's a B777ER going for right now? It's going for more than $1 million a month on lease, so we opening up a really unique opportunity here."

Some operators who have never considered an A380 will look at its rental per month and see that a 777ER is more than an A380 and may decide there are some routes they should try out with the plane, Leahy suggested.

Aviation consultants, Leeham, said MAS will be an interesting hurdle for the superjumbo at a time of mixed fortunes for the aircraft. "The disposal of all six A380s presents an opportunity to test the market for used A380s and a key component to Airbus' strategy for the aircraft going forward: to allow airlines to try out the airplane without having to spend the huge amount of money required to buy new.

"After experiencing the A380, the theory goes, other carriers will understand how this can spur sales," Leeham said.

As for potential customers for used A380s, Leahy suggested some of Asia's low-cost long-haul carriers are a possibility. "Today, some of those operators are doing long-haul with A330s and those markets are doubling," he said.

"Those markets are getting beyond the six hour flight they were originally designed to fly and [these airlines] start to see interesting business models for flying longer haul A380 routes with a high density seating configuration at a very, very low cost, long-haul market.

"It is not just long haul. Even within the region, if you find you have the passenger demand to suit a high density A380, it actually delivers a very economic proposition, as Emirates has found, not just on ultra-long haul, but on six hours as well."

MAS is understood to be open to outright sale or lease of its planes. It took delivery of its first A380 in 2012 when the list price was $389.9 million (although airlines pay far less than this price) and has been operating the planes from Kuala Lumpur to London and Paris. Each MAS A380 has eight first class suites, which MAS said at the time were the world's widest first class beds, 66 lie-flat business class seats and 420 economy seats.

Regardless of the MAS decision, Leahy remained confident sales of new A380s, although there have been no new airline customrs for two years, will pick up soon. "We should have some orders for the A380 this year. There is demand out there for the A380. We have several campaigns underway," he said.

Airbus has yet to make a decision on an upgraded re-engined NEO version of the aircraft. Emirates president, Sir Tim Clark, has declared an interest in 200 A380neos, but Airbus is reluctant to go ahead with the model for a single customer, no matter how important that client is.

"There's a lot of demand out there for an airplane we haven't yet launched," said Leahy. "To begin, I've said publicly it is very hard to persuade our board to do something for one customer, even a big customer," Leahy said.

"But the fact is that Tim has made it very clear he sees demand for 200, just from Emirates, for that plane. We are not in a position right now to make a statement on launching it."

While there has been a great deal of criticism about Airbus' failure to find new A380 customers, Leahy pointed out an A380 is now taking off or landing every three minutes, seven days a week. He said the air travel market is doubling every 15 years and airlines will need it. "It's inevitable they'll all be flying more A380s in the future," he said.

At the Innovation Days, Airbus hinted at production increases in its popular A320 series and said market demand could justify a leap to "more than 60 aircraft" a month. Leahy said anticipated demand already exceeds the existing production goal of 50 aircraft a month by the first quarter of 2017. At the moment it is producing 42 of the single-aisle jets every month.

Fabrice Bregier, head of the plane making unit of Airbus Group, said there has been a debate between sales and production staff about an increase in the pace of production of the single-aisle A320, which is also in the midst of being upgraded.

Also set for a rise in output is Airbus' newest aircraft, the wide-body A350. It entered service last December with Qatar Airways. Six months on, three have been delivered. Airbus is scheduled to deliver 15 A350s to customers before year end, with the overall production target for the aircraft set at 10 planes a month by 2018.

The Toulouse A350 final assembly line (FAL) is running at different speeds as it adjusts to building the new carbon-composite jet. Enough parts are entering the assembly line to make three aircraft a month, but deliveries are much slower.

The head of Airbus programmes, Didier Evrard, said the production cycle reflects the normal adaption process for a new aircraft, but also is a deliberate strategy to take the time needed to weed out risk. "We are running quite fast at the entrance to the FAL, but the production cycles inside the FAL are still quite slow," he said.

"We are going to increase the speed and reduce the cycle. In this way, aircraft will be leaving the FAL at a rate which is closer and closer to the rate at which they enter," he said. ■

Totally connected

The connected aircraft cabin is fast becoming the norm for the world's airline passengers who now expect Wi-Fi inflight internet access to be free onboard.

Tom Ballantyne reports

Board one of Philippine Airlines' (PAL) fleet of 13 A330s flying its Asia-Pacific's routes and there will be a good chance you will notice something is missing onboard.

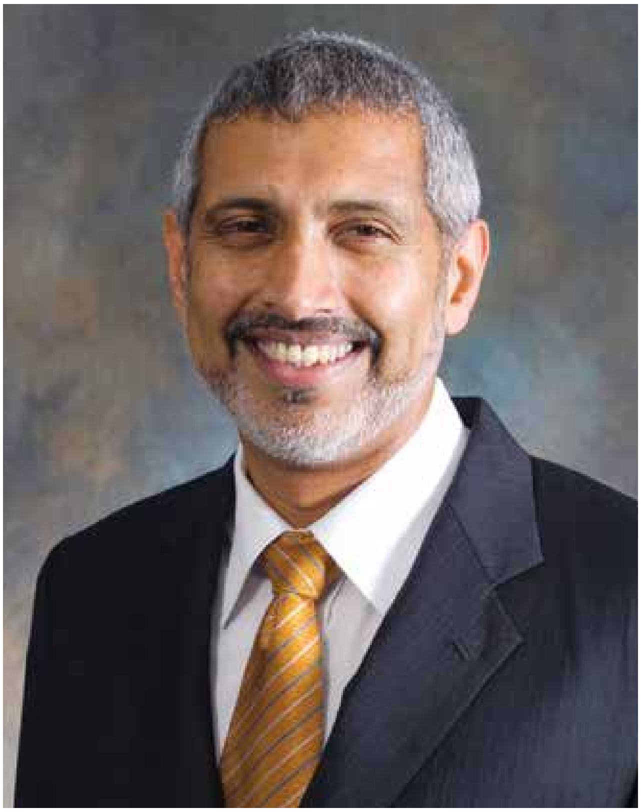
Once in your seat you will realise what it is – there is no in-seat inflight entertainment system.

On PAL's regional routes, passengers use their own mobile devices to access programs through the airline's in-cabin Wi-Fi system.

And the Manila-based flag carrier is now installing a wireless-based inflight entertainment system - it has selected Mobile OnAir and Internet OnAir - across its A340 and B777 fleets although its B777s also have embedded IFE with seat-back screens – to satisfy passenger demand for tailored entertainment and communications.

PAL is far from alone. Inflight Wi-Fi may have been slow in taking off, but at least 13 airlines in the Asia-Pacific now offer Wi-Fi accessible entertainment and/or GSM (Global System for Mobile Communications) internet access across their networks.

As Heament John Kurian, the managing director of Rockwell Collins Information Management Services, puts it: "In this 24/7 connected world, the outcry for constant connectivity has gone from a shout to an uproar.



"Passengers are looking for the ability to move their totally connected digital life from home and office to the airport and the aircraft cabin."

He believed the case for connectivity has reached a tipping point. "Even as the demand for high-speed connectivity soars, costs are plummeting, technological capability is skyrocketing and hardware size and weight are shrinking," he said.

"These advancements not only make the traditional cost-benefit analysis work that is a must for long-haul twin-aisle carriers, but they also are making it more alluring for short-haul, single-aisle jets as well."

Several airlines have confirmed that passengers clearly want connectivity onboard. In a 2014 study, Honeywell Aerospace found that inflight Wi-Fi is becoming increasingly influential in determining a passenger's buying and wireless usage behavior, including flight selections.

"You can pack your own meals, but you can't pack your own Wi-Fi," said Jack Jacobs, vice president, marketing and product management for Honeywell. "The commercial aviation industry has to meet the demands of passengers by giving them the freedom to stay connected whenever and wherever they want," he said.

"Honeywell's survey confirms consumers are accustomed to easy access to Wi-Fi and they expect it to be fast and consistent like at home or work. Those expectations are expanding into the passenger aircraft."

In the region, carriers besides PAL that offer inflight Wi-Fi and/or GSM internet access are AirAsia, Air China, All Nippon Airways, Cebu Pacific Air, EVA Air, Garuda Indonesia, Hong Kong Airlines, Japan Airlines, Malindo Air, Nok Air, Singapore Airlines, Thai Airways International and Vietnam Airlines.

There are issues about availability of Wi-Fi in some parts of the region. Cathay Pacific Airways does not offer the service, partly because Mainland China doesn't allow airlines to offer Wi-Fi above its airspace.

PAL said the industry was moving to wireless based systems because increasing numbers of passengers bring their own tablets and smart phones, containing tailored entertainment, onboard.

Former PAL president, Raymond Ang, noted passengers' response to using their own tablets, phones and laptops to access wireless entertainment and connectivity had been overwhelmingly positive. "Passengers can now select from an array of movies, television programs and music thus enabling them to customize their inflight entertainment.

"Adding OnAir to more

ASIA-PACIFIC LEADS CABIN CONNECTIVITY

aircraft was an easy decision. While we are very much aware that we are breaking new ground by not having traditional embedded IFE on the brand new A330's, there is no question that wireless IFE is working for our passengers," he declared.

Ian Dawkins, chief executive of OnAir, added that PAL had paved the way for OnAir's inflight Wi-Fi, mobile phone service, and wireless inflight entertainment. "We expect this to become an industry standard," he said. Analysts doubt, however, that seat-back IFE is history. They point out that many carriers, such as Singapore Airlines, are spending hundreds of millions of dollars on new IFE systems.

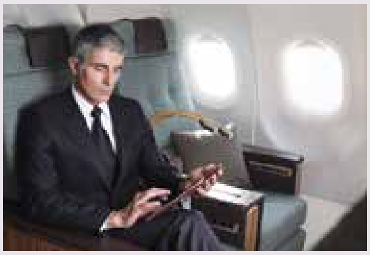
Connectivity in the air has taken huge strides in recent times. Once patchy and slow, its reliability has dramatically improved. Companies including Inmarsat, Iridium and industry newcomer, OneWeb, are offering higher speeds and larger bandwidth. Inmarsat's latest-generation Global Xpress (GX) constellation is specifically designed for the fast-moving mobile aircraft environment.

With GX, passengers can remain in constant touch with the world, from surfing the Web and updating Facebook to checking email at speeds previously considered unimaginable.

Rockwell Collins said almost 90% of airline passengers travel with at least one personal electronic device (PED) and the number of passengers carrying multiple Internet-enabled PEDs for talk, text, streaming video and listening to music – often at the same time – continues to surge.

"Creating effective cabin solutions in this new information age calls for our industry to look at the world differently, finding new ways to meet customer needs while protecting and even enhancing the bottom line," it said.

What airline passengers want onboard



* Constant and speedy Wi-Fi inflight
* Inflight Wi-Fi availability influences the flight selection for 66% of passengers
* Nearly one in four passengers have paid more for a flight serviced with Wi-Fi
* Almost half of respondents in a Honeywell Aerospace survey would be willing to put up with an inconvenience while travelling, such as being processed twice by airport security, for Wi-Fi that is as fast in the air as it is at home
* Close to one in five (17%) of the Honeywell respondents had switched from their preferred airline to another carrier because it offered better Wi-Fi

Honeywell Aerospace survey, 2014

"In this environment, our current industry term, inflight entertainment (IFE), is woefully inadequate to describe what the passengers of 2015 want to do on their journey."

"While IFEC – with the "C" standing for connectivity – is a step in the right direction, we should be thinking about a new term: passenger engagement. Passengers are engaged with their mobile devices from the time they leave home to the moment the airline closes the aircraft door. And they're seeking and even expecting to link their earth-bound connection with their flying experience."

There is absolutely no doubt Rockwell Collins is right. At its annual aviation IT summit in Brussels last month, communications and IT provider SITA, said its 2015 IT Trends Survey indicated a large majority of passengers have a positive attitude towards using technology at different stages of their journey.

BYOD (Bring Your Own Device) was preferred onboard. During the flight more respondents indicated a preference to use their own devices rather than airline provided entertainment options, SITA said. Two-thirds of passengers (67%) said they would 'definitely' want access to their own devices for entertainment, compared with 56% opting for airline provided content.

Mobile devices, unlike airline provided IFE systems, are closely connected to a person's life and daily habits. They can facilitate passengers doing in the air what they do on the ground. In the survey, 60% of respondents wanted to send and receive texts and emails, while 55% wanted to stream live content.

Rockwell Collins believes entertainment is only the start. "Personalizing the passenger's experience from frequent flyer data and previous selections of entertainment makes for an Amazon/Google-style relationship, which allows the airline to provide a better service to the passenger," it said.

"Passengers can order drinks or indicate meal or snack preferences via a smart app. Or they can simply expect that flight attendants will know their drink and meal preferences, improving efficiency and customer satisfaction. Duty-free orders and shopping can be completed instantly thanks to on-board credit card authorization. Even their window shade or reading light preferences can be stored to ensure a highly tailored experience.

"Airlines will become more willing to provide free Wi-Fi as a result of the almost unlimited things connectivity can bring to the passenger while in flight".

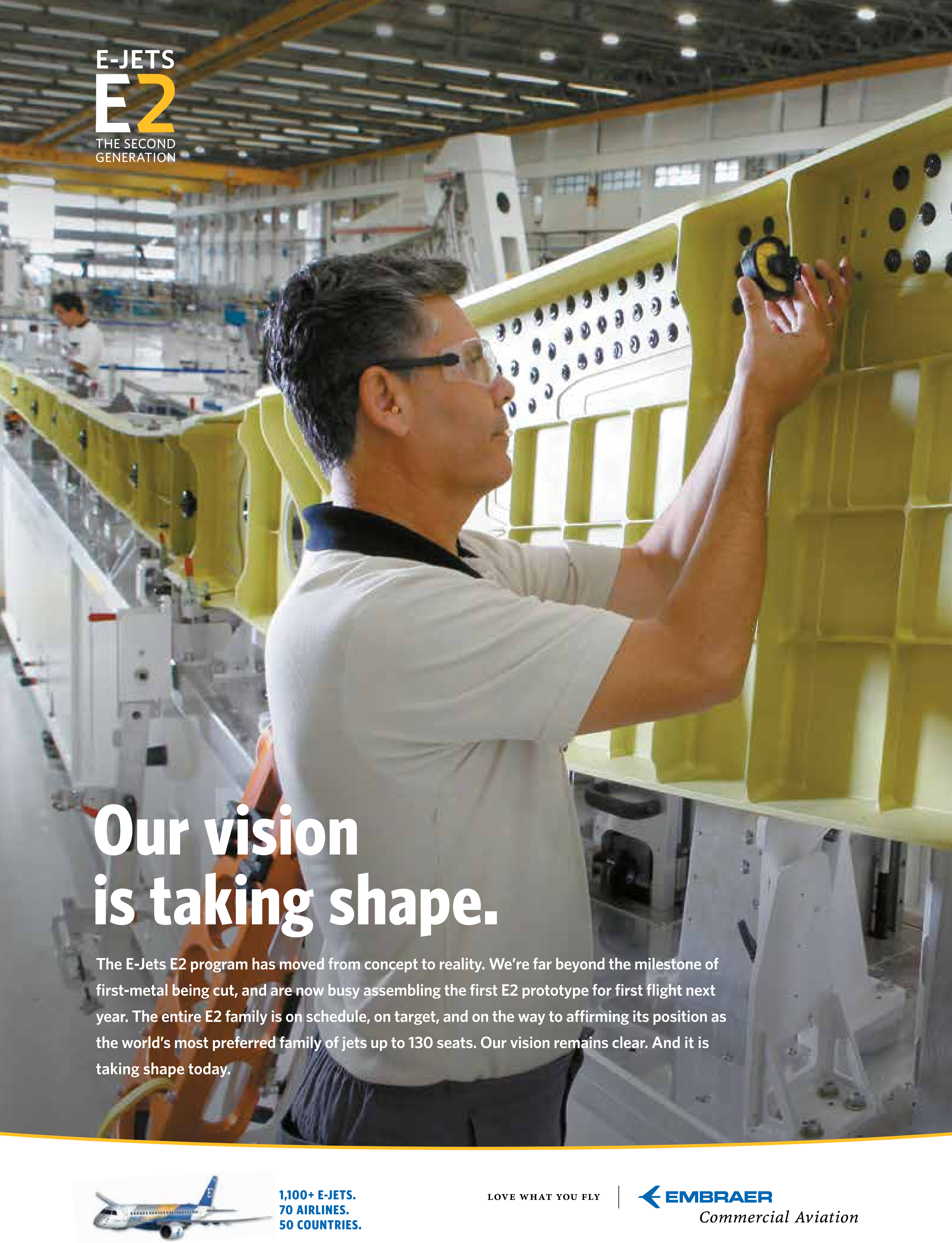
While keeping passengers happy and giving connectivity in the air is critical to any airline, just as important is what connectivity brings to a carrier's own operations. For example, SITA says that through its partnerships with Motorola, Apple and other leading tablet and mobile device manufacturers, it provides a full range of managed, ruggedized and consumer devices suitable for operational and commercial environments.

"Global seamless connectivity is mission-critical to an airline's operational and corporate environment" and there are huge benefits from the use of tablets and other digital systems by crew, said SITA.

"Digital lists in the cabin help crews improve the passenger experience. Crews can instantly identify high-value passengers with connecting flights or special requests. Digital maps and flight plans in the cockpit reduce costs and increase flexibility for pilots. Electronic Flight Bags (EFBs) are lighter and improve safety and operational efficiency.

"Mobile-assisted processes help ground-based staff deliver better passenger service and make ground-based operations smoother and more efficient. Tablets reduce weight and paper-processing costs."

Connectivity in the aircraft cabin, for both passengers and crew, is fast becoming essential for air travel. It is no longer a passenger expectation. It is a passenger demand. ■


E-JETS
E2
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Our vision is taking shape.
The E-Jets E2 program has moved from concept to reality. We're far beyond the milestone of first-metal being cut, and are now busy assembling the first E2 prototype for first flight next year. The entire E2 family is on schedule, on target, and on the way to affirming its position as the world's most preferred family of jets up to 130 seats. Our vision remains clear. And it is taking shape today.
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