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Orient aviation

FINDING HIS TRUE CALLING

Former banker and self-confessed plane spotter, Benyamin Ismail, lives his dream as AirAsia X's boss

Orient aviation 23 YEARS

Hong Kong government's new tax law sets up city as aircraft leasing hub

Trump travel backlash

All Nippon Airways announces CEO succession

INDUSTRY INSIGHT: Astonishing pace of region's route expansion

Orient aviation 23 YEARS

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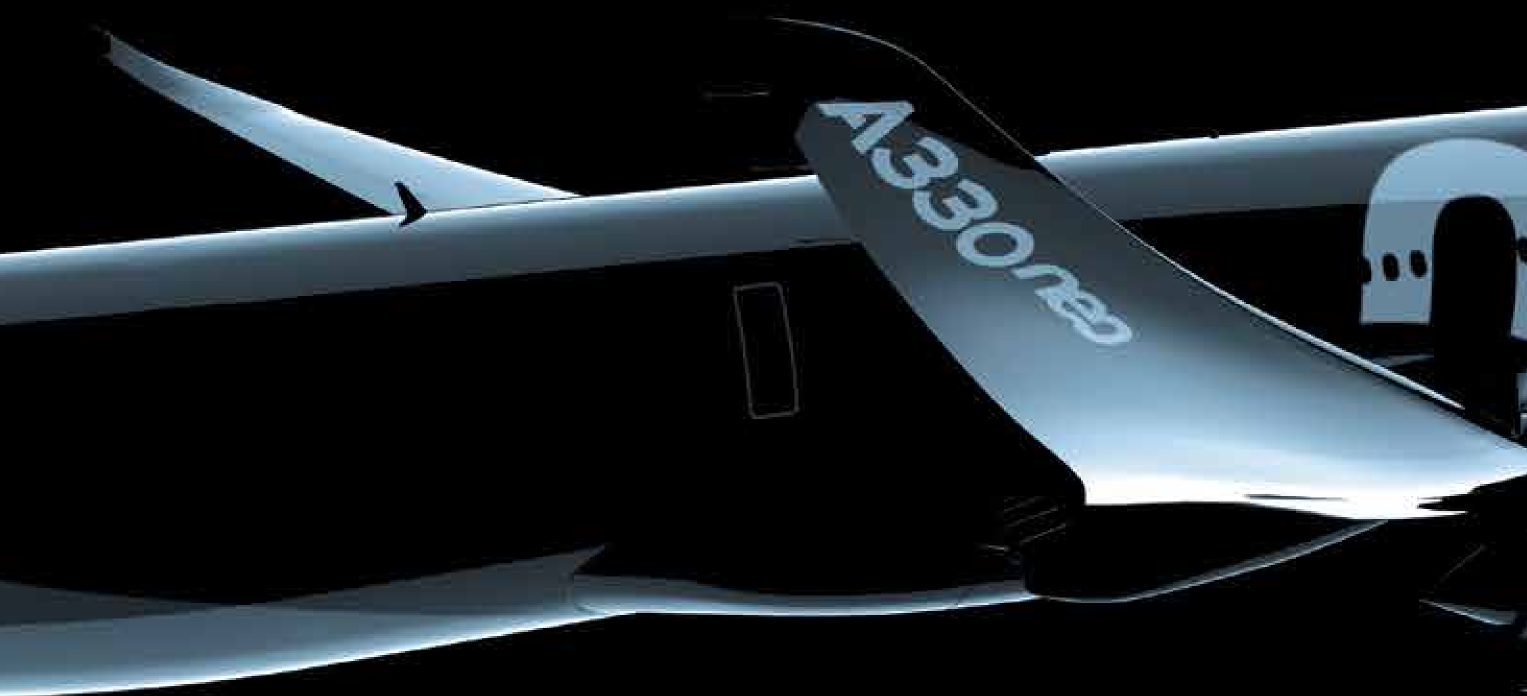

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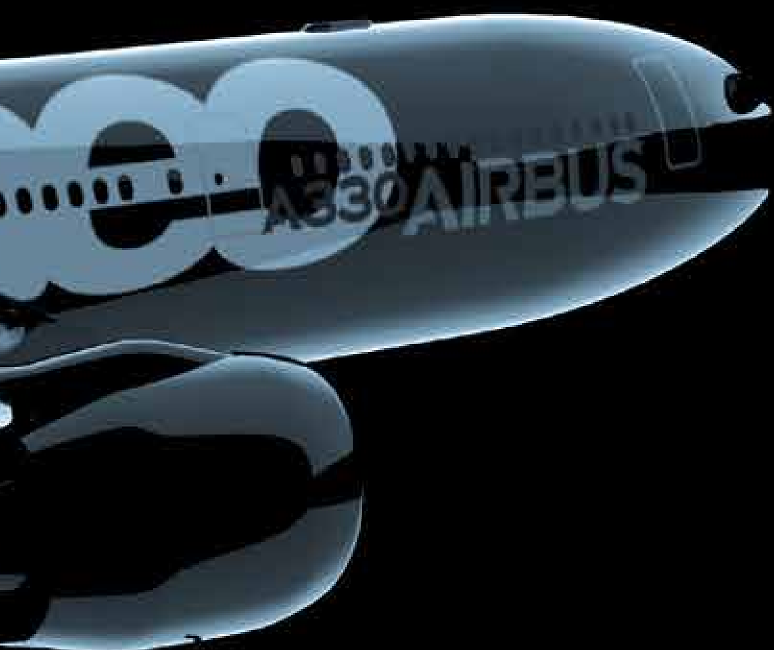


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President Trump's impact on travel

Whatever one thinks about U.S. President Donald Trump's Executive Order (EO) to ban entry of travelers into the U.S. from seven and now six Arab nations, it had an immediate impact on aviation.

Quite apart from major anti-Trump demonstrations at airports across the U.S., the EO sent airlines rushing to their crew rosters to see how many of their staff had passports from the identified nations. The most recent decision by the White House, to remove Iraq from a revised travel ban, underscored the problem.

Announced at press time, after extensive discussions about alienating key ally Iraq in the fight against Islamic State, President Trump took Iraq off the banned list. A relief for sure but the decision was another example of the confusion the ban is generating with travelers and airlines worldwide.

One survey, conducted a week after the initial ban was announced, revealed flight searches from international origins to the U.S. plummeted 17% and airline bookings to the U.S. dropped 6.5%. The decrease in Asia was even higher, at 14%. The ban may have been blocked by U.S. Federal Courts, but that has not brought an end to travellers' uncertainty.

The Trump administration has promised to issue a new EO to secure his travel bans. Whatever happens, airline passengers are cancelling or avoiding travel to the U.S. The fall-off in visitors will remove tens of millions of dollars from the U.S. tourism industry and precipitate job losses.

Everyone agrees a sovereign nation has the right to protect its borders, but it should be done through proper security channels and not by blanket bans that discriminate against genuine travelers because of their country of birth or their religion.

Worst of all for the airline industry, President Trump's ban was introduced without warning. The International Air Transport Association (IATA) said it caused confusion at airlines and with travelers. "It also placed additional burdens on airlines to comply with unclear requirements, to bear implementation costs and to face potential penalties for non-compliance," the association said.

IATA urged all governments to provide sufficient advance coordination of changes in entry requirements so travelers can clearly understand them and airlines can efficiently implement them. The burden of President Trump's ban should not be born solely by airlines. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

Fernandes fights on for single ASEAN AirAsia Group

Air Asia group chief executive, Tony Fernandes, wants countries in Southeast Asia to relax ownership restrictions so he can combine his separate airline units in Malaysia, Thailand, Indonesia and the Philippines into a single listed ASEAN company.

He made his wishes public when the AirAsia group announced its airlines across Southeast Asia made a profit in 2016. A net profit of $104.7 million in the fourth quarter to December 31 lifted the company to a full year result of $457.2 million

Indonesia AirAsia was in the black for its second consecutive quarter and **AirAsia's Phillipines** subsidiary was operationally profitable after excluding a one-off charge from the disposal of legacy aircraft.

Malaysia's **AirAsia** reported earnings before interest and tax with a margin of 30% and **Thai AirAsia** managed to pull in revenue consistent with expectations despite less than

favourable conditions in Thailand.

"We are thrilled to see our investments in ASEAN beginning to pay off," said Fernandes. The group fleet, he added, would grow to more than 200 aircraft this year.

In India, **AirAsia India** reported the highest aircraft utilization rate of all the short-haul airlines in the group reported with a 52% capacity increase for the year to December 31. "Our focus remains on building our footprint and introducing our low fares to many more Indian cities," Fernandes said.

After several delays, **AirAsia Japan** is approaching a full launch, with the airline expecting to open ticket sales from its Nagoya base "soon" said Fernandes. He added the carrier would end 2017 with five aircraft.

Bringing its Southeast Asian operations under a single company umbrella would bring significant benefits and efficiencies to the group's back office operations, Fernandes said. "We are urging ASEAN governments to relax ownership restrictions and consider ASEAN investors as equivalent to local investors," said Fernandes in a statement to the Malaysian stock exchange, **Bursa Malaysia**. ■

ANA HOLDINGS buys more of Peach

All Nippon Airways parent company, **ANA HOLDINGS (ANAH)**, has increased its equity in Japan's first budget carrier, **Peach Aviation**, by 28.3% after the Japanese aviation group and its two partners agreed to a share transfer, valued at 30.4 billion yen (US$271.01 million). Completion of the deal between ANAH and Hong Kong's **First Eastern Aviation Holdings Ltd** and the **Innovation Network Corporation** of Japan is planned for April 10, subject to regularity approvals

Based in Osaka/Kansai, Peach went into profit two years after it launched in 2011. It reported an operating profit of 6.1 billion yen in 2015, a result that eliminated cumulative losses at the airline. In a March 1 statement, the three shareholders said they had decided "the best way to accelerate growth of Peach was through consolidation with the ANA Group that would leverage the LCC's culture and brand with ANA's proven record of airline expansionu".

Elsewhere in the group, long time executive **Yuji Hirako** was named **CEO and president of All Nippon Airways**. He will succeed **Osamu Shinobe**, 65, on April 1. Shinobe will join the parent company's board, as vice chairman, on the same day.

Hirako, 59, began his career with ANA in 1981 after he graduated in Economics from Tokyo University, He was given his first senior appointment, director of passenger services, Tokyo Airport Office, in 2004. He moved to revenue management as director two years later and was promoted to vice president corporate planning in 2010, where he played a significant role in bringing the B787 into the ANA fleet.

Within 13 months, he was named senior vice president marketing and sales and then, in quick succession, senior vice president The Americas and general manager New York , where he oversaw the launches of the Seattle, San Jose and Vancouver routes from Tokyo. He returned to head office in April 2015 as senior vice president finance, accounting and investor relations at ANA HOLDINGS and was promoted to the holding company's board and made an executive vice president in the following June.

Engineer Shinobe is also an ANA lifer. He joined the airline in 1976 and took his first exectutive job as senior manager for engineering and maintenance planning. He rose through the ranks to become Director Engineering and was invited to join the airline's board in 2004 when he was executive vice president corporate planning for the B787 launch project. He was appointed president and CEO of ANA in April 2013. ■

Garuda threatened by bookings ban

Garuda Indonesia is on the verge of a spurt of international growth – it will launch new services to Moscow and Los Angeles later this year – but it has hit turbulence at home after the nation's travel agents announced last month they would boycott the national flag carrier in because of the airline's decision to cut their commissions.

The **Association of Indonesian Tour and Travel Agents (ASITA) chairman, Asnawi Bahar**, said Garuda's agency commission payments from ticket sales will be cut from 7% to 5% for international flights and by 2%, to 3%, for domestic flights.

"We will boycott Garuda nationally because its wants to decrease the commission significantly. It's already very hard for agents with the current competition with online travel agents," he said. The travel agents also filed a protest with the government, which owns Garuda.

The airline's **vice president of corporate communications, Benny S. Butarbutar**, confirmed to local media that Garuda is reducing travel agent commissions, but suggested the move may be temporary, depending on market conditions.

"We are adjusting the business pattern with our partners at travel agents. The business situation is changing really fast. Online travel is becoming much stronger, but we will want to keep offline travel agents," he said.

ASITA has around 6,300 members across Indonesia, including Panorama Tours Indonesia, a core unit of the Panorama Group, Indonesia's largest integrated travel group. It sent a letter, signed by Asnawi, to its members that said: "During the period [needed] to resolve the problem with Garuda Indonesia, ASITA Indonesia has decided that all ASITA members are prohibited from participating in any activities involving Garuda Indonesia".

The ban on Garuda's business comes at a time when the carrier's focus is on international expansion. It's latest figures, for December last year, reported the group's traffic had increased by 7.92%, with load factors lifting to 77.36% compared with 75.98% in the same months in 2015. Cargo posted an impressive increase of 23.12%.

In February, Garuda announced it would launch three times a week flights from Jakarta to Moscow with A330-200s, with August as a likely starting date. It was set in train with a Memorandum of Understanding signed by a representative of the **Indonesia Russia Business Council, Mikhail Kuritsyn**, and **Garuda's president, Arif Wibowo**, and witnessed by the Russian Ambassador to Indonesia, Mikhail Galuzyn, and Indonesia's Ambassador to Russia, Wahid Supriyadi.

Arif said as the tourist traffic between the two countries continues to expand, the direct flight plan is expected to support

Russia's efforts to increase tourist arrivals from Indonesia to more than 100,000 this year.

In the first half of 2016, Russian tourists to Indonesia increased by 14%. The number of Indonesians visiting Russia was about 14,000 in 2015. Arif said the Moscow route marked the beginning of an international flight network expansion program.

The airline intends to launch Jakarta to Los Angeles via Tokyo by mid-2017 after Indonesia was restored to a category 1 safety rating last August. "We are staying on course, planning to start flying there (the U.S.) in June or July," said Butarbutar. ■

Down Under profits dive 25%

Both **Air New Zealand (Air NZ)** and **Qantas Airways** took a profit hit for the six months to December 31, as increased capacity and rising competition, particularly into New Zealand, shaved 24% and 25%, respectively, from previous profits.

Air NZ reported an interim profit of NZ$256 million (US$184 million) with earnings before tax at NZ$349 million. The carrier expected revenue to improve in its second half, despite rising fuel prices, and forecast earnings before tax of NZ$475 million to NZ$525 million for the six months to June 30,

Qantas reported an interim net profit of A$515 million (US$397 million) with underlying profit before tax down 7.5% to A$852 million. **The airline group's CEO, Alan Joyce**, said the company's capacity would be increased by 1% to 2% in the second half, which reflected a 3% increase in international

operations and a 2% decrease domestically. The delivery of Jetstar's first A320neo would be deferred to 2019, Joyce said.

At **Virgin Australia, CEO John Borghetti**, announced that the carrier, presently negotiating an alliance with China's **HNA Group**, had a first half loss of A$21.5 million (US$27.5 million) in the six months to December 31, but said the profit slide was primarily due to restructuring costs. He said despite subdued trading conditions in its domestic market the group was ahead of schedule in its restructuring program.

Qantas Group CEO, Alan Joyce, will receive the Orient Aviation 2016 Person of the Year award at a celebration dinner at the China Club, Hong Kong, on Thursday March 16. ■

Corruption claims stalk THAI

Thai Airways International's (THAI) board last month issued an unprecedented rebuttal of claims by some staff that a management decision to acquire 10 A340 jets in 2002 to 2003 had cost the carrier tens of millions of dollars annually in losses.

The statement from a 100 THAI staff alleged the aircraft were being "left to rot and called on **Thai prime minister, Prayut Chan-o-cha**, to invoke Section 44 of the country's interim constitution to investigate the procurement of the aircraft and extend investigations into bribery and corruption at the airline.

The public call for action followed British engine maker, Rolls-Royce's admission in the British courts that it had made payments of $36.38 million to "regional intermediaries", including individuals who were "agents of the state of Thailand and employees of THAI Airways" between 1999 and 2005.

The bribery claims involved THAI's purchase of Rolls-Royce Trent 800 engines, according to the document. At press time, two separate in-house investigations into the sworn evidence were scheduled for completion.

THAI said various elements in the call for action were inaccurate and could cause misunderstanding and damage to the company. THAI has decommissioned the A340s and parked them at Bangkok's Don Mueang airport and at U-Tapao, south of the city.

The airline admitted it had struggled to sell the aircraft because of their lack of appeal in the second hand market. THAI said the A340s were purchased when the cost of jet fuel was low and they were used to compete on intercontinental routes.

"When the cost of jet fuel became expensive, other carriers with the same aircraft type in their fleet also experienced the same problem as THAI of incurring losses and decommissioned this type."

On several occasions, THAI operated the aircraft type on various routes but was unable to make a profit from flying the airliner. "An announcement was made of their sale, but there was little demand in the second-hand aircraft market for this type. The price was lower than the value that the company should have received.

"The plan for sale was revised and a buyer was sought that would benefit from it, for example the Royal Thai Air Force." The THAI board said the airline was a state enterprise with strict adherence to regulations on the sale of assets that can prove to be an obstacle to selling aircraft quickly at times.

THAI said: "The company has continually placed high importance on transparency regarding procurements, evident through revisions to the procurement regulation. The company will not make procurements through a middleman; a procurement committee must be established with committee members from various departments for a balance of power," the statement said. ■

Hong Kong Airlines appoints Boeing veteran as chief marketing officer

Boeing and PR branding veteran, **George Liu**, has joined the swelling senior management ranks of **Hong Kong Airlines** as chief marketing officer. Liu will rung the airline's branding and customer experience department as the airline expands from a regional carrier to an international airline.

Liu, who has been vice president of communications at **Boeing China**, has spent the last decade as director Airline, Global Brand & Marketing at Boeing Commercial Airplanes. He was responsible for strategic partnerships with the company's airline customers and collaborating with them on route launches. An MA in sociology from Ohio University, he also has worked for established regional PR agencies and represented Hong Kong's interests in Washington DC. Under Liu's leadership, Hong Kong Airlines will combine branding and customer experience functions to improve its customer service profile. The carrier flies to 36 destinations across the Asia-Pacific. ■

Thai aviation must survive second ICAO safety audit

By Dominic Lalk

Civil aviation standards and ethics have been thorns in the side of Thai Prime Minister, General Prayut Chan-o-cha, almost from day one of his successful military coup in 2014. Since then, the man in charge vowed to "swiftly solve" Thailand's safety shortcomings and appointed three directors to turn the sector around.

Regrettably, none of the appointees tasked with restoring the country's top safety rating have succeeded in eradicating the systemic deficiencies, sloth and indifference that plague Thailand's air safety system.

The news that three of the kingdom's airports – two of them serving international destinations – do not meet minimum international safety requirements raises serious questions about Thailand's readiness for a scheduled re-audit that will be undertaken by the International Civil Aviation Authority (ICAO) in June.

The Ministry of Transport confirmed in January that three airports lacked proper X-ray equipment and would not have the facilities installed and fully working until October - at the earliest. The situation could lead to the international blacklisting of Udon Thani, Krabi and Surat Thani airports.

In particular, this would have a dire impact on Krabi in southern Thailand, which is experiencing double digit year-on-year passenger growth, fuelled by

increasing arrivals from Europe and Russia. The airport receives regular flights from Finnair, Qatar Airways, China Eastern Airlines, its Shanghai Airlines subsidiary, Sichuan Airlines, Juneyao Airlines, Okay Airways, the AirAsia Group carriers, Tigerair and new carrier, New Gen Airways.

In February, the director of the Civil Aviation Authority of Thailand (CAAT), Chula Sukmanop, said one Thai airline was at risk of losing its air operator's certificate (AOC), after sustained losses, and another carrier faced the same fate because its employees said they had not been paid for months. Orient Aviation has it on good authority the two airlines are City Airways and Jet Asia Airways.

Nine of the 23 Thai registered airlines, which account for more than 70% of all international flights out of the country, are poised to have their AOCs reissued before the ICAO safety experts assess Thai aviation's operational issues, while the other 14 are expected to receive approval next January.

In ICAO's initial audit last year, it scored Thailand as less than 50% compliant across all sectors of Thai aviation infrastructure and safety oversight. The operations sector was the worst performer with an ICAO score of 10.7% out of 100%.

The nine airlines expected to have their AOCs re-issued before June by the CAAT are Thai Airways International (THAI), Bangkok Airways, Thai AirAsia, Nok Air, K-Mile Air, Orient Thai Airlines, AirAsia X, NokScoot and Thai Smile. The AOC approvals will be submitted to ICAO before its re-audit said CAAT.

"We don't have to wait for all 23 airlines to be granted AOCs. The ICAO's inspection can commence after AOCs are issued to the first nine airlines. These carriers fly 70% of all international flights," said CAAT's Chula.

Re-issuing the AOCs involves five stages. Final approval is dependent on Chula. He must personally consider the findings of CAAT specialists in aviation operations, airworthiness, safety and carriage of dangerous goods. One of the issues that resulted in ICAO red flagging Thailand was a continuing shortage of qualified CAAT inspectors.

According to the CAAT, the two carriers – THAI and Thai AirAsia – are at the fourth stage of the process which involved specific aircraft inspections and performance field tests. The other six are in the third round. It is focused on documentation checks. Bangkok Airways received its AOC on February 27.

Thailand is one of eight countries marked with an ICAO red flag, which denotes "serious security concerns", in particular oversight, transparency, training and understaffing. In December 2015, the U.S. Federal Aviation Administration (FAA) effectively barred Thai airlines from launching routes to the U.S. or code sharing with U.S. carriers. No Thai airlines are disqualified from flying to Europe according to the EU Air Safety List, updated in December.

THAI has had to put its plans for a return to the U.S. on hold. After dropping services to Los Angeles and New York, the Star Alliance founding member has told Orient Aviation it would like to return to North America with flights either to Seattle, San Francisco or Vancouver. The latter two are the more viable options, given the hub presence of Star fellows Air Canada and United Airlines.

Thai AirAsia X parent, Malaysia-based AirAsia X, has announced flights from Kuala Lumpur to Hawaii from June 28. Its Thai sibling is expected to follow suit. NokScoot also might be a candidate for U.S services. ■


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Payments paradise lost?

Competition is intensifying among providers as the old order of payment settlements is shaken to the core by digital disruption. The latest blow to the once cosy relationship between payment providers and airlines is the International Air Transport Association's planned financial gateway.

By Tom Ballatyne

Why is it necessary for trade body, the International Air Transport Association (IATA), to involve itself in the commercial sector of the air travel industry? asked president and CEO of UATP, Ralph Kaiser, when Orient Aviation spoke to him last month.

Competition in the payment space is growing, said Kaiser, but it is not competition that concerns the industry about the IATA initiative.

"I see the GDSs (Global Distribution Systems) in payments and now I see IATA is getting into payments. Everyone thinks they can do payments, but are they doing it for the airlines or are they doing it for their own benefit?" he said.

Kaiser believed IATA could be going a step too far with the development of its IATA Financial Gateway (IFG). Instead of setting standards as an industry body, he said, it appeared IATA wanted to release its own commercial product.

It is a contention IATA firmly denied. Senior vice president for financial and distribution services, Aleks Popovich, told Orient Aviation IFG is a voluntary neutral payment gateway and not a payment system.

"It is a technology layer that facilitates the connection, for example between credit card providers and airlines or other travel suppliers," he said.

"It is intended to allow airlines and other travel suppliers to simplify and optimize their different sales payment processes on a single global platform, irrespective of a distribution network, business model or payment method. It is transparent to the travel agent and has no implications for their business."

Popovich said IATA's mandate from its members, which is recognized by governments, is to be a standard setting organization for the global air transport industry. "We have performed this role for more than 70 years. IATA standards are pro-competitive because they are open standards that anybody can use. All of IATA's products and solutions comply with all applicable regulations and licensing requirements in every jurisdiction in which they are available."

Kaiser begs to differ and said so do others in the sector. "One has to wonder," he said, "how someone who sets the rules and standards can set up products that are kind of unfairly competing with everyone else in the marketplace.

"It is probably under examination and will be examined further as this evolves. But we are hearing pushback from the agency community which argued IATA should be setting standards and rules and not pushing products down our throats so to speak," he said.

The latest debate about the form payment systems will take in the new world of social media enablement will be on the agenda at this month's UATP Airline Distribution conference, which will be held in Hong Kong this year.

In January, IATA and JR Technologies, a company that specializes in New Distribution, Capability airline retailing solutions, signed an agreement to design, develop, host and operate the IATA Financial Gateway (IFG) payment solution. The IFG will support both direct and indirect airline retailing distribution systems.

"There's an IATA rule called 890 that described the requirements of a payment product to be used by agencies. Most products can't be used, but their [IATA's] own product is exempt," Kaiser said.

"You have to have a level playing field or someone is going to sue them [IATA]. The big car brands and the big banks are not going to be pushed out of this space because a trade association is myopically writing rules in Geneva or Montreal or wherever they are doing."

Kaiser added: "In payments we are seeing new developments every six months. It's not just the types of payment. There is everything from credit cards to alternative payments such as bitcoin and global payment systems like Apple Pay. Is that going to be good for airlines or not? Airlines want to reduce costs, but the consumer wants convenience and obviously security."

UATP's core business is B2B financial settlements between airlines and corporate customers. Members include global airlines, the biggest American airlines, British Airways and Lufthansa. Asia-Pacific and Gulf members are Air New Zealand, Air Nuigini, China Eastern Airlines, Etihad, Japan Airlines, Malaysia Airlines, Qatar and Shandong Airlines. ■

> "In 2017, at least 50% of online direct travel bookings and ancillary travel purchases will be made on a mobile device. Surveys reveal that a typical individual who is planning a journey visits 22 websites in multiple sessions before confirming a trip"


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TRUMP TRAVEL BACKLASH

U.S. president Trump's on-again, off-again travel ban on citizens from six Arab nations is having an impact on air travelers well beyond the Middle East.

Tom Ballantyne reports

U.S. president, Donald Trump's executive order that banned travelers from six Arab nations from entering the U.S. may be blocked by the country's top courts, but the aborted ruling is impacting on the number of tourists to the U.S., including those from one of its fastest growing sources of visitors – the Asia-Pacific.

A study of 300 million online air travel searches found flight inquiries about journeys to the U.S. from international destinations dropped 17% in the week after Trump signed the order. The January 27.decision banned travel from Syria, Iran, Libya, Sudan, Yemen and Somalia. The study, by the market research firm Hopper, compared numbers from the final two weeks of the Obama administration with the first two weeks of the Trump administration. Flight searches fell off in 94 out of 122 countries.

Separate data from travel data company, ForwardKeys, revealed flight bookings to the U.S. dropped 6.5% year-over-year in the week after the travel ban was going to be put in place. Bookings from the seven countries listed in the Trump order were down 80%.

Airline bookings to the U.S. from the Asia-Pacific had an immediate decline of 14%. Critically, the Global Business Travel Association (GBTA), the trade group for the world's travel managers, reported business travel bookings to the U.S. dropped 3.4% in the week after the travel ban was announced. Lost business in travel bookings was estimated at $185 million.

Executive director and chief operating officer of the GBTA, Michael W. McCormick, attributed the decline to travellers' confusion and uncertainty about entry to the U.S. "The net effect was that business travel bookings were delayed or canceled," he said. Travel executives, including the heads of Uber, Expedia and Airbnb, have condemned the travel ban, calling it discriminatory and bad for the travel industry.

While no specific figures were available at press time for individual Asia-Pacific airlines operating to the U.S., it is understood that the biggest decline in bookings was from countries with large Muslim populations, including Indonesia, Malaysia and the Philippines.

The issuance of the executive order meant airlines had to scramble to put in place procedures to ensure they did not board passengers and crew with passports from the effected countries. Most big airlines have multinational staff, including cockpit and cabin crew born in the Middle East.

Anecdotally, the travel industry is reporting that many non-Muslim travelers either have cancelled trips to the U.S. or have adjusted their travel plans to avoid flying through the U.S. They want to avoid inconvenient security procedures or other travel hassles.

The impact on the U.S. travel and tourism industry could be severe. According to the U.S. Travel Association, Middle East-based travelers who passed through U.S. customs in 2103 each spent an average of $6,000, or $6.8 billion for the year. These numbers continued to grow until the Trump travel ban was issued.

The situation remains extremely fluid. The U.S. Federal Court's blocking of the executive order, the decision upheld in February by the 9th Circuit Court of Appeals, has not

> Anecdotally, the travel industry is reporting that many non-Muslim travelers either have cancelled trips to the U.S. or have adjusted their travel plans to avoid flying through the U.S. They want to avoid inconvenient security procedures or other travel hassles

deterred President Trump. He said a new executive order could limit immigration, an attempt to circumvent the Court of Appeals ruling.

When he spoke at a security conference in Munich in February, the U.S. Homeland Security Secretary, John F. Kelly, said the administration is considering a new version of the executive order. "The president is contemplating releasing a tighter, more streamlined version of the first EO (Executive Order)," he said.

The International Air Transport Association (IATA) did not issue an official statement on the January 27 ban. Instead, it said on its website the organization works with its 256 members to deliver safe, secure, efficient and sustainable global air transport links. "As a matter of principle, we work for the free movement of trade and people across borders," it said.

IATA recognized states have the right and duty to protect their citizens by enforcing their borders, but where this has implications for air travel, "we work with our member airlines to help them comply with these requirements efficiently and effectively", the website said.

Entry requirements for the U.S. were changed significantly and immediately by the Executive Order. "The EO was issued without prior co-ordination or warning, causing confusion among both airlines and travelers. It also placed additional burdens on airlines to comply with unclear requirements, to bear implementation costs and to face potential penalties for non-compliance," said IATA.

"We ask for early clarity from the U.S. administration on the current situation. Moreover, we urge all governments to provide sufficient advance coordination of changes in entry requirements so travelers can clearly understand them and airlines can efficiently implement them."

IATA's stance on freedom of travel was underscored during an interview in the February edition of Orient Aviation. The association's director general and CEO, Alexandre de Juniac, said: "Air travel liberates people to live better lives and makes our world a better place. So we are deeply concerned with the current political rhetoric. It points to a future of restricted borders and protectionism. We see it in travel bans, border walls and trade agreements being called into question. These deny the benefits of globalization—a product of our industry.

"Durable peace, prosperity or security has never been achieved through provocation, exclusion and division. The world has grown wealthier with people traveling and trading. That has helped to lift over a billion people from poverty. Aviation is proud of the role it plays in making this happen. And IATA will be forceful in the face of any challenges to this truth. Ensuring aviation's power to connect people has never been more important," he said.

In the Asia-Pacific, there could be a silver lining to an amended ban. Tourism Authority of Thailand governor, Yuthasak Supasom, said one of the more positive outcomes, if any, of Trump's rulings on immigration could be a surge of Middle Eastern and Muslim travelers into Asia. Given that halal tourism is booming and makes up a big slice of the travel market, the U.S. could lose out on significant revenues, he said.

"The Middle East is a big market for us, especially in the medical tourism sector. They may choose to visit Thailand more and this may also boost our sector," he said. A little more than two percent of Thailand's tourists were from the Middle East last year, but the nation expected an eight percent rise in Gulf visitors in the first quarter of 2017 compared with the same months a year ago. ■

Trump's Gulf friend

Qatar Airways chief executive, Akbar Al Baker, speaking in New Zealand after the airline launched one of the world's longest flights - from Doha to Auckland, expected President Trump to eventually relax his travel bans.

Trump's business talent would prevail when it came to trade between the U.S. and Gulf countries, he said. "We need to give him some time to see how to run a super power country. In the long run, I am sure he will realize that Gulf nations are contributing hugely to the economy of the United States," he said.

"President Trump is trying to protect the interests of his country in the same way I am trying to protect the interests of my country and my airline." Al Baker has previously appeared at events with Trump and last year described him as "a friend".

Hong Kong to challenge Singapore as lessor hub

Attractive finanical concessions have created aircraft leasing meccas of Ireland and Singapore. Now they have a rival, Hong Kong, which is setting up a competitive tax regime to develop the Special Administrative Region into a lessor hub.

By Tom Ballantye

The Hong Kong government has unveiled a tax legislative framework to attract aircraft leasing businesses to the Special Administrative Region (SAR) to capture some of the billions of dollars the sector earns worldwide for the local economy.

In his 2017 Policy Address last month Hong Kong's chief executive, Leung Chun-ying, said the government would offer tax concessions to companies that domicile their aircraft leasing business in Hong Kong.

Until now, Hong Kong has not been a viable location for the leasing sector because the existing rules preclude Hong Kong lessors from claiming tax depreciation allowances for aircraft leased to overseas airlines.

Given the high investment cost of an aircraft, the denial of the depreciation allowances, together with restrictive deduction rules for interest in Hong Kong, makes it mostly unviable to base an aircraft leasing business in the city.

By comparison, Ireland and Singapore, in addition to granting tax depreciation allowances for acquisition costs incurred on aircraft and permitting more relaxed deduction rules for interest, the two hubs offer attractive corporate tax rates of 12.5% and 5%-10% respectively, on aircraft leasing profits.

An analysis conducted by the Focus Group on Promoting Aerospace Financing in Hong Kong has said that if a tax regime for offshore aircraft leasing was introduced into the SAR, Hong Kong could gradually capture up to 18% of the world's aircraft leasing business in 20 years.

The forecast is based on financing of at least 3,200 aircraft, that would have an estimated asset value of $91 billion. The sector would add an extra US$1.3 billion to the SAR's coffers in two decades and create jobs for 1,640 people.

Ten out of ten of the top global aircraft lessors have a business presence in Ireland with eight of them also in Singapore. Only two are in Hong Kong. The top ten are GE Capital Aviation Services (GECAS), International Lease Finance Corporation (ILFC), AerCap, CIT Group, SMBC Aviation Capital (formerly RBS Aviation Capital), Babcock & Brown, BOC Aviation, Aviation Capital Group, AWAS and Macquarie AirFinance. The eight with a presence in Singapore are GECAS, ILFC, AerCap, CIT Group, SMBC Aviation Capital, Babcock & Brown, BOC Aviation and Aviation Capital Group. GECAS and BOC Aviation have offices in Hong Kong, but their operations are not based there.

In Hong Kong, a bill is expected to go before the Hong Kong Legislature in April that will allow:

- Qualifying aircraft lessors and qualifying aircraft leasing managers to be taxed at 8.25% (50% of Hong Kong's profits tax rate of 16.5%) in respect of their qualifying profits earned from leasing of aircraft to non-Hong Kong aircraft operators.
- The deemed taxable amount of rentals derived from leasing of aircraft to a non-Hong Kong aircraft operator by the qualifying taxpayer will be equal to 20% of the tax base of the taxpayer concerned, i.e., their gross rentals less deductible expenses, but excluding tax depreciation. As a result, the effective tax rate on the net rentals or operating profits (excluding tax depreciation) derived from the offshore leasing of aircraft by a qualifying taxpayer will be 1.65%.

One local lessor already excited about the prospective opportunity is Hong Kong conglomerate, New World Development Company, which has diverse businesses and investments in Hong Kong and Mainland China. Its 18-month-old aircraft leasing subsidiary, NWS Holdings, has a 50% holding in lessor Goshawk aviation in a joint investment with another New World company, Chow Tai Fook Enterprises (CTFE).

The Dublin-based company has a portfolio of 89 Airbus, Boeing and Embraer jets, including 12 on order, and plans to increase its available leasing fleet to more than 100 aircraft. The two companies, along with U.S. lessor, Aviation Capitol Group (ACG), formed a joint venture lessor, Bauhinia Aviation Capital Ltd (BACL), a year ago.

NWS Holdings and CTFE each hold a 40% indirect interest in BACL with ACG the owner

of the remaining 20% of the company.

NWS general manager logistics, Steve To, said the company was "very keen" to grow these leasing platforms quickly. "Our group is very interested in aircraft leasing because the return profile and the cash flow yield from aircraft leasing fits quite well into the New World business."

"The tax law of Hong Kong is not very favourable to aircraft leasing because of the depreciation deductions issue. We are not competitive at all. We, as the New World Group, and CTFI, are Hong Kong-based companies with a long operating history here. The new tax regime will create a more favourable environment for the establishment of an aircraft leasing business."

The proposed legislation may not put Hong Kong on par with Ireland, which would still have some advantages, that nevertheless, this is a major step forward.

NWS also benefits from the Closer Economic Partnership Arrangement (CEPA) between mainland China and Hong Kong, which provides special trading concessions in dealing with Chinese companies, including airlines wishing to lease aircraft.

Under the agreement, Hong Kong resident lessors that lease aircraft to mainland China carriers would pay a lower withholding tax of 5% in mainland China in respect of the rental. Resident lessors in Singapore and Ireland must pay a withholding rate of 6% in China. ■

Hong Kong forms aircraft leasing association

An influential group of Hong Kong industry leaders held a luncheon seminar in London early this month to introduce the Special Administrative Region's (HKSAR) proposed tax regime for the aircraft leasing industry.

Speakers at the invitation only luncheon for global aircraft lessors were Hong Kong's secretary for transport and housing, Professor Anthony Cheung Bing-leung; Hong Kong Exchanges and Clearings Ltd chairman, Sir C. K. Chow; Head of Investment Development (TDC), Andrew Davis; partner in Berwin Leighton Paisner, William Ho, and partner PricewaterhouseCoopers, Clarence Leung.

The road show was an initiative of the organizing committee of the Hong Kong Aircraft Leasing and Aviation Finance Association, which is being set up to promote Hong Kong as a rival aircraft lessor centre to Singapore and Tianjin.

China Aircraft Leasing forecasts 60% profit jump

Hong Kong headquartered China Aircraft Leasing Group Holdings Ltd (CALC) has upgraded its earnings forecast for 2016 with the announcement last month that it expected profit for the 12 months to December 2016 is expected to increase by 60% over 2015.

CALC said the profit upgrade was "mainly attributable to an increase in lease income, which resulted in expansion of the scale of its aircraft leasing business" and also "the gains from the disposal of finance lease receivables". CALC will announce its full year results later this month.

Asia's financial skies conference

You are invited to the first leasing conference exclusively focused on the development of Hong Kong as an Asian hub for aircraft lessors. Speakers at the inaugural ASIAN FINANCIAL SKIES will outline a new tax regime specifically tailored to benefit aircraft lessors who set up in the Hong Kong Special Administrative Region. For sponsorship and booking inquiries for the inaugural Asian Financial Skies Hong Kong contact Shirley Ho at e: shirley@orientaviation.com. t:+852 2865 1013.

Venue: Chatham Room 7/F Conrad Hotel, Pacific Place, 88 Queensway, Admiralty Hong Kong. Date: Monday, May 8, 2017

Briefly …

AerFin has completed the acquisition of a B737-800, which was leased from the Investec Global Aircraft Fund to Jet Airways from 2007 until this year. It is AerFin's first acquisition for the year, following a successful 2016 when the company acquired 20 aircraft, said director sales and marketing, James Bennett.

Air Lease Corporation (ALC) signed a long-term lease with Air New Zealand for a B787-9, scheduled for delivery in the third quarter of next year. ALC has leased A320s and B777-300ERs to Air New Zealand with the airline to begin accepting five new A320neo an A321neo on long-term leases from ALC later this year.

CDB Aviation Lease Finance, majority owned by the China Development Bank, has delivered its eighth leased aircraft, a B737-800, to Shandong Airlines. The delivery marked the eighth aircraft CDB has eased to the Jinan headquartered carrier. CDB listed on the Hong Kong Stock Exchange in the final quarter of 2016.

Lessors demand different MRO deals from manufacturers

Manufacturing modern passenger jet engines is a high tech business and looking after them once they are in the air is just as complicated.

By Tom Ballantyne

The growing presence of original equipment manufacturers (OEM) in the engine MRO aftermarket, forecast to deliver annual growth of 4.1% annually, it is not only about offering cost-effective "power-by-the-hour" service packages.

In the 21st century, it also is about incorporating the information provided by Big Data to deliver more focused and speedier MRO solutions to clients. And it also is about tailoring MRO packages for the fast expanding Asia-Pacific lessor market.

How does Pratt & Whitney deal with aircraft that may be operated by an airline but owned by a lessor? "We continue to see growth in the area of lessor owned airplanes. It can evolve in two ways: an airline with a leased fleet that is looking for MRO services or airlines with their own planes that make the purchase and do sale-leasebacks and combinations thereof," Pratt & Whitney vice president engine services, Eva Azoulay said.

"Typically, we work directly with the airline. Most airlines operate leased aircraft from more than one lessor. They need a maintenance program suited to their entire fleet and not one that is different for every leased aircraft they have. A majority of these agreements are done directly with the airline."

Lessor MRO packages are based on lease return dates. "They can select base return conditions and request coverage under their maintenance program or chose MRO options that are best suited to their lease conditions," she said.

"We are spending a lot of time with our customers and lessors in developing packages or bridge offerings suited to aircraft as they move from one hand to the other. How do we support the plane in that period? We have different thoughts and ideas that are being tested and discussed with various parties as the market evolves in that direction."

For MRO Big Data collection, P&W has a new capability, eFAST, which is data acquisition and transmission. It collects full flight data that P&W mine and develop into algorithms to better predict an engine's performance.

A terabyte of data is created by an aircraft engine on each flight. The newest aircraft, from Boeing's B787 Dreamliner to Airbus' A350 wide-body jet, collect information on more than 200,000 aspects of every journey. A large part of this information is engine data. The information collected better shapes the suite of MRO packages Pratt & Whitney tailors for its clients.

Azouly said: "some airlines look to the OEMs to provide a Fleet Management Plan (FMP) that includes necessary maintenance at a fixed hourly cost. In some cases, the contract will include lease support, transportation and other factors.

"Other airlines have their own maintenance capability and want very specific material commitments and material availability. We have more than 5,000 engines under FMPs of some sort. We also have agreements with a fixed price, where the airline decides when the engine is brought in [for checks] so an airline can optimize fleet operations.

"We work with our partners such as MTU, but we have a multitude of agreements with airline or independent MROs operators to leverage the greatest capacity worldwide."

As a product matures and has different engine MRO requirements, Big Data allows an MRO to maximize time on the wing for each engine, Azouly added. ■


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FINDING HIS TRUE CALLING

AirAsia X, the long-haul arm of Malaysia's AirAsia Group, has a history of losses, but a re-engineering of its business by new CEO, Benyamin Ismail, has returned the carrier to profit.

Tom Ballantyne reports from Kuala Lumpur

Finally, there is light at the end of the tunnel for Malaysia's AirAsia X (AAX) following last month's announcement of the carrier's first annual profit since its IPO in July 2013. "It was a great 2016 for AirAsia X. We made a significant statement with our first full-year profit since listing," CEO Benyamin Ismail told Orient Aviation in Kuala Lumpur last month.

It was also great news for Benyamin, the 39-year-old Australian-educated Malaysian who had spent his working life as an investment banker until he joined AAX as head of investor relations in 2010.

Confirmed as CEO in September 2015, after he was made acting CEO in January of the same year, Benyamin and his team are proving they can turn the carrier around. It recently won clearance for its first U.S. services, the launch of Kuala Lumpur-Hawaii in June, and plans are again in play for the airline to fly to Europe after an enforced five-year hiatus.

A new fleet of 55 A330-900neo and 10 A350-900s are on the horizon, which will introduce to the fleet aircraft that will reduce fuel costs and open new non-stop destinations for the LCC.

Speaking to Orient Aviation at the AirAsia Group's new headquarters at Kuala Lumpur International Airport 2 (KLIA2) shortly before the 2016 results were announced, Benyamin was clearly happy the carrier was on the right side of the balance sheet. But he also was candid about the problems the airline faces.

For the full 2016 year, AAX reported an operating profit of $62 million, a net operating profit of $56 million and a net profit after tax of $51.8 million. Passengers increased by 40% year-on-year, to 1.38 million, balanced by a 44% increase in capacity. Its load factor of 81% was a record for the airline.

Benyamin said AAX ended the year in a stronger cash position, up 36% year-on-year, to $94.8 million in cash and bank balances. Its borrowings were reduced to $260.5 million and it had lowered its net gearing ratio.

AAX flies to 24 destinations with a fleet of 22 A330-300s across the Asia-Pacific: Tokyo, Osaka, Sapporo, Seoul, Busan, Taipei, Xian, Beijing, Hangzhou, Chengdu, Shanghai, Chongqing, Wuhan, New Delhi and Kathmandu, Sydney, Melbourne, Perth and the Gold Coast, Auckland,

Jeddah, Tehran, Muscat and Mauritius.

Ismail said no more aircraft will arrive at AAX this year. For the following two years, capacity will be flat.

Despite that strategy, there is one route in Benyamin's sights: a return to London. "We have always wanted to go back to London, but we have to find the right fleet to go in. The aircraft that can take us, which is the A330-900neo, only comes [to AAX] in 2019," he said. The carrier hoped to have the aircraft by 2018. It still hoped it could arrive a little earlier than 2019.

Reports that AAX looked at acquiring a couple of Boeing B777s were correct, but Benyamin said it was extremely unlikely to happen. "Triple sevens just came to our table. We looked at them, but we're not Boeing experts. The whole group is Airbus. And to be honest, if you put aside the fleet type, the yields to London are very depressed. The landscape is crazy. Emirates are dropping fares like crazy to London. It amazes me how this route is making money," he said.

"We are going to be extremely cautious. We have just spent two years of hard work to build cash and we are not going to bury it just like that. If we can acquire a couple of suitable aircraft - if there are any cheap A330s coming out of lease - we will look at London. If the numbers stack up, we will do it."

When Benyamin took over at AAX the carrier had been struggling on several fronts.

> We owed people close to 500 million ringgit (US$112 million). We needed to go out there, have a bit of a thick face and take the brunt of the problem with creditors

Benyamin Ismail
AirAsia X chief executive

There was huge competition. As well, it's financially troubled neighbor, Malaysia Airlines, which had been losing money even before its brand was decimated by two tragic fatal crashes, became a virtual low-cost carrier. It was offering cheap fares to recover market share.

"As a LCC we had no choice but to match the fares. We could not be seen to be more expensive than them. This highly impacted our profit and loss and put us in a really bad position," he said.

At the same time, AAX was operating several long-haul routes, including London and Paris, that were launched when fuel was $78 a barrel, but then aviation kerosene shot up to $150 a barrel.

"A lot of the problems lingered. We had to see where we were in terms of our positioning. I guess the shareholders thought we needed a change," he said. That's when Benyamin was given the job of turning the carrier around.

"Commercially, we had to look at the routes: what was bleeding and what was not. We made a painful decision to cut some which were bleeding badly. Adelaide was one which was tough for us to make money. We cut Narita and Nagoya.

"Australia kept being our bread and butter, but it also has a very high cost base for operations. At the time, we were doing double dailies and due to cash constraints in the past we were failing to do ourselves justice by not marketing broadly. "We were not attracting passengers and the loads were not the best." As a result, services to Melbourne and Perth were reduced.

Another problem was the contracts the airline had with service providers. "We renegotiated a lot of our contracts with caterers, airports and a host of other suppliers. We were successful with some, with some we weren't and some were OK," he said.

The biggest problem, said Benyamin, was the debt the airline was carrying. "We owed people close to 500 million ringgit (US$112 million). We needed to go out there, have a bit of a thick face and take the brunt of the problem with creditors," he said.

"Some agreed to give us a payment plan. Some agreed to shelve some debt. Some gave us a haircut. But it helped. Now we have close to $33.7 million of debts left, which is far better."

Benyamin also looked at operations. He said AAX was doing four hour flights with the crew overnighting. Now the crews come straight back.

"This is all cost and we are doing all this within the limits of regulations. We also looked at fleet and route management and tankering fuel. In the past, we were just filling up to the brink. Now, we tanker," he said.

"If fuel at the destination is more expensive we'll tanker more from Kuala Lumpur to save a bit. All these things add up. The last thing is yields. Yields were quite depressed. It was scary. We were bleeding across the board. We needed to move that up. We actually put aside some cash to bring ourselves to the market."

Yields have improved. "If you look at the trends we are up year-on-year. I think we are the only airline that has put in 30 percent capacity yet has a load factor that is up by two points. Yields have improved by close to 25%. All these factors have worked in tandem which is very rare," he said.

With its capacity cut, the carrier has improved aircraft utilization to 14 to 15 hours a day from 11 hours daily. "Once passengers grew I put back the capacity. Sydney is back to double dailies. Perth is back in doubles. The biggest surprise for me is the Gold Coast, which has grown from four flights a week to 11 weekly.We have a tag onto Auckland from the Gold Coast, which is doing really well. The good thing about doing Auckland-Gold Coast is that the Gold Coast is the number one destination for Kiwis. It's a weekend away for them. We have fifth freedom rights. That is critical. Emirates does that as well," he said.

Another important element of AAX's rebirth has been better co-ordination with AirAsia, it's short-haul partner. In its new headquarters at KLIA2, an airy, open plan complex, Ismail is a stone's throw from the offices of AirAsia Berhad chief executive, Aireen Omar, and AirAsia Group boss, Tony Fernandes.

"Before my time we were working in silos. There was no co-ordination. We needed to fit together and make the fares more competitive. We needed to be better and better than our competitors," he said.

"Now, we time our flights together to ensure passengers don't have a seven-hour layover. We co-ordinate timings to make sure our customers have a maximum three to four hour stopover."

With 45% of AAX passengers feed on from AirAsia, the coordinated schedules have played a crucial role in improving AAX's customer profile.

Unlike other long-haul LCCs, AAX has lie-flat beds in a 12-seat premium cabin. Singapore Airlines-owned Scoot also has a premium seat but it is not lie-flat. "It has been very successful. Generally, you can only fill 80% of the plane. With these incremental empty seats you might as well convert them to a business class that can be sold at a higher yield. Our loads for that have been very good. Rather than having just a premium seat you have to give something that differentiates you," he said.

"This has been doing very well, especially on the longer flights. For Australia, it has been a winner for us."

Benyamin also is considering the introduction of internet at the airline later this year. "Short haul has it and we want to do it on long haul. I don't think we will have a full blown entertainment system. It will more likely be Wi-Fi connectivity that people can use for the entire trip. Being optimistic, I'd look at one or two planes this year to see if it takes," he said.

Like most airlines, China is a critical growth market for AAX. "The group flies to close to 30 points in China. AAX flies to nine points and we are looking at growing that number this year. The issue with China is slots and timing. The whole world realizes how big and how critical China is to the industry," he said.

"We just started Wuhan, which will go daily. We have one or two more destinations we want in northern China. We are awaiting approvals. Other than that it's all about increasing frequencies. Beijing and Shanghai are doubles

Dream job

AirAsia X chief executive, Benyamin Ismail, is a self-confessed plane spotter who loves the fact that despite an early career in investment banking, he has ended up running an airline. "I love planes. Working for AirAsia X is a dream," he told Orient Aviation.

Sent to boarding school in Perth, Western Australia, as a 12-year-old, the young Benyamin spent 13 years in Perth where he graduated with a banking and finance degree and completed an MA in electric commerce at Edith Cowan University. Along the way, he represented Western Australia in the Rowing Nationals during his first two years at university and now keeps up his fitness with football, basketball and Muay Thai (kick boxing).

"After that I decided to be a prodigal son and return to see the family," he said, "I worked in investment banking for almost nine years. AirAsia was one of my clients. There was a time when I needed something different so I took a job in investor relations at AirAsia. Things just went from there."

He joined AirAsia in March 2010 as Head of Investor Relations, a unit set up by AirAsia Berhad chief executive, Aireen Omar, herself a former banker. She recruited Benyamin to run the new department, where he brought the experience of his years working in debt capital markets to the job. He had spent three years at CIMB Investment Bank in Kuala Lumpur, after stints at Maybank Investment Bank and Affin Investment Bank where he also managed capital debt portfolios.

At AirAsia his job extended to input at the corporate finance and fuel procurement unit which played a critical role in AirAsia's ascension to one of the most attractive companies on the Bursa Malaysia (Malaysian stock exchange). He was appointed acting CEO of AAX in January, 2015.

As he settled into the job, he had the support of the chief executive of the AirAsia X group, Datuk Kamarudin Meranun. At the time, board members said they wanted to groom talented staff from within the company for the top jobs. Benyamin's "probation" ended when he as confirmed as AAX's CEO in September 2015.

now. We want to grow that and we want to grow other markets such as Chengdu and Xian. We were the first international carrier that flew into Xian and it is doing very well for us. So we want to grow that as well."

Longer term, AAX has its sights on more U.S. destinations. Its new service to Honolulu, with a stopover in Osaka, is a major breakthrough. It is the first Asian LCC to win approval for U.S. flights. Already, sales have outstripped expectations. But it can't fly on from Hawaii to Mainland U.S. because it would be a U.S. domestic leg.

"If I want to do it I would have to do Kuala Lumpur - Haneda - Los Angeles or Seoul to Los Angeles. It is in our five-year plan. Let's make Honolulu work and see how we go from there," he said.

In the meantime, AirAsia's two other X brands, Thailand AirAsia X (TAAX) and Indonesia AirAsia X (IAAX), are different stories. The Thai offshoot, which operates six A330s, always has performed well, although it reported a lower operating performance last year, mainly due to the twin, short-term impacts of the death of King Bhumibol Adulyadej and the Thai government's crackdown on zero-dollar tours from China.

Nonetheless, the outlook for TAAX in 2017 remains positive as Thailand is a natural tourist hub in the region with a strong inbound and outbound track record. IAAX remains suspended as part of a network restructuring aimed to improve operational efficiency. The airline's two A330s are leased to AirAsia.

Ismail said TAAX's growth has been restrained by the U.S. Federal Aviation Administration's (FAA) downgrade of Thailand aviation to Category 2. "The good thing about the other affiliate, Indonesia AAX is they have now been upgraded to Category 1, so they will be able to fly anywhere. They are still not flying but are in the process of receiving approvals and are looking at a June return to business," he said.

One issue that has dogged AAX is the weak local currency, the Ringgit, against the U.S. dollar. "Currency volatility means the management will continue to mitigate foreign exchange risk via hedging," he said.

"We also will reduce the impact of foreign exchange rates by intensifying sales in stronger currency markets, such as the Australia, to offset U.S. dollar bills. A lot of our cost is in U.S. dollars, but also a lot of our revenues are in foreign currencies. Our big markets are China and Australia. So we have foreign currency coming in. In China we get settled in U.S. dollars so it is alright."

AAX has been aggressive with its fuel hedging. "Hedging for this year is about 60%," said Benyamin. "Last year we hedged close to 100%. This year we are trying to find more positions to see where we are. The fact we hedged 60% very early on from last year and the fact fuel is slowly creeping up means we are a bit in the money." AAX is hedged at $53 to $54 per barrel.

In 2017, AAX's focus will be on strengthening its market leadership by stretching out aircraft utilization rates through more incremental frequencies on both high yield and new routes.

"We have set targets to ensure the company remains lean while maximizing operational synergies between AirAsia and AirAsia X. We believe AirAsia X is in the right position to fly even higher in 2017," he said. ■

New Zealand founder member of ATM policy unit

The new ATM (Air Traffic Management) Policy Unit, formed by air traffic providers from New Zealand, the UK, Ireland and the Czech Republic in partnership with the Civil Air Navigation Services Organization (CANSO), will provide research on ATM policy issues and lobby for liberalisation and greater competition in the industry.

Chaired by **David McMillan**, a former **director general of Eurocontrol** and a former **director general of civil aviation** at the UK's **Department for Transport** said liberalization revolutionized the airline industry. "Unfortunately, air traffic management remains largely a national monopoly, without the incentives necessary to drive up performance," he said.

The institute said where ATM competition was introduced, the benefits were evident. An example was Spain where changes at the country's Terminal Air Navigation Services, as a result of a competitive tender won by Sweden's LFV ANSP, cut ATM costs at Spanish airports by 50%.

"ANSPs are often focused on meeting political and State-driven objectives rather than responding to the needs of their [airlines and airports] customers," members of the new policy unit said in its introductory discussion paper.

In the U.S., president Trump has told airline and airport executives he supported privatization of U.S. ATM systems. President and chief executive of the U.S airline trade association, Airlines for America, Nick Calio, said the U.S. president was "extraordinarily positive" when airline executives urged him to spin off air traffic control operations from the Federal Aviation Administration (FAA) and place them under the control of a private, non-profit corporation.

Asked if Trump is committed to enacting such legislation, Calio said: "I think he's on track to do that." The White House did not immediately respond to a request for comment on the subject.

Unlike the U.S., most countries separate their air traffic control operations from their aviation safety oversight agency. However, it is unusual to privatize air traffic operations. ■

Aireon and New Zealand to improve South Pacific ATM

Air Navigation Services Provider (ANSP), **Airways New Zealand**, and **Aireon LLC**, a global aircraft tracking company, have agreed to co-operate on developing a cross-regional air traffic management procedures.

Aireon, established in 2011 as a subsidiary of Iridium Satellites LLC, designs, develops and deploys space-based global air traffic surveillance systems for commercial airlines and ANSPs. Its Automatic Dependent Surveillance-Broadcast (ADS-B) is designed to track aircraft in near real time over oceanic, polar and remote areas as well as land space.

State-owned Airways New Zealand and Aireon will begin an operational validation trial that will prepare the ANSP to receive ADS-B information about aircraft movements in the South Pacific region and in particular to air routes to New Zealand destinations.

Airways New Zealand chief executive, Ed Sims said last month that "Airways is excited to be exploring the possibilities of the new capability". "Once we have completed the formal agreement, we will, over the next three years, work with Aireon to investigate how satellite-based surveillance could enhance our air traffic management services in the South Pacific airspace," he said.

"We are looking forward to seeing how continuous monitoring via satellite could provide enhanced safety, traffic flow and efficiency benefits to our [airline] customers."

Aireon CEO, Don Thoma, said: "Airways is known for its strong desire to deliver value to their customers and we look forward to taking the next step to assess the potential for deployment of space-based ADS-B in the region."

The current state of air surveillance was brought to world attention when a Malaysia Airlines Boeing disappeared into thin air, en route from Kuala Lumpur to Beijing, in March 2014. Since then, the global industry organization, the International Air Transport Association, has forecast changes to equip aircraft for 24 near time tracking capacity.

Aireon, in partnership with leading ANSPs worldwide, is on schedule to introduce its global space based aircraft tracking system in 2018. ■

Tigerair selects CPaT for distance learning

Tigerair Australia, has contracted distance learning specialist, **CPaT**, to supply the budget carrier with its Learning Management System (LMS). Tigerair will use the materials to provide classroom and mobile training for its A320 and B737 pilots.

Last month, the airline and aviation distance learning provider announced the rollout of its **A320neo Differences Course** and added its **A320neo Full Systems Course** will come online before June 30.

"CPaT is happy to be this first Computer Based Training (CBT) to offer the A320neo Differences course for E-learning. We had a team of highly qualified Airbus subject matter Experts leading the development of this product," said the company's **vice president sales and marketing, Captain Greg Darrow.** ■

Avtrade, a global component provider to more than 800 airlines, opened its second Asia-Pacific office, in Guangzhou, southern China, in January. Led by regional sales director, Toby Smith, who is based at Avtrade in Singapore, the China team can provide enhanced support for clients across North Asia, including Hong Kong, Japan and South Korea.

Headquartered in the UK, Avtrade has offices in Singapore, Dubai, Moscow and Miami as well as Guangzhou. ■

ALSIM and India partner to set up training centre

French simulator manufacturer, **ALSIM flight Simulators and Orient Flights Private Ltd (OFPL)** have signed a Memorandum of Understanding, supported with investment funds of up to US$1.3 million, to set up flight training simulator centres in India that have the standards required by the country's Director General of Civil Aviation and European and North American aviation regulators.

A major objective of the planned centres is to capture pilot training business that is going offshore to Europe or the U.S. because of a shortage of quality simulator training in India. Alsim has supplied more than 260 certified simulators to more than 45 countries worldwide. ■

IATA's smart security system arrives at Kansai airport

"Smart Security", a security checkpoint that will reduce queues for air travelers is being installed at **Kansai International Terminal**. Developed by the International Air Transport Association (IATA) and Airports Council International (ACI), the system is built by global threat detection and security company, **Smiths Detection**. The Smart Security Checkpoint, already in operation at several airports in Europe and the U.S., has "Smart Lanes" that simultaneously check baggage and allow advanced walk through image and checkpoint clearance for passengers. ■

Lufthansa Technik and MTU plan MRO joint venture

Two of the world's leading MRO companies, **Lufthansa Technik** and **MTU Aero Engines**, will set up a 50/50 MRO company to service Pratt & Whitney's Geared Turbo Fan (GTF) engines, subject to regulatory approvals.

"A search for a globally competitive location inside or outside Europe will be completed in a few months," the partners said in a February 21 statement. The facility is planned to open in 2020, with a staff of 500 trained to complete 300 MRO shop visits a year on the PW1000G-family GFT engines. The GTF powers the A320neo family and other aircraft.

"For Lufthansa Technik, this move marks another important step in strengthening and expanding partnerships with reputable engine manufacturers," said **executive board chairman of Lufthansa Technik, Dr. Johannes Bussmann**.

"By setting up a joint venture facility, capital investments can be shared as well as opportunities for synergy and scale with the two companies, said **MTU Aero Engines chief progam officer, Michael Schreyogg**.

Lufthansa Technik and MTU Aero Engines have operated a 50/50 MRO company in Kuala Lumpur, **Airfoil Services Sdn Bhd**, since 2003. The global MRO has been maintaining **Pratt & Whitney** engines for several decades and also is a member of the aftersales network for GTF engines.

MTU is a partner in PW1000G programs. More than 8,000 of the engine type have been ordered by airlines worldwide. ■

MTU Aero Engines reports record 2016 results

***MTU Aero Engines**, the engine manufacturer and global MRO, had a very good 2016. The Munich-headquartered company said it beat forecasts with its earnings after tax of US$363.5 million and expected 2017 to deliver an even better performance.*

*"We have met all our forecast targets, including projected earnings that we revised upwards, for the second time, in October last year, said the company's **CEO, Rainer Winkler**. "In 2017, we expect to complete the largest investment phase in MTU's history along with sustainable profit growth."*

For this year, MTU Aero said prospects in the commercial engine market were good given that aircraft manufacturers have high order backlogs for aircraft that require components produced by MTU Aero.

*"We are excellently positioned in all market segments, especially in respect to engines for single aisle aircraft and regional and business jets," **MTU Aero chief program officer, Michael Schreyogg**, said.*

For the coming 12 months, the company said its biggest growth will be in its commercial airline MRO division. Revenues are expected to increase by 10% for the year followed by growth in commercial engine production and component sales in the single digits range. ■

Route explosion to force consolidation?

As the Mainland, India and Southeast Asia drive network growth, the region's full service carriers battle a yield drop. A belief that Asia-Pacific airline consolidation is approaching is taking hold.

By Dominic Lalk

Airline consolidation has run its course in the U.S. and is playing out in Europe. Analysts believe the Asia-Pacific will be next on the list.

"Consolidation is definitely needed in the aviation industry. If you were to look at the U.S. airlines, consolidation and restructuring are underpinning the strong profitability we are seeing in North America," IATA's regional vice-president for the Asia-Pacific, Conrad Clifford told Orient Aviation.

"Will we see similar consolidation in Asia? Serious consideration needs to be given to this. Airlines that have amassed four to five additional AOCs, with all the attendant post holder and overhead costs, simply to overcome bilateral restrictions cannot make long-term financial sense," Clifford said.

He added "consolidation could be difficult without changes to bilateral air services agreements and regulatory structures that would allow airlines to engage in cross border amalgamation".

"At the moment, ASEAN Open Skies is probably the only likely facilitator for cross border consolidation and in the ASEAN region only," Clifford said.

"Its involuntary consolidation, but it will happen. It has to happen," said MAB's Bellew in his Lunch with Orient Aviation address in Hong Kong in January.

Cathay Pacific chairman, John Slosar, concurred in an industry speech last year. He said traffic was far less concentrated around Asia's big airlines than it is for their U.S.

China continues global route assault

As Chinese carriers expand aggressively to North America, Australasia, Europe and within Asia, a growing number of airline leaders predict consolidation is approaching in the world's largest future aviation market.

In the meantime, non-stop air capacity between China and the U.S grew more than 250% in the last decade, from just above 845,000 one-way seats in summer 2007 to a forecast three million plus for the same months this year, reported OAG in its schedules data.

Nine airlines offer scheduled non-stop services between China and North America, up from four in 2014. In the last two years, Mainland carriers have launched 51 long-haul destinations, with a majority of this growth flying on trans-Pacific routes.

The state-controlled 'Big Three' – Air China, China Eastern Airlines and China Southern Airlines – accounted for the largest aggregate passenger expansion, although growth was exponentially bigger at China's Hainan Airlines, its affiliates and at the smaller, private or semi-private carriers.

Mainland aviation is in its golden years of expansion, with growth only hampered by infrastructure, air space and ATC constraints. But even the news is good in this sector. In February, China announced its intention to build 74 civilian airports by 2020 in its 13th Five-Year Civil Aviation Development Plan.

Several of China's airlines are very profitable. They can afford costly route launches in the hope of securing new markets once they mature and have a chance of making money.

But the airlines also need to move fast. The CAAC's "one route, one airline" policy calls for relentless manoeuvring and quick action. A large proportion of the networks of airlines g operating in Greater China are investments where the majority of the airlines have the benefit of government support, powerful investors or cashed-up owners to call on in bad times.

Meanwhile, the expansion continues. Air China has launched 13 long-haul routes to North America from Beijing

NETWORK EXPANSION IN THE ASIA-PACIFIC: A ROUTE EXPLOSION

counterparts, following repeated mergers and restructurings that helped transform the formerly loss-making U.S. airline sector into one with healthy profits.

IATA estimated U.S. carriers earned an average US$22.48 per passenger last year, compared with US$4.89 for Asia-Pacific airlines.

Slosar said Cathay and Cathay Dragon accounted for approximately 45% of the movements in Hong Kong, while SIA accounts for about the same at its home base. But U.S. giants , American, United and Delta dominate 60%-70% of the traffic at their hubs. "So that revenue pit, I think, is pretty big," Slosar said.

"Consolidation is taking place in more developed Asian markets. In emerging Asian markets it will be shaped by the regulatory framework, but if there are any shifts in consolidation it has a higher probability to be closer to each other as there are higher revenue and cost synergies," Bellew said, and added he hoped this would foster "market discipline".

The MAB boss said:

including Havana, Montreal, Honolulu, Washington DC, New York Newark and San Jose. It has commenced services to Auckland, Vienna, Minsk, Barcelona and Budapest since 2014 and soon will add Beijing-Zurich and Shanghai-Barcelona to its network.

Air China will become the largest airline flying between China and U.S. this summer when it overtakes its Star Alliance fellow, United Airlines. The Beijing carrier's capacity to the U.S. will increase 7.9% year-on-year -its slowest growth in a decade - with the beginning of the North Atlantic summer schedule in late March. It has confirmed added frequencies to Newark New York and Washington DC and reduced frequency to Houston.

A decade ago, United dominated the U.S.-China market with a 45 % market share. This summer, the U.S. carrier is forecast to hold 20.8%, despite added capacity of 23.2% since 2012 and the opening of monopolistic routes from San Francisco to Chengdu, Hangzhou and Xian.

Air China's rapid ascent has been followed by HNA Group's signature carrier, Hainan Airlines. Hainan has opened routes to Boston, Los Angeles, San Jose, Calgary, Sydney, Tel Aviv, Paris, Rome, Prague and Manchester.

Last December, it commenced a Beijing-Las Vegas direct service, the first route connecting the Mainland with the gambling hotspot. It also launched flights from Xian and Chongqing to Sydney, Changsha and Xian to Melbourne and Chongqing to Auckland. It plans to link Chengdu's Shuangliu International and Chongqing's Jiangbei International with routes to Los Angeles from March, followed by New York JFK in June.

Following a visa relaxation for Mainland travellers, Hainan and its siblings - Beijing Capital Airlines (BCA) and Tianjin Airlines - are considering an assault on the UK market and have confirmed five new nonstop routes in 2017. They are to London from Changsha, Chengdu, Shenzhen, Qingdao and Tianjin/Xian. "A pricing penetration strategy will be adopted by Tianjin Airlines to win the UK market," said general manager, Robert Chen.

BCA has requested rights from its Beijing hub to Mexico City, Helsinki and Zagreb, in addition to Shenyang-Qingdao-Melbourne and Hangzhou-Qingdao-Vancouver, complementing existing A330 services to Copenhagen, Madrid and Male.

Tianjin Airlines installed long-haul services into its network in 2016, with twice-weekly Tianjin-London-Gatwick, twice-weekly Tianjin-Moscow and three times a week Tianjin-Auckland flights, all operated by A330-200s via Chongqing. It plans to add Xian-London in May, Tianjin-Melbourne in September and Tianjin-Paris by year end.

Growth at China Eastern and China Southern has been slower but still impressive with the opening of routes to Australasia, Europe and North America from their hubs and from their future 'dormant' second-tier city hubs.

They have prioritized growth to North and Southeast Asia by deeply penetrating routes increasingly popular with China's growing middle class including Bangkok, Phuket, Jeju, Osaka, Tokyo, Seoul, Kota Kinabalu, Danang and Cebu and broke new ground with with Luang Prabang, Cam Rah and Phu Quoc.

China Eastern has added seven long-haul destinations to its route map since 2015: Auckland, Toronto, Amsterdam, Brisbane, Madrid, Prague and Chicago and increased services to New York, San Francisco, Los Angeles and Vancouver after it strengthened its partnership with Delta Air Lines last year.

Earlier this year, it expanded its links to Australia with the sign-

"Fundamentally, network is driven by customer demand and with consolidation the expectation is that the customer instead of industry will drive that growth."

"Consolidation will increase more and more in the form of interlining, codeshares or joint ventures. It serves to boost both parties' networks and solve traffic right and slot constraints that will dramatically increase in the Asia-Pacific," THAI's vice-president of network and fleet planning, Chaiyong Ratanapaisalsuk, offered.

Dasha Kuksenko, vice-president and regional general-manager at Sabre Airline Solutions Asia Pacific, believes obstacles to cross-border ownership remain, so franchises like AirAsia and Jetstar appear to be the way LCCs would expand beyond the limits of their home market.

"Of the legacy carrier-dominated markets, China is the one with the most obvious candidates for consolidation, with a huge domestic market and many carriers with overlapping networks and relatively low market shares in their key hubs," Kuksenko said.

"The International Air Transport Association (IATA) and Airports Council International (ACI) forecast China will overtake the U.S. as the world's biggest passenger market by 2024. India is forecast to rank third, Indonesia will be sixth, followed by Japan and the UAE. Vietnam will be tenth largest passenger market by 2035 and will have annual aviation growth of 14.8% to 2020, the highest of any nation in the world, said ACI"

Consolidation is guaranteed to take place within the HNA Group. More significantly, Beijing is reportedly considering an Air China-China Southern merger ahead of the opening of the nation's new gateway – Beijing's Daxing International – in 2019.

Asia-Pacific full service airlines are diversifying into technology, big data and other airlines, often outside their own alliances. Many experts have started calling the traditional airline alliances "obsolete" because of their high costs and limited flexibility.

The emergence of LCC alliances is another trend. Last year, the Value and U-FLY alliances were launched in the region, offering passengers of LCC carriers final destination luggage delivery for onward flights and ticket booking synergies.

Other forms of rethinking and evolution include cooperation at the supplier level. "We have been working on new business initiatives to drive revenue growth beyond ticket sales, such as the Airbus Asia Training Centre, which is a pilot training joint venture with Airbus," SIA said.

For full-service carriers, a broad geographic vision with a comprehensive long-haul network can provide an effective defence against price-driven shared losses in short-haul markets with

ing of a significant "commercial agreement", its tie up with Qantas Airways.

The Shanghai airline, Asia's second largest carrier, transported 115 million passengers in 2016 and started A330 routes from Kunming, Hangzhou, Nanjing and Wuhan to Sydney. It also has up to double daily flights from Shanghai to Sydney and Melbourne, services which have been up gauged to the B777-300ER, aircraft that offer passengers first and business class on both routes.

The airline plans to develop Kunming into its "Southwestern" gateway in line with China's 'One Belt One Road' policy. Eastern also has nonstop flights from Kunming to the U.S. in its sights, adding to Paris, Dubai, Moscow, Vancouver and Sydney.

Kunming's Changshui International Airport has welcomed HNA's long haul LCC, Lucky Air, which has requested rights from the Civil Aviation Administration of China (CAAC) to introduce Kunming to Los Angeles and Moscow, initially using A330s from Hainan, but possibly tapping Hainan's B787-9 order book next year.

China Southern added six long-haul destinations to its network in the last 24 months including Christchurch, San Francisco, Toronto, Rome and Nairobi and boosted frequency and capacity to Los Angeles, New York and Vancouver. In April, it will launch three flights a week from Guangzhou to Mexico City, via Vancouver. It is only the second route by a Mainland carrier into South America; Air China flies Beijing-Madrid-Sao Paulo three times a week.

Southern operates to Sydney, Melbourne, Adelaide and Brisbane from Guangzhou but also flies to Sydney from Shenzhen.

More recently established carriers, Ruili Airlines and Donghai Airlines, have said they will launch flights to Australia, the U.S. and Europe when they receive their first B787-9s, from 2018. Shanghai's Juneyao Airlines, Shenzhen Airlines, Longjiang Airlines (LJ Air) and Loong Air have had intercontinental routes on their radars from 2020 after taking delivery of long-haul aircraft.

Sichuan Airlines, a private carrier headquartered in Chengdu, connects its home base and Chongqing with A330 flights to Sydney and Melbourne and flies from Shenyang and Zhengzhou to Vancouver. It also has Prague and Dubai in its network and will launch a Chengdu-Auckland route in June, making it a serious competitor on the Kangaroo Route, particularly with its incoming A350 fleet.

Xiamen Airlines from Fujian, flies business and first class from Sydney to Fuzhou and Xiamen with B787s and between Xiamen and Melbourne, providing onward connectivity to its Amsterdam route. In 2017, following on from Xiamen to Seattle and Vancouver, the airline launched Fuzhou-JFK last month and plans Xiamen-JFK and Xiamen-Los Angeles from June.

This incredible pace of expansion is an unprecedented challenge to Hong Kong as a regional transfer hub and for Cathay Pacific Airways and strong LCC competition. There are definitely opportunities for airlines in China and the Pacific Rim to better structure their hubs to compete with LCCs and the fast-growing network carriers in the Middle East, Kuksenko said.

Last year, Star Alliance introduced the "connecting partner model"; a leaner, more flexible membership model at the alliance and found a strategically important launch partner in Shanghai's successful Juneyao Airlines.

In February, Etihad Aviation Group and Lufthansa Group broke new ground as they signed a comprehensive "commercial partnership agreement" (MRO), catering and code sharing. The CEOs of both companies said the partnership was critical to competing effectively in today's "complex and highly competitive global market". ■

New partnerships shape Australasian market

The South Pacific is an unlikely to experience significant route expansion this year. Predominant players, Air New Zealand (Air NZ) and the Qantas Group, have to digest and adjust to the arrival of competitive forces in their territory before embarking on an expansionary push.

The airlines' previous monopolies on ex-Australia and New Zealand trans-Pacific routes are over. American Airlines and United Airlines made sure of that when they added destinations and capacity to Australia last year.

In addition to new competition Greater China, Australasia's most noteworthy route addition will be Qantas' landmark nonstop service between Perth and London. The B787-9 route is planned for commencement in early 2018.

There is a view the mature Down Under market could be defined by consolidation outside the traditional alliances. Qantas started the trend with its tie-ups with Emirates Airline and China Eastern Airlines. Australia's 'other carrier', Virgin Australia, is hoping to seal an alliance with its new Chinese equity partner, the HNA Group. Virgin Australia is one of the world's most diversified carriers, with SIA, Etihad, the Virgin Group, HNA and Nanshan Group, owner of Qingdao Airlines, all shareholders in the carrier.

Hoping for a more favourable ruling from the new U.S. DoT administration, American and Qantas plan to re-file their joint venture application for antitrust immunity on flights between the U.S. and Australia. Their initial request was denied in November.

its regional subsidiary, Cathay Dragon. Mainland passengers no longer need to transit through Hong Kong and onto Cathay Pacific reach Europe, Australia, the U.S. or Taiwan.

In 2017, the airline is heading for a full-year loss at the airline level, the result of expensive fuel hedging contracts, an expensive-to-operate over-capacity airport and cutthroat competition from HNA's Hong Kong Airlines, its LCC offshoot, HK Express and improving Mainland carriers that have lower fares.

Hong Kong Airlines and HK Express have one by one picked Cathay and Cathay Dragon's routes and diminished yields. The airline's shares have declined more than 30% since 2014. In August, Cathay said yields for the first six months of 2016 declined by a destructive 10.1%. In January, Cathay launched its largest business review in two decades, promising a strategy change starting "at the top".

The HNA threat is real. Hong Kong Airlines operated 23 A330s in February. It has nine additional -300s and 15 A350-900s on order, double its long-haul fleet. It inaugurated a daily flight to Auckland in November and will add a daily Vancouver rotation from June. It also flies to Cairns and the Gold Coast.

By 2018, the carrier could be a serious contender on the Kangaroo Route as it weighs routes to Australasia and Europe. In late February, Hong Kong Airlines, HNA Aviation, HK Express and Virgin Australia submitted an application for authorisation of a proposed alliance on flights between Hong Kong, the Mainland and Australia. The airlines plan to code share on each other's intercontinental and domestic networks and co-operate in route planning, sales, distribution and marketing and frequent flyer programs.

In the meantime, Cathay continues adjustments to its network. It injected B777-300ER capacity to Australia and added routes to its network that are relatively devoid of competition, including Madrid, Barcelona, Tel Aviv, Manchester and Boston.

A major issue for the full service carrier is improving its premium cabin business. The airline is believed to be introducing a "cart-less" dine-on-demand business class service, to be debuted on Hong Kong–Gatwick in May.

Taiwan, following the collapse of TransAsia Airways and V Air, is looking at an uncertain 2017 despite the news that Beijing has agreed ex-Mainland China transfer traffic onto Taiwan's airlines, although the rights are limited to flights from Nanchang, Kunming and Chongqing.

Privately-owned EVA Airways and government-controlled China Airlines (CAL) have treaded carefully to avoid overlap, but have expanded rapidly in the past two years.

Since 2014, EVA has added flights to Houston and Chicago, increasing its North American passenger network to eleven destinations and boosted existing routes with significant frequency increases, including up to triple daily flights to Los Angeles and double daily San Francisco rotations. The Evergreen carrier has reaffirmed its trans-Pacific commitment with an order for 24 B787-10s and two additional B777-300ERs. It has 30 -300ERs, more than Air China, China Eastern and China Southern and on a par with Singapore Airlines (SIA).

CAL has launched routes to Christchurch and Melbourne and in 2017, its new chairman, Ho Nuan-hsuan, wants his airline to become the Taiwanese market leader in Europe by offering more non-stop services to the continent than EVA.

CAL is banking on the latest addition to its fleet, the long-range A350-900, which will replace its A340-300s to Amsterdam, Rome and Vienna and convert its one stop flights, via Bangkok, to non-stop services. CAL will resume previously unprofitable flights to London's Heathrow with the A350 this year.

North Asia must counter China's market grab

Japanese and South Korean carriers continue to find themselves in an environment where they have to make strategic decisions at the behest of China. The golden years of effortlessly siphoning off Mainland long-haul transfers are over and airlines from Japan and South Korea had to diversify their market propositions.

Flag carrier Japan Airlines (JAL) could be tempted into reconquering lost market share to rival All Nippon Airways (ANA). Following its Chapter 11-style bankruptcy in 2010, JAL was bailed out by the government and restructured but with handicapping conditions that expire this April.

In the past six years ANA has emerged as Japan's largest airline with a clear focus on expanding its long-haul and regional networks, with new routes to Munich, Seattle, San Jose, Dusseldorf, Wuhan, Phnom Penh, Vancouver, Houston, Brussels, Sydney and Mexico City. JAL only added Boston, San Jose, Helsinki and Dallas under bankruptcy protection.

ANA has worked diligently at evolving from Japan's largest domestic player to its premier international carrier. The airline has signed successful joint ventures with United Airlines and Lufthansa, which are larger, more consistent and stronger relationships than JAL's partnerships with American Airlines and IAG/Finnair. ANA has acquired an 8.8% equity in Vietnam Airlines, outbidding JAL and securing early-mover advantages in the world's tenth largest aviation passenger market by 2035.

It has launched two low-cost carriers in Japan - joint venture Peach Aviation and wholly-owned Vanilla Air – before rival budget carriers curbed opportunities. At press time, the three shareholders in Peach announced a share transfer that took ANA Holdings' equity in the LCC from 28.3% to 67%. Peach has 18 A320ceos, with another five and ten neos on direct order.

Vanilla operates 11 A320ceos and last September was the first Japanese budget airline to launch fifth-freedom flights from Taipei to Ho Chi Minh City. It is 100% owned by ANA Holdings.

JAL's exposure to the budget market is limited to its 33% equity in Jetstar Japan, which despite a fleet of 20 A320s is a much smaller international operation that flies to Hong Kong, Manila and Taipei. It cancelled a Shanghai launch in January.

The AirAsia Group has big plans for Japan when AirAsia Japan is re-launched at this stage in June. It would immediately add a portfolio of international destinations from its Nagoya base. More significantly, the group's long-haul low-cost airline, AirAsia X, has confirmed a fifth freedom Kuala Lumpur-Osaka-Honolulu A330 route from June. The airline is expected to add routes to the U.S. via Japan in late 2017, to Las Vegas, Los Angeles and San Francisco.

The onslaught of new Mainland and Taiwanese non-stop services has been particularly challenging for Asiana Airlines and Korean Air, which has relied on carrying China-North America transfer traffic for years. Both Asiana and Korean launched only one new destination in the past two years. Asiana now serves Rome and Korean has added Houston to its network. This challenging environment has reunited old foes. Korean and Delta Airlines last year resumed their codeshare partnership, following years of mutually punitive relations.

The real route explosion in South Korea is at the LCCs. After a decade in existence they hold almost a quarter of South Korea's air travel business and are gearing up for long-haul growth. Asiana has Air Busan and Air Seoul, which took over unprofitable regional routes and mended its bottom line this financial year.

Korean has Jin Air, which operates B777 wide bodies to Hawaii. It is expected to inherit some of its parent's low-yielding intercontinental routes that are popular with tourists.

Secondary and tertiary airports in South Korea continue to experience double digit growth, giving LCCs more opportunities in terms of cost and diversification away from the congested national hubs.

South Korea is home to six LCCs: Jeju Air, Jin Air, Air Busan, Air Seoul, T'Way Air, Eastar Jet. Cheongju's K-Air and Busan-headquartered Nambu Air are expected to go to market this year.

Budget carriers maintain hold on passenger growth

Southeast Asian aviation today hardly resembles its former self of a decade ago. Singapore Airlines (SIA) still stands out as the industry's fabled rich kid on the block, but the full service carrier is feeling the heat from LCC competition.

Malaysia Airlines Berhad (MAB) is expected to carry 14.4 million passengers in 2017, half the projected passenger count of its fiercest local rival, low-cost AirAsia. Thai Airways International (THAI) today transports fewer passengers than it did two years ago. Both carriers had been haemorrhaging money as a result of past undisciplined network planning, questionable contracts with suppliers and bloated workforces. MAB, and to a lesser extent THAI, are on the road to recovery.

Demand is on the rise, boosted by a growing middle class, rising discretionary incomes and relatively robust economies, but with order books outgrowing the size of the current active fleet, supply will again easily exceed demand in 2017, shrinking yields and profitability.

In Malaysia, all airlines are planning to expand in 2017, leading to a fare dog fight and placing downward pressure on already low yields. AirAsia is planning to accelerate expansion as it strategically responds to a revived MAB and an unwavering Malindo Air. The latter, a Lion Air subsidiary, intends to add seven aircraft to its fleet this year and enter the long-haul market with daily flights to Jeddah.

"Right now, we can see quite clearly that in the long-haul market there's gross overcapacity. A lot of very big planes are coming into the market place offering very many seats," said MAB CEO and group managing director, Peter Bellew. "I think we're at a very difficult point: overcapacity, extraordinary low fares, Brexit. It is going to be extremely difficult," he said.

For low-cost long haul AirAsia X, 2017 could be a breakthrough year the carrier. With 76 A330neos and A350s on order, it plans to launch flights to the U.S. West Coast and possibly a return to London and Paris in the next two years. Sister carrier, Thai AirAsia X, is launching a Bangkok-Frankfurt route this northern summer and promises the starting airfare would be below €200 (US$215).

As more fuel-efficient aircraft go to market, ultra-long-range flights are trending again. SIA in October resumed nonstop Singapore-San Francisco A350 flights, a precursor for direct services in 2018 to Los Angeles and New York City with A350ULRs. THAI shares SIA's ambitions and told Orient Aviation it was considering the A350ULR for nonstop routes from Bangkok to Vancouver and San Francisco.

SIA and THAI both acknowledge the impact of China's route explosion on aviation in the region and agree that LCCs are not going to disappear any time soon.

"The recent emergence of airlines from the Middle East and those from other markets such as China is indeed providing more intense competition, as has the emergence of low-cost carriers in Southeast Asia," said SIA divisional vice president public affairs, Nicholas Ionides.

"We have not sat still in the face of the challenges and have proactively embarked on multiple strategic initiatives aimed at making the SIA Group more flexible and nimble, providing us with new engines of growth," Ionides said and outlined SIA's investments in SilkAir, Scoot and Tigerair and joint ventures, Vistara and NokScoot.

THAI's Chaiyong said: "THAI has three airline brands – THAI, Thai Smile and Nok Air – so we can cover all market segments from premium to LCC."

The THAI executive is aware of China's route explosion. He said: "We try to take share from that flow [China to U.S.] as much as we can, but due to limitations with our fleet we can't grow as much. Our strategy is to increase frequency in existing markets to daily or double daily rather than opening new destinations."

Owing to shrinking premium yields, SIA and THAI are expected to add long haul routes mostly through their budget vehicles, Scoot and NokScoot.

Scoot will become the first serious budget contender on the Kangaroo Route when it inherits SIA's low-yielding seasonal Athens shuttle in June. The LCC plans to gradually add more destinations across Europe, including Italy, Spain and the UK, complementing its mature schedules to Sydney, Melbourne, Perth and the Gold Coast.

Scoot wants to siphon off some of the lucrative Australia-India market. It has introduced flights from its Singapore hub to Amritsar, Chennai and Jaipur, carefully avoiding cannibalization with SIA. But the LCC's read-and-butter business will remain medium-range services to Japan and South Korea.

NokScoot wants to tap the same markets from its Bangkok base, but its growth has been stunted by regulators. Both ICAO and the FAA in the U.S. have downgraded safety ratings for Thai-based carriers from Category 1 to Category 2, for failing to comply with international standards.

This ruling cancelled NokScoot's plans for new schedules and routes to Japan and South Korea, which it considered its primary markets at launch in 2014. It lists flights to Tokyo and Osaka on its website, but they are operated by Singapore-registered Scoot. NokScoot had to refocus on the Mainland market. It serves Tianjin, Shenyang, Dalian and Qingdao with its three B777-200ERs. A route bonanza to Japan is expected when the sanctions are lifted, possibly following a June ICAO re-audit.

Indonesia is a huge market, but it consistently fails to deliver on its potential. Slower than expected economic expansion and damaging regulatory constraints have slowed growth. A route explosion will not originate from Indonesia this year because the market is not mature enough.

Nevertheless, Garuda Indonesia plans to return to the U.S. in November, most likely five times a week from Jakarta to Los Angeles via Tokyo. Back in the red in 2016, Garuda is likely to delay plans to return to Frankfurt or Paris this year.

As Thailand, Malaysia and Indonesia battle overcapacity, growth in ASEAN's other markets continues to come in double digits, which has created strong intra-ASEAN traffic that mostly has benefitted LCCs.

Vietnam has the greatest potential for passenger growth, but saturation is imminent and will hopefully lead to more modest growth at the airlines. Vietnam Airlines is still the country's largest carrier, with more than 20 million passengers in 2016. VietJet Air has grown from one million passengers in 2012 to 15 million last year and its appetite for international growth appears unlimited. Vietnam Airlines is likely to launch Vietnam's first nonstop services to the U.S. late this year or early in 2017.