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STAR PERFORMER

All Nippon Airways CEO, Yuji Hirako, focuses on smarter operations at the dynamic carrier

Orient aviation 23 YEARS

New Garuda boss has 12 months to fix carrier

HNA group chairman Chen Feng on charm offensive

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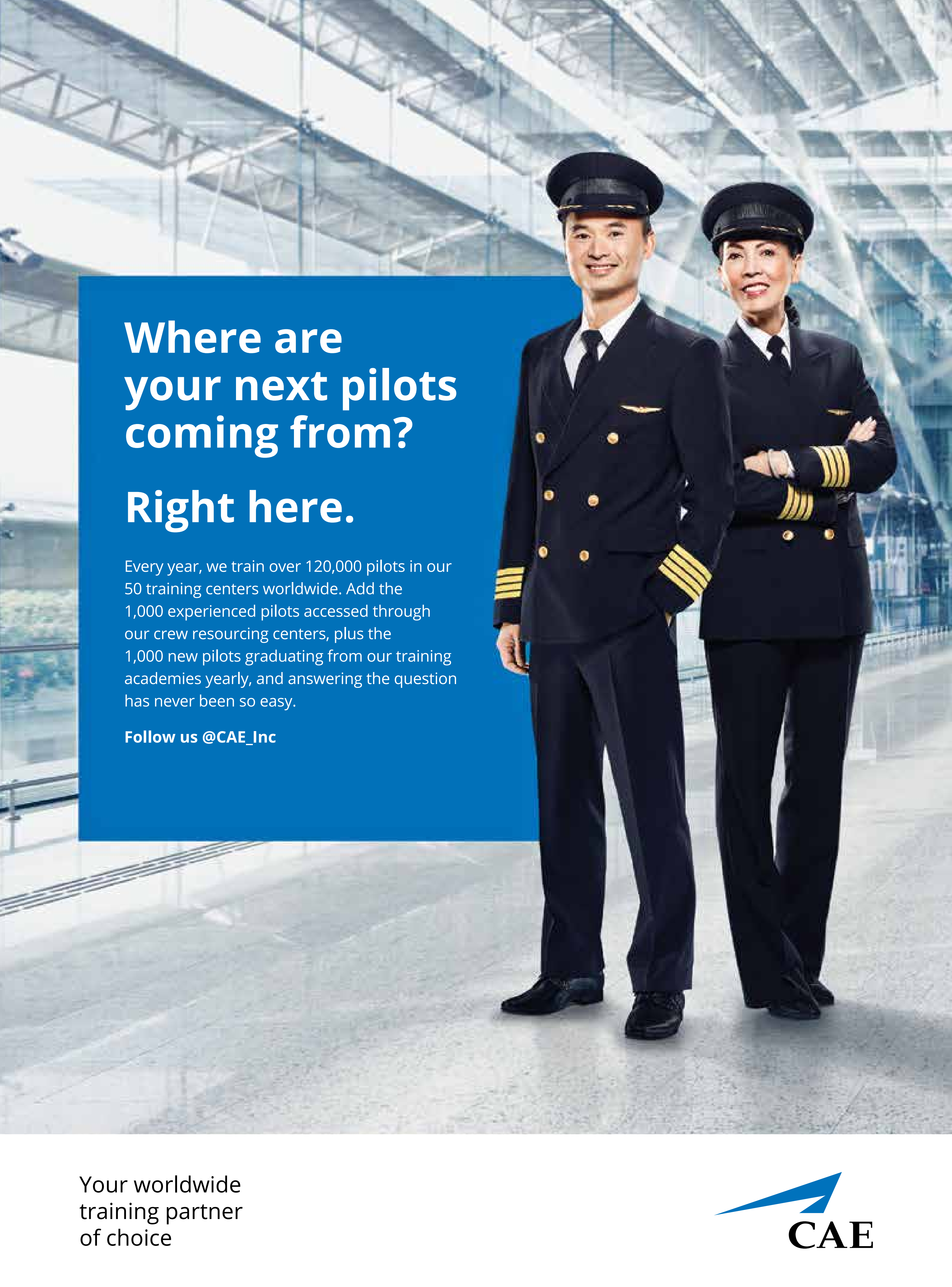
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COMMENT

Political screws tighten in the Gulf

For some time several Middle Eastern states have expressed disquiet about Qatar's apparent closeness to Iran, a country alleged to be funding global terrorism. But the decision last month by the United Arab Emirates, Saudi Arabia, Bahrain and Egypt to deport Qatari diplomats and, in effect, place a blockade on their neighbouring Gulf state took everyone by surprise.

Banning all flights by Qatar Airways and closing their airspace to the carrier violates a basic tenet of global aviation – freedom of overflight.

So for carriers in the Gulf and elsewhere the bans were a pointed reminder that politics can so easily shift the goal posts for airline operations. After the ban was announced, Emirates Airline, Etihad Airways and several carriers in the Gulf had to scramble to adjust their schedules to the new overflight circumstances.

They and Qatar Airways had to cancel flights and their passengers had to revise their travel itineraries. Qatar was a particular loser in the process. The airline itself, which has posted a healthy profit for its latest fiscal year, is certain to be losing money, given the loss of custom and the additional expenses for the fuel required to circumvent airspace now unavailable to the carrier.

The states that acted against Qatar have provided scant details about the rationale for the bans, for obvious reasons. But they have said it is their airspace and they are free to choose how it is controlled.

Qatar has countered that it is being subjected to a blockade. Qatar Airways group chief executive, Akbar Al Baker, has asked the International Civil Aviation Organization (ICAO) to intervene on its behalf, but the bottom line is the four states cannot be forced to reverse their decision. They said it is not a blockade because Qatar can still fly elsewhere – even though it has to use more fuel - and added the emirate's ports are open to shipping.

At press time, an early resolution seemed unlikely after Saudi Arabia and the three other states issued 13 demands. They want Qatar to shut down the global Al Jazeera news agency, cut back its diplomatic relations with Iran and sever all ties with the Muslim Brotherhood. Qatar has firmly rejected the demands.

As with any political disruption, unearthing the truth can be difficult. Qatar's perceived friendship with Iran is its choice, but allegations that it is backing terrorism remains to be proven.

But political action can be taken without closing airspace. The freedom to fly the world's skies is not only important to airlines, but is critical to the health of the global economy.

It is hoped that mediation and common sense will ultimately prevail and that the present political impasse can be brought to a satisfactory conclusion for both Qatar Airways and the airlines affected by the bans. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

Airbus' Leahy names Rao as successor

Airbus Commercial Aircraft chief operating officer – customers, John Leahy, has been the European plane maker's top salesman for decades, delivering billions in aircraft sales to the group.

But in Mexico last month, at the **International Air Transport Association (IATA)** annual general meeting, the 66-year-old made it clear his days in the high stress business of signing up aircraft orders and fighting off Boeing were drawing to a close. Retirement is on the horizon.

At a briefing at the Cancun AGM, Leahy said: "For those of you who may not know, **Kiran Rao** [Dr. Kiran Rao (53), Airbus executive vice president for strategy and marketing] has been with Airbus for a long time. He's my commercial deputy and the internal decision already has been made that when I retire, hopefully sooner rather than later, he'll be replacing me."

But Leahy is not quite ready to step away from the negotiating table yet nor is he revealing his career highs and lows. "You're going to have to buy the book," he laughed.

In the meantime, he said a slowdown in orders at Airbus is far from bad news. "We are going into a period where the airlines are slowing down with their ordering and a lot of people think that must mean production must slow down," he said in Mexico.

"No, it doesn't. We have a substantial number of orders on backlog. We have a record backlog. Will this year be a big year for orders? Absolutely not. It will be a very, very slow year for orders for Airbus and, I think, mostly for the industry. But that does not mean Airbus and Boeing will slow production.

"We are going up to rate 60 on the single aisle. We'll be at rate 10 on the A350. We're stabilizing at rate six on the A330 and we are looking at the A380 and how we break even at less than one airplane per month. That's a unique situation. But all in all, Airbus production will be higher this year than last year. In 2018 it will be higher than 2017 and in 2019 it will be higher than 2018. It's a ramp up in production that is disconnected from a real order cycle that goes up and down with airline fortunes and economic times."

New Yorker Leahy, who has an MBA from Syracuse University and is a multi-licensed commercial pilot and former flying instructor, worked in marketing at **Piper Aircraft** from 1977 until he joined **Airbus North America** in January 1985. He was made head of sales for America in 1998 and then chief commercial officer in 1994. In July 2005, he moved up to chief operating officer – customers. Globally known as one of commercial aviation's most successful salesman, he has outlasted five Airbus chief executives and seven Boeing sales chiefs. He has made a significant contribution to Airbus' market share, which grew from 18% of global aircraft sales in 1993 to 57% a decade later. He has sold more than 10,000 aircraft, worth an estimated US$1 trillion for the company.

Boeing's global sales chief, Isshane Mournir, told **Reuters** last month: "I have nothing but respect for John Leahy. He is an icon in the industry and has been instrumental in the success Airbus has had over the years." ***By Tom Ballantyne*** ■

Deeply indebted Air India to be sold off

Almost 70 years after it was nationlised, the Indian government has announced that the country's-debt laden flag carrier, **Air India**, will be privatized. Late last month, India's finance minister, **Arun Jaitley**, said the nation's cabinet had given "in principle approval for this disinvestment of the carrier". He will head a task force for the sale of the airline, its related assets, hotel companies and its debt.

In its glory days, Air India held a monopoly in its home market, but it has slowly lost market share to more service oriented rivals, especially the increasing number of low-cost carriers operating in India's booming air passenger business.

Reuters said in June that budget airlines, **IndiGo** and **Spicejet**, hold a combined 42% of the market. Air India has 12.8 per cent. Analysts unilaterally agreed that privatization of the carrier was overdue. It ran at a loss for a decade and required a 2012 US$ five billion bailout package to keep flying. It reported a profit last year but it has unsustainable debt, a fact its latest and most realistic **chairman and managing director, Ashwani Lohani**, conceded earlier this year.

India's aviation market is expanding by 20 per cent annually and is regarded as a huge potential market for airlines because of the its 1.2 billion population. ■

HNA Group's Chen Feng mounts charm offensive

Following the news that powerful regulator, the **China Banking Regulatory Commission (CBRC)**, had launched an investigation into systemic risk at some of the Mainland's largest global investors, including the **HNA Group**, its normally media shy chairman, **Chen Feng**, 66, hit the media trial in Hong Kong to defend the fiscal reputation of his conglomerate – and have a go at Hong Kong's biggest property developers while he was at it.

In a number of interviews with local media, Chen Feng challenged the constant rumours that the group is over-committed and that its overseas investments are funded in large part by high interest financial products on the Mainland, including peer-to-peer lending platforms.

"HNA Group has never owed the bank any money in 20 years and has never delayed paying money," reported the **Sing Tao Daily** on June 26.

He added that **U.S. Bank, Morgan Stanley**, had approved a US$300 million loan, without mortgages or guarantees, to the group's leasing arm, **Bohai Capital Holdings**, on June 23. The lessor controls several Mainland leasing companies as well as global lessor, **Avolon Holdings Ltd**, and **Hong Kong Aviation Capital**.

He continued in a local vein: "land prices are too high in the Special Administrative Region and they are influencing the city's effectiveness. Hong Kong's property market is dominated by a few large consortiums, leading to high home prices which affect locals' livelihoods. Hong Kong people should not have to work their entire lives for a small flat. The government should focus on livelihood issues."

When it came to business however, the tycoon believed Hong Kong, where the conglomerate has its global headquarters, was a positive platform for the group. Two HNA Group controlled airlines, **Hong Kong Airlines** and **HK Express**, hold 17% of the market, he said, and added their arrival in the city had forced competing carriers to reduce their fares.

Last year, HNA Group made headlines when it purchased four sites at Hong Kong's former Kai Tak Airport for US$3.6 billion, which was almost double the price predicted by property analysts. It also has built up a 9.9% equity in **Deutsche Bank** in the last 12 months. ■

Airbus launches new black box recorders

Airbus has launched a black box data recorder that separates from the aircraft in a serious incident, making it easier to find in the aftermath of a crash, especially in remote areas.

The European manufacturer has been pushing the new black box design since the disappearances of an Air France aircraft over the South Atlantic Ocean eight years ago and the still unresolved loss of a Malaysia Airlines aircraft over the Indian Ocean in 2014.

It took search crews two years to locate the black box of **Air France flight 447**, an A330 that crashed into the Atlantic in June, 2009, killing all 228 passengers and crew on board. **Malaysia Airlines** flight **MH370**, a Boeing B777, disappeared over the Indian Ocean in 2014 with the loss of 239 lives. Its black boxes have not been retrieved.

Airbus has launched two versions of the black boxes, which it unveiled in Paris last month: a new fixed crash-protected Cockpit Voice and Data Recorder (CVDR), capable of recording up to 25 hours of voice and flight data on a single recorder and an Automatic Deployable Flight Recorder (ADFR).

It said the new CVDR will be lighter, more compact and provide new capabilities compared with the current generation of recorders, including versatile interfaces. The new CVDR answers the EASA and ICAO requirement to extend the duration of voice recording to 25 hours. The current rules call for two hours of voice recording.

Two of the new CVDRs will be fitted on shorter-range A320 airliners, which will greatly increase the redundancy for both voice and flight data recovery. Until now, airliner installations only require one flight data recorder and a separate voice recorder.

The other version of the new recording system, the ADFR, is aimed at longer range aircraft that

have extended flight times over water or remote areas. They include the A321LR, A330, A350 XWB and A380. The ADFR will add a new capability to commercial airliners: the ability to be deployed automatically in case of significant structural deformation or water submersion.

Designed to float, the crash-protected memory module, with up to 25 hours of recorded cockpit voice and flight data, will be equipped with an integrated Emergency Locator Transmitter (ELT) to help rescue teams rapidly position and recover flight recorders.

Charles Champion, Airbus executive vice president of engineering, said: "Airbus, together with **L3 Technologies** and **Leonardo DRS**, is very pleased to be leading the commercial aircraft industry in implementing our new deployable flight data and 25 hour voice recording capability. Starting with the very long-range A350 XWB, we look forward to progressively installing these new voice and data recovery devices across our entire product range."

The deployable ADFR will be installed in the rear fuselage and the CVDR placed in the front of the aircraft. The ADFR unit, together with its mechanical ejection system, is designed and will be manufactured by **DRS Technologies Canada Ltd.** (a Leonardo DRS Company) and integrated by L3 in partnership with Airbus cross-programme Engineering. The new recording systems will be available in 2019. ■

Can number cruncher boss fix Garuda?

Garuda Indonesia has had a bad start to the year, but the carrier's new president believes there are better times ahead as he launches a business transformation plan to improve the carrier's financial performance.

Tom Ballantyne reports

When new Garuda Indonesia president, Pahala Nugraha Mansury, a 46-year-old banker, had his first meeting with local media after his surprise appointment in April, he made his position clear: the thought of turning down the job never occurred to him.

Previusly a finance director at Indonesian bank, Mandiri, he insisted to reporters that Garuda was a good brand and the challenge to improve it was irresistible. "Who doesn't know this company? Only after joining it, did I realize it was a 24-hour industry. It was a bit of a shock, especially since this industry demands perfection. No mistakes, however small, are allowed," he said.

"Garuda Indonesia will focus on improving its performance by taking 10 financial and business performance initiatives in such a way that its operational and financial conditions will be better. We are quite optimistic about achieving it in one to two years."

The government has given Pahala 12 months to fix Garuda's finances and there is no doubt his first months in office will be difficult. The Indonesian flag carrier reported a US$98.55 million loss for the first quarter of it's latest fiscal year, to March 31, 12% higher than a year earlier. Rising jet fuel prices, up by 54% to $292.3 million, were largely blamed.

> I proceeded to look at the company's problems in more detail. Just looking at those losses made me shiver. The margin is just too wide. The costs are increasing by about 21%, while income is growing at six percent and aircraft numbers continue to increase
>
> **Pahala Nugraha Mansury**
> Garuda Indonesia president and CEO
> *Tempo magazine June 2017*

As a result, operating costs increased from $840.1 million to $1.1 billion. A 6.2% revenue increase, from $856 million to $909.5 million, was no consolation. "When I saw the financial report, I was shocked," the accounting and economics graduate told Tempo reporters.

Nevertheless, Pahala, who replaced Arif Wibowo, insisted he could see better times ahead for Garuda. "The liquidity, balance of payments and other indicators remain positive until the end of this year," he said.

"We hope to achieve stability by the end of 2018. The recovery period could take nine to 12 months. The losses in the first quarter of 2017 are an opportunity to improve our performance."

He dismissed rumours Garuda was in serious difficulty and clearly had studied the carrier's situation. In the Tempo news article, which was his first media interview, he admitted: "I proceeded to examine the company's problems in more detail. Just looking at those losses made me shiver. The margin is just too wide. The costs are increasing by about 21%, while income is growing at six percent and aircraft numbers continue to increase."

Pahala wants to rationalize routes, fleet leases and management, renegotiate lower supplier contracts for fuel, inflight services, MRO and marketing and put a rocket up the performance and work ethic of Garuda employees. He also wants to develop passenger services based on substantiated research.

"At Garuda, there are 144 airplanes - 136 are leased and eight are owned. Citilink has 55 aircraft with 47 leased and eight wholly owned. This year we plan to add one aircraft, which means an increase in operational costs. Four years ago, one aircraft cost 12% to 14% of Garuda's basic costs. Today, it's 27%," he said.

"The only revenue comes from cargo, which is growing by double digits, or 19%. The airline industry is really tight. If we can book a two to four per cent profit margin, we would be very happy. Only 20 per cent of our fuel is hedged. The rest is bought on spot."

Pahala said: "If necessary, we need to renegotiate the terms of the rentals. We also must talk to the aircraft manufacturers about faster delivery of aircraft. If we manage this, we can clamp down on three to five percent of our costs.

"I also must optimize routing. For example, the Jakarta-London route has a 65% load factor. "We must review our routing and flight schedules to match our aircraft to the right routes.

"There's also the problem of the unsatisfactory performance of Garuda employees. Finally, to lift revenue, we must create a price structure based on consumer behavior."

Garuda's B737 fleet is operating at more than nine hours day, which is reasonably good said Pahala. However, 18 Bombardier CRJ1000s and 12 ATR turboprops are only flying between five and seven hours, when they should be achieving above eight hours.

He also is advocating more integration with domestic subsidiary, Citilink, so it does not fly on the same routes as Garuda. The carrier is reviewing up to 20 of its domestic routes. "In the meantime, improving the performance of subsidiary companies needs innovation," he said.

"Aerowisata can seek customers other than Garuda for its catering services. Aerohotel can be integrated with ticket bookings, so passengers have the option to stay at our hotels."

Pahala said Garuda "is in very good condition in terms of operations and services to the public". "This phase of the business cycle that Garuda Indonesia is going through is only temporary in terms of infrastructure, human resources and products. All the business lines of the company have a good platform to improve performance," he said.

Defeated by the numbers

Arif Wibowo abruptly resigned as president and CEO of PT Garuda Indonesia within hours of the airline's annual general meeting in Jakarta on April 12. Media friendly Wibowo, who had run Garuda domestic subsidiary, PT Citilink Indonesia, for several years before he was appointed Garuda's boss, served two and a half years of an expected five-year term.

Analysts said Wibowo lost his job to airline novice and banker, Phahala Nugraha Mansury, because of mounting losses at the carrier. Net profit for the flag carrier declined by 89%, to $9.36 million, in the latest fiscal year.

TIME WAITS FOR NO AIRLINE

Several Asia-Pacific airlines have hit profit walls in the last decade as low-cost carriers, Gulf and Mainland expansion and changing passenger behaviour have resulted in less populated premium cabins, intensified downward pressure on yields and eroded transit business at once unchallenged hubs. Is the region's full service airline model broken? Or does it simply need to adapt?

Tom Ballantyne reports

In 2017, there is not a full service airline results statement that does not a lament the profit disconnect between booming passenger demand and declining yields. "We're carrying more passengers, but yields are down and we are making less money," is a common admission when profit drops are announced.

Two of the most recent casualties of this trend are also two of the region's most highly regarded airlines. Singapore Airlines (SIA), last month voted the second best airline in the world, recently reported a 55% net profit decline, to $259.5 million for its year ended March 31, compared with the previous 12 months. In March, Cathay Pacific Airways announced a loss of $74 million for the 2016 fiscal year, its first annual deficit in eight years.

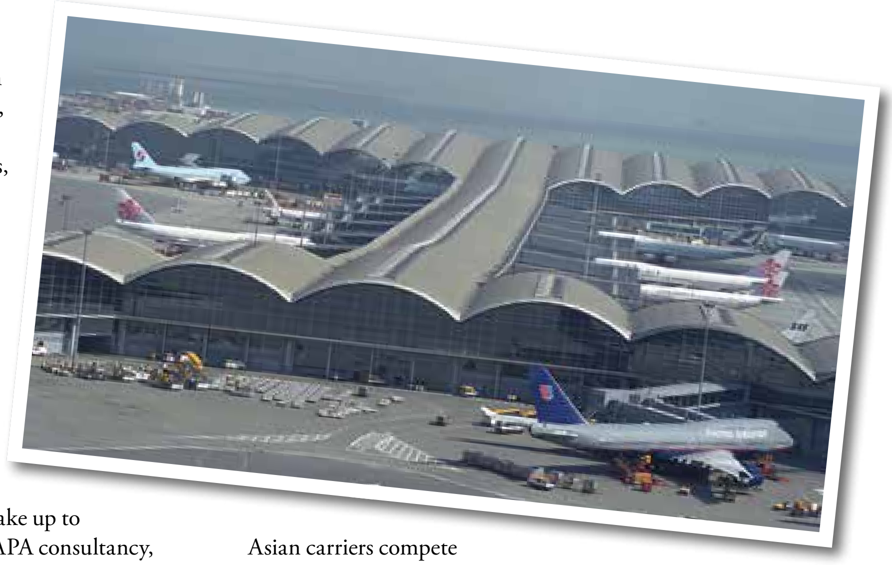
The two top league carriers have fallen foul of market changes that in recent years have seen other Asia-Pacific full service carriers fall into loss. Thai Airways International, Garuda Indonesia, Malaysia Airlines (admittedly in exceptional circumstances), Japan Airlines, Virgin Australia and Qantas Airways have been in serious financial trouble despite the benefits of cheaper fuel, ever increasing passenger demand and a relatively stable global economic environment.

In its latest set of economic statistics, published in June, the International Air Transport Association (IATA), underscored the problems the region's premier carriers face.

Global airline profitability for this year has been revised upwards from $29.8 billion to $31.4 billion. Although encouraging, the predicted profits are lower than the $34.8 billion result of the previous 12 months.

Based on this forecast, the world's airlines will average a net profit of $7.69 for each passenger carried. But Asia-Pacific airlines are expected to post a $7.4 billion net profit in 2017, or $4.96 per passenger, compared with $8.1 billion in 2016. The fall off will happen as passenger demand increases by 10.4% ahead of a capacity expansion of 8.8%.

Factors that are seriously impacting on the region's full



service airlines are the relentless growth and competition from low-cost carriers, the route re-structuring forced on Asia-Pacific carriers by the Gulf airlines, aggressive Chinese network expansion, particularly for Cathay Pacific and Singapore Airlines, and a failure to keep up with technological change.

"I think something happened ten to twelve years ago and that was that governments started accepting, once AirAsia arrived on the scene, that 'hey there is an alternative [to the full service carrier] and it does make a difference to our economies?' It's taken a number of carriers a while to wake up to that," the executive chairman of the CAPA consultancy, Peter Harbison said.

The director general of the Association of Asia Pacific Airlines (AAPA), Andrew Herdman, pointed out another problem. "Why have Cathay and Emirates and others seen profits fall? Despite passenger growth, the long-haul premium market is experiencing competitive pressure. Load factors are historically high, but the price being charged to get that business is coming down."

Traditionally, Herdman said, a premium was paid for a non-stop flight compared with a one-stop flight. "The going rate for a one-stop service, as offered by the Gulf carriers, compared with the non-stop offered by Asian carriers has narrowed," he said.

"The Gulf carriers compete with a one-stop, but the

Asian carriers compete with non-stop. It is a narrowing of the premium you can get for non-stops because of the proliferation of Gulf carriers.

"And now Chinese carriers are expanding aggressively, particularly in the Pacific and, to a less extent, to Europe. This is putting the squeeze on the full-service carriers."

Changes in the business traffic landscape is an issue Hawaiian Airlines chief executive, Mark Dunkerley, told Orient Aviation: "I'm a big believer in the fact you can't fight the big demographic and the economic changes out there. One of the dominant shifts is that business travel is stagnating and travel for leisure is growing.

"I think we are on the right side of this by focusing on the leisure traveler. It is no surprise to me that the more heavily business-focused airlines are against those airlines that are more intently leisure focused. They are going to be fighting over a smaller and smaller piece of the pie.

"Whether you adapt to get away from that or work hard to be more compelling within that smaller piece of the pie remains to be seen. That's a question best answered by them."

Harbison said all carriers operate in different circumstances. "In the case of Cathay," Harbison said, "the Chinese carriers have been taking a lot of their home market away. They obviously did see it coming. But what were they to do about it?"

It is universally agreed that transformation is critical for the legacy airline sector. Qantas Airways recorded a loss of \$2.6 billion three years ago. Today, it is reporting record profits after a three-year program that saw thousands of jobs lost, inefficient aircraft retired or sold and many routes either eliminated or transferred to its Jetstar budget group subsidiaries.

In June, as the three-year program was signed off, costs of \$3 billion had been taken out of the group's budget. Qantas Group chief executive, Alan Joyce, told Orient Aviation there would be no let-up in seeking cost savings.

"At our investment day we talked about our continuing transformation program. We said we would continue targeting \$400 million in benefits every year going forward. We gave some outlines of where we could make these

> There is an obsession in the airline industry with having massive data centres because a lot of airline IT directors think it is really cool to have this domain of a hosting server centre. All of the dot.coms that are stealing our business, none of them have server centres. They all use Amazon web service or something else, which actually generally costs a fraction of having these very old fashioned data centres which you can't possibly hope to manage
>
> **Peter Bellew**
> Malaysia Airlines Berhad group managing director

savings," he said.

"For example, with the B787-900s beginning to arrive this year we have a great agreement with the pilots, engineers and cabin crew for productivity improvements that will save significant fuel.

"We've been changing for the 97 years we have been flying. The last few years have accelerate transformation because of circumstances. You're absolutely right. We looked at domestic and international yields. In the last decade they have gone down by 20% to 30%.

"Just how tough it is can be seen from the fact that when Qantas started flying in 1936 it cost 122 weeks of an average person's salary to fly from Sydney to London. When we got the B747s it was 22 weeks of an average person's salary. Today, it is down to one or two weeks. So what's going to happen in the next one or two decades with the benefits of new technology? The airlines that make money will have to be really super-efficient."

Unlike Cathay and SIA, some analysts suggested to Orient Aviation that Qantas was fortunate that it plumbed the depths. "It got to the hard place and they had to do something. Fortunately, they had the right person (Joyce) there to do it. They had the balls to do it. He put up with such a horrible lot of nastiness," said Harbison.

"The key thing Qantas did was identify where they were haemorrhaging most dramatically. They were victim to all the sixth freedom carriers on the planet, but the ones that were hurting it most were the Gulf carriers.

"So they took the logical step of establishing a partnership with Emirates. You know you definitely are not going to beat them so what are you going to do? Qantas joined them. It made a very clever move that was well executed."

Herdman agreed transformation cannot be a one-off event. "Ongoing productivity improvements and transformation are constants. They are often cast as crisis-driven. You have two or three-year programs, but to be honest, they are followed by more programs. The markets are always adjusting. The competition is always changing so you must constantly evolve your response," he said.

Following their recent poor results, both SIA and Cathay Pacific have announced major transformation programs. In Cathay's case, there have been staff cuts of 600 and more layoffs are expected, if the views of analysts are correct.

Cathay Pacific chairman, John Slosar, has said there will be structural challenges ahead at the carrier, with "intense and increasing" competition from Chinese airlines. Mainland carriers have expanded their networks to connect Chinese cities directly with the U.S. and Europe, which has eaten into Cathay Pacific's transit business through its Hong Kong hub.

SIA's CEO, Goh Choon Phong, has been introducing strategic changes at the carrier since he took charge in early 2011. He transformed it from a group that essentially consisted of SIA and full-service regional carrier, SilkAir, to a stable of airlines that includes low-cost long-haul Scoot and budget airline, Tiger Airways.

It was a major shift for traditional SIA. In the group's latest results, SIA's profit declined, but the budget subsidiaries reported improved profitability. Goh has set up a transformation office that will decide on necessary changes.

"The transformation is not just about how we can cut costs, but how we can generate more revenue and improve our processes more efficiently so we can be a lot more competitive, going forward," he said. It is aimed at reshaping the business so that it "continues to deliver high-quality products and services, though with a significantly improved cost base and higher levels of efficiency", SIA said

It should be pointed out that plunging profitability is not a region-wide malaise in the industry. Apart from Qantas, described by Joyce as "being in a sweet spot", Air New Zealand, All Nippon Airways and several Mainland carriers have reported good profits.

One new challenge many in the industry raise is the re-emergence of the long-haul, low- cost model, which could threaten Asian airlines on their long-haul routes, particularly to Europe. The LCCs - more than 50 are flying in the Asia-Pacific - have played a big role in forcing prices down in the region. They also have become major competitors to legacy carriers. Some of them now dominate domestic traffic in countries from Thailand to the Philippines, Malaysia and South Korea.

Long haul LLCs, AirAsia X and Cebu Pacific, will almost certainly fly European routes at some stage. Norwegian Air, which serves Bangkok from Oslo, Stockholm and Copenhagen, will launch flights from London to Singapore in October, with B787 Dreamliners. New British long haul LCC, Level, has announced flights to the U.S. and it is difficult to imagine it would not turn its attention to Asia, the world's fastest growing aviation market. While the SIA Group's Scoot launched flights to Athens last month, these are still challenges the parent carrier can't ignore.

AAPA's Herdman believed long-haul, low-cost is still an experiment. "Look at the profitability of these operations. They have had mixed results. It's been less successful," he said.

"Medium-haul, five to eight hours, seems to be the sweet spot. Even there, it's not that profitable. Also, there is no example of a year-round point-to-point route. So all the long-haul, low-cost carriers essentially are network carriers. They need feed. You can't have a long-haul, low-cost carrier without it being part of a network. In that sector the evidence is that margins are low and may be unsustainable."

If there is one issue where there is universal agreement among airlines it is that effective employment of IT and Big Data technologies are critical to the airline industry's ability to thrive.

Speaking in Cancun, SIA's Goh disputed the often voiced view that airlines were lagging behind the times when it came to new technology. "If you look into airlines, and certainly most of the Asian airlines, you will see significant investment in technology. My own airline is one example of that. As an industry body we should certainly see how we can harness the awareness and also the ability of airlines to use technology in general."

Malaysia Airlines (MAB) group managing director, Peter Bellew, said: "We were about 20 years behind the technology until last year when Christoph Mueller (Bellew's predecessor at MAB) did something about it by moving everything onto the cloud.

"There is an obsession in the airline industry with having massive data centres because a lot of airline IT directors think it is really cool to have this domain of a hosting server centre. All of the dot.coms that are stealing our business, none of them have server centres. They all use Amazon web service or something else, which actually generally costs a fraction of having these very old fashioned data centres which you can't possibly hope to manage," he said.

As to the question of whether the legacy model is broken, the general view is that in many instances it definitely needs fixing. "What is the legacy airline model? They're all very different. Cathay is a sixth freedom carrier and Qantas is an anti-sixth freedom carrier. All of the establishment sixth freedom carriers are under attack from the Gulf carriers," said CAPA's Harbison.

"And China is going to attack everybody, including the sixth freedom carriers. Once they get their act in gear they'll be doing not only third and fourth but sixth. My answer to the question is no, the legacy airline is not gone, but the legacy airline has to adapt." ■

"Medium-haul, five to eight hours, seems to be the sweet spot. Even there, it's not that profitable. Also, there is no example of a year-round point-to-point route. So all the long-haul, low-cost carriers essentially are network carriers. They need feed. You can't have a long-haul, low-cost carrier without it being part of a network. In that sector the evidence is that margins are low and may be unsustainable"

Andrew Herdman
Association of Asia Pacific Airlines director general

Narita courts neighbours to advance expansion plans

Tokyo Narita opened in May 1978 after a bitter and sometimes violent 16-year dispute with local landowners, farmers and residents opposed to the development. Almost forty years later, the Chiba prefecture airport is planning the biggest expansion in its history as visitors to Japan surge.

Tom Ballantyne reports

As Japan's government sets an aggressive inbound tourism target of 40 million visitors by 2020 – double this year's numbers – management at Narita International Airport Corporation (NAA) are increasingly confident they will win approval for a multi-billion dollar expansion, including a third runway and expanded terminal space, at the greater Tokyo area facility.

The US$2 billion plus plan includes an extension of the airport's second short runway, a reduction in the 10pm to 6am daily curfew and an increase in aircraft movements from 300,000 a year to 500,000, NAA vice president, corporate planning division, Hideharu Miyamoto, told Orient Aviation at the International Air Transport Association annual general meeting in Mexico.

He said he was confident most of the changes would win approval "because times have changed". When the airport was being built, he said, "many people, when they were very young, strongly opposed the development. Now they are older or have moved away, people are thinking about the economic advantages the airport brings, not only to them, but for future generations".

And both the airport operator and local politicians have learnt another lesson, Miyamoto said. In the seventies, when the airport was under construction, there was little consultation with local residents and their land was acquired forcibly. "The government understands people had opposed the new airport because there was no deep discussion. Now, there is," he said.

"We need discussion to fully explain what is the thinking and the strategy behind expansion. It's a matter of communication. That's the change."

NAA intends to spend $1.1 billion to extend the existing 2,500 metre second runway to 3,000 metres. It also will build a 3,500 metre runway west of the airport that will lengthen the existing main runway to 4,000 metres.

When the second runway was designed in the seventies, it had to be short because the engineering technology of the time did not extend to building a bridge that could traverse the Narita to Tokyo highway. No such constraints apply today.

Leading up to Narita's opening almost 40 years ago, eight farmers opposed NAA's development. Now there are only two, said Miyamoto. Most of the land for the third runway is owned by the NAA. "That's the challenge. In the past, local government used force to acquire the land. We won't take that course, but will negotiate in a friendly way. Of course, we are receiving co-operation from local government," he said.

NAA wants a 1am to 5am curfew. "Other airports in the region, including Haneda (Tokyo's downtown airport) to the city), operate for 24 hours. If we are to compete with them we need more flexibility, especially if we are to increase inbound tourism," he said.

"Airlines need more flexible scheduling at Narita in the early morning and also for departures late at night. The second market [for us] is low-cost carriers. They require more efficient operations from early morning to late at night which the present curfew prevents." Miyamoto said any reduction in the curfew would "be a gain".

The runway extansions are unlikely to be completed in time for the 2020 Tokyo Olympic Games because negotiations with effected landholders will be protracted. However, the general consensus among analysts is that the tumultuous protests of the past will not be repeated.

Expansion at Haneda is constrained so NAA's development is critical to meeting the government's new target of 40 million visitors by 2020 and 60 million tourists by 2030. Narita handles 39 million passengers and 2.1 million tons of cargo a year, with 97 airlines serving 109 international and 17 domestic destinations from the airport. ■

Jetstar code share model fuels group's growth

The Jetstar Group's model of code sharing with several full service global carriers has become essential to the success of its subsidiaries as well as Qantas regional international operations.

Tom Ballantyne reports

Chief executive of Australia's Jetstar Group, Jayne Hrdlicka, is more than happy with the inroads the budget airline company is making to Asia. Jetstar Japan, part-owned by Japan Airlines, is increasing its share of passenger traffic. Singapore headquartered joint venture, Jetstar Asia, is performing well and Vietnam's Jetstar Pacific, majority owned by Vietnam Airlines, expects bumper years ahead.

Speaking on the sidelines of the International Air Transport Association's annual general meeting in Cancun last month, Hrdlicka said the LCC group's unique code sharing strategy with full-service carriers such as Emirates Airline, Japan Airlines and American Airlines, as well as Qantas, was working well.

"Code-sharing with full-service carriers is a very important part of the model. We not only carry a lot of Singaporeans, but a lot of Europeans, Australians and Americans flying into Singapore to reach Southeast Asia," she said. "We have 24 code share and interline partnerships. We see that as an important part of the portfolio."

The result: an unparalleled network that sees Qantas and carriers from around the world feeding passengers onto Jetstar flights in Asia, as well as traffic feed from Jetstar International's B787s flying to Japan, Thailand and Vietnam.

Japan, where Jetstar has hubs at Tokyo Narita, Osaka and Nagoya, is in a really good place, Hrdlicka said. "We launched to Shanghai in January, which is an important milestone for us in opening the China market from Japan.

"Our international business flying out of Japan to the region, primarily to North Asia (with a 21 A320 fleet), is proving very popular. The domestic market in Japan is going from strength to strength.

"The low fare segment is still quite small, at just over seven per cent, but it is forecast to grow to about 30% of the Japanese market. We are the market leader with about 50% of market share. We believe we have a strong brand in a growing part of the market."

Of Singapore, where Jetstar Asia operates 18 A320s, Hrdlicka was more circumspect. "Our business in Singapore is doing OK. It is very competitive. We have seen a bit of a surge in capacity coming out of Malaysia, Indonesia and Vietnam," she said, and added the carrier was cautious about fleet expansion given the competitive environment. "We will continue to be very tough in deciding how we play in Singapore and SoutheastAsia," she said.

If there is one Jetstar subsidiary of concern, it may be Jetstar Pacific, but Hrdlicka said she did not see the Vietnam-based LCC as a problem. "Vietnam is going to take some time to settle down. We have a competitive dynamic with one airline (Vietjet), which is growing at levels above underlying market growth.

"But it is a hugely attractive market for the region. There is high growth in Vietnam and we have a good position in the

> Our shareholders will be happy to see it develop in a positive direction and there's a lot of opportunity for continued growth. We expect, over time, that the profit margins we enjoy in Australia we will see in other parts of the portfolio
>
> **Jayne Hrdlicka**
> Jetstar Group CEO

market. We operate a dual brand strategy with Vietnam Airlines."

Hrdlicka said: "We don't need to keep pace with some of the other players coming into the game from Malaysia and Indonesia. We will be disciplined and wait for the market to stabilize before we feel a need to grow."

When that time comes, there will be plenty of capacity in the pipeline. Qantas ordered 110 A320s in 2011: 32 A320s and 78 A320neos, with scope to convert some of the aircraft to A321s.

China would continue to be a key focus for the LCC group. As well as its Japan-Shanghai launch last January, Jetstar has been flying B787s from Australia's Gold Coast to Wuhan, Central China, in partnership with Chinese property and entertainment conglomerate, the Dalian Wanda Group.

Head of Qantas International Gareth Evans, also speaking in Cancun, said China would overtake New Zealand as the biggest inbound market to Australia this year. With Jetstar, Qantas' own flights into China and its strong relationships with China Eastern Airlines in Shanghai, China Southern Airlines in Guangzhou and Cathay Pacific Airways in Hong Kong, the airline is "the best placed carrier in terms of Chinese relationships of any airline in the world", he said. "We have the building blocks to take advantage of opportunity in China."

Qantas Group chief executive, Alan Joyce, said air freight into China was a growth sector for the airline group. "The fresh produce going to China from Australia is quite a significant amount. Recently, we did a deal to carry 50,000 litres of milk a week to China," he said.

"Also, every Chinese visitor to Australia takes between two and three domestic trips in the country. Chinese travel to Tasmania, Melbourne, Sydney and Queensland's Gold Coast. They are different from many other travelers. There is potential for that market to grow in the next decade at 10% annually. It's fantastic for us, for both brands and for the freight business." ■

A bad situation worsens in the Gulf

Middle East airlines have proliferated as aircraft are built that fly passengers further and faster, via the Gulf's global gateways, to destinations worldwide. But their businesses are suffering as several governments fight to contain terrorism by restricting air travel from North Africa and the Middle East.

Tom Ballantyne reports

When the heads of the world's airlines gathered in Cancun, Mexico for the International Air Transport Association's 73rd annual general meeting last month it was evident something was amiss. For the first time in years, the president of Dubai's Emirates Airline, Sir Tim Clark, was nowhere to be seen. Nor was the Etihad Aviation Group's acting boss, Ray Gammell, although Etihad Airways CEO, Peter Baumgarten, was there.

Qatar Airways Group chief executive, Akbar al Baker, was very visible at the first of the AGM's formal dinners and told colleagues he would see them the following day. But his arrangements suddenly changed. Overnight, he flew back to Doha after the news broke that the United Arab Emirates, Saudi Arabia, Bahrain and Egypt had expelled Qatar's ambassadors from their respective countries and also severed diplomatic relations with their Middle East neighbor.

Collectively, the four states said the decision had been made because the Qatari government was actively aiding terrorism, an accusation that remains in place at press time. The four nations also closed their airspaces to Qatar Airways and banned all flights to and from Doha from their territories. As a result, Qatar has ceased services to 18 cities, but has scheduled routes to other destinations to compensate for flight bans.

At press time, the four nations issued 13 new demands, including a cutback in diplomatic ties with Iran.

The politically charged turn of events in the Gulf became the hottest topic of conversation in Mexico. It was generally assumed that the absence of several senior Emirates and Etihad executives at the AGM indicated they knew about the bans and stayed home. Al Baker, it appeared, was taken totally by surprise.

But Qatar is not the only airline trouble spot in the Middle East. After years of break neck expansion, the Gulf carriers have hit a profit wall. The slowdown is reflected in the forecasts of the International Air Transport Association. It has predicted Middle East airlines will report a profit of US$0.4 billion this fiscal year compared with a $1.1 billion profit in the previous 12 months.

At Etihad Airways, the daring strategy of former Etihad Aviation Group CEO, James Hogan, is being rolled back as the group's investments in its partner airlines have been mostly lost. Alitalia, which is 49%-owned by the Etihad Aviation Group, is in bankruptcy protestion. The Abu Dhabi airline group has refused to top up its investment in the Italian airline

and its holding in airberlin is believed to be for sale. The launch of a European leisure airline, in partnership with the Tui travel group, has been abandoned. In Australia, Virgin Australia has fallen short in delivering a return on Etihad's investment in the carrier.

In May, Dubai's Emirates Airline, which is the Middle East's largest carrier airline, reported an 80% net profit collapse, to $340 million for the fiscal year. The results, said the carrier, were due to European political upheaval, terrorist attacks and tougher travel restrictions to the U.S. The airline's parent, the Emirates Group, said overall profits for the group had declined by 70%, to $670 million.

President of Dubai Civil Aviation and chairman and chief executive of Emirates Airline and Group, Sheikh Ahmad Bin Saeed Al Maktoum, said the 2016 year was one of the company's "most challenging years to date".

"We remain optimistic for the future of our industry, although we expect the year ahead to remain challenging, with hyper competition squeezing airline yields and volatility impacting on travel flows and demand in many markets."

The political ostracizing of Qatar, and consequently its flag carrier, has shocked the industry. The decision was announced only days after the carrier reported a 2016 financial year profit of $445 million, compared with a $103 million profit a year earlier. It was, said Al Baker, the airline's best year to date.

But unless the bans on Qatar are reversed the carrier's problems are multifarious. At present, its aircraft have to fly circuitous routes to avoid passing through UAE, Saudi Arabian, Bahraini and Egyptian airspace en route to their destinations.

Apart from additional fuel costs and longer flying times, the travel industry is reporting that passengers are switching from Qatar to Emirates and Etihad and that more cautious travelers are avoiding the Gulf altogether.

Since Dubai, Abu Dhabi and Doha rely massively on hub traffic transiting to destinations across the globe, the lap top bans alone have forced Emirates and Etihad to reduce their flight frequencies to the U.S.

Last month, Al Baker said:

"This blockade is unprecedented and is in direct contradiction to the convention that guarantees rights to civil overflight. We call upon the International Civil Aviation Organization (ICAO) to declare this an illegal act. We are not a political body, we are an airline. This blockade has stripped us of the rights which are guaranteed to us."

An official delegation from the UAE, Saudi Arabia, Bahrain and Egypt has visited ICAO headquarters in Montreal and met with ICAO Council President, Dr Bernard Aliu, and Secretary General, Dr Fang Liu.

The delegation members affirmed the measures taken against Qatar were within their sovereign and legal rights under international law and the United Nations Security Council Resolutions No 2309 and 1373 on countering all forms of terrorism. They also comply with the Convention on International Civil Aviation "Chicago Convention 1994", including all its complementary arrangements on regulating international air travel, they said.

At the Mexico AGM, IATA chief economist, Brian Pearce, said evidence was emerging that the U.S. and U.K bans on laptops onboard was impacting on Gulf air passenger traffic. "No matter what remedies are put in place, the bans are another hassle factor," added chief economist at

> 'A statement issued after delegates from the four nations that imposed the bans on Qatar met with officials of the International Civil Aviation Organsiation, said the delegates responded to all the queries fielded by the international organization and they contested all Qatari allegations. "They have presented circumstantial evidence, including maps and precise data proving that Qatar ports are open and their aircraft have full access to international routes and airspaces of other countries, and that the four countries have not imposed a blockade on Qatar. The delegates have reiterated their four countries' sovereign rights to protect their airspaces against any threats or dangers'

Ascend, a UK's Ascend aviation consultancy, Peter Morris.

"What is worrying is that no timeline for remedies or reduction of bans exists and the rules for the U.S., the UK and Europe are clearly anomalous. The regional airlines' U.S. markets are particularly hit by the bans," he said.

But Emirates problems have not ended there. Last month, the Civil Aviation Administration of China (CAAC) fined the Dubai carrier US$4,270 for two incidents that "violated safety norms". The carrier was banned from expanding its network onto the Mainland for six months. The CAAC said that on April 17, Emirates flew at a wrong altitude above Urumqi in Xinjiang after Emirates' crew misunderstood instructions.

On May 18, the carrier's radio communications were cut off over the same region. In a statement, an Emirates spokesperson said safety was a top priority for the airline and that the carrier will complete all actions required by CAAC.

The profit plunge at Emirates and the political and operational difficulties facing other Gulf carriers are signs of changing times. Speaking in Berlin in March, Emirates Airline president, Sir Tim Clark, said the world's biggest long-haul airlines were facing a "gathering storm" as a new generation of low-cost carriers targeted the intercontinental routes on which the legacy carriers had built their businesses.

He said there were threats across all markets from Norwegian Air Shuttle to Singapore Airlines-owned Scoot. He also hinted Emirates may need to establish a short-haul fleet. "The dynamic is changing in the Middle East with regard to access to new markets. Our business model was set in the late 1980s, when access was denied to us by many places in the region," he said.

While Norwegian Air has focused its long-haul development chiefly on trans-Atlantic flights, it also has a hub in Bangkok and will soon launch London-Singapore. Scoot plans to begin flights to Europe this summer, starting with Athens, a city that is also part of the Emirates network.

Clark, who has run Emirates since 2003, said he sees no immediate switch away from an all-wide-body fleet but "others coming behind may take a different view". "Political and socioeconomic upheavals have created an environment in which running a global airline has become increasingly challenging.

"A decade ago, a major carrier might have faced disruptive events a couple of times a year, but the pace of change is accelerating and quite destabilizing," he said.

At least one senior industry figure does not foresee any dramatic downturn for Gulf airlines. Chief operating officer customers for Airbus Commercial Aircraft, John Leahy, said it must be remembered that the Middle East is primarily a hub.

"You are not necessarily looking at the economies of Dubai or other Gulf nations. The fact is they are connecting most of the traffic going through, so you are looking at the economies of India, Latin America, the U.S. and Asia. I think their model does work. Someone suggested there may be too many hubs competing with each other, but in terms of traffic that's up to them to sort out," Leahy said.

He also does not see the global economy softening. "There's a little bit of weakness in some regions, but the U.S. seems to be strong and Europe seems to be recovering. People have always predicted there could be a recession in China, but they have been predicting its collapse for years and it just keeps growing. So I don't think you see any recession on the horizon," he said.

Nevertheless, most airlines are reporting reduced profits compared with last year. Costs are rising and yields are weakening. Emirates said that in the past year, passenger yields dropped to 6.7 cents because of the weakening of all major currencies against the "relentless rise of the U.S. dollar". In the case of Emirates, the strengthening US$ had a $571 million impact on revenue.

The Gulf carriers in particular are vulnerable to a fall-off in business travel demand from a sluggish global oil and gas market.

Hogan departed Etihad because the UAE sheikhs that own the airline were not happy with the losses from Hogan's nascent alliance network.

At Emirates, the situation is different. Rumours have been circulating in recent months that Clark was planning a 2017 retirement but it is now being reported, also without any Emirates confirmation, that he will remain in his current position into 2018.

Earlier this year, when asked about Emirates' succession plans, Sheikh Ahmad said: "If we look at the leadership that we have within Emirates, we have an excellent caliber of people working for the company for a long time. At any time, if we want to do any changes, we have many people that can fill the role."

One thing is certain that whoever is running a Gulf airline in the future, he or she will be running it very differently from now. ■

"You are not necessarily looking at the economies of Dubai or other Gulf nations. The fact is they are connecting most of the traffic going through, so you are looking at the economies of India, Latin America, the U.S. and Asia. I think their model does work. Someone suggested there may be too many hubs competing with each other, but in terms of traffic that's up to them to sort out"

John Leahy
Chief operating officer customers Airbus Commercial Aircraft

COVER STORY

STAR PERFORMER

Long before his appointment as president and CEO of All Nippon Airways this year Yuji Hirako was seen as a future leader of the carrier. A 36-year veteran of the airline, his strategic touch is evident in many areas of ANA's business today.

Geoffrey Tudor reports from Tokyo

Looking younger than his 59 years, Yuji Hirako, a fluent English speaker, has been appointed to the top job at All Nippon Airways (ANA) at a time when the carrier is seeking to consolidate its position as Japan's leading airline.

As Japan Airlines faltered in recent years, ANA shook off its perennial label as Japan's second international carrier and surged past its long-term rival.

In 2015, five years after JAL had sought government support to keep flying, ANA became the country's biggest airline in international passengers carried, no mean feat for a company that did not start scheduled international flights until March 1986, from Tokyo to Guam, 32 years after JAL's first foreign flight, from Tokyo to San Francisco, in March 1954.

Clear evidence of ANA's ambitions is the airline's international expansion from 29 destinations five years ago to 43 cities in May this year. International flights have increased from 966 a week to 1334 weekly, provided by all ANA Group flights except its low-cost carriers, Peach Aviation and Vanilla Air.

Hirako personally oversaw the introduction of routes from Tokyo to Seattle, San Jose and Vancouver, when he was ANA's senior vice president, The Americas, based in New York, from 2012 to 2015. The airline will increase Tokyo-Los Angeles to three daily in October.

An economics graduate from prestigious Tokyo University, Hirako has taken over at the airline as the ANA group began implementing its latest mid-term plan, to 2020. He has been recognized as a major contributor to the carrier's future strategy and carries big expectations for the group. In its latest fiscal year, the group announced a record operating income of 145.5 billion yen (US$1.3 billion) for its latest 12 months to March 31.

Increased cost efficiency, improved passenger service and lower fuel costs were the major contributors to the impressive results. An 11.6% increase in international passenger traffic boosted revenue as the carrier continued its international expansion to new destinations -Wuhan, Phnom Penh and Mexico City.

"We also

have developed our dual hub model to improve domestic to international links at Tokyo's Haneda Airport and international transfers at Narita Airport," Hirako told Orient Aviation in Tokyo last month.

For the fifth consecutive year, ANA has been awarded a 5-Star rating from Skytrax, the highest category of airline rating issued by the airline services company.

The ANA Group fiscal year operating income target is 200 billion yen, which Hirako aims to achieve by increasing profits from the core airline business on international routes and maintaining domestic market share. He also intends to reorganize the international freighter network to improve its revenue.

ANA will benefit from the performance of its LCCs, which are forecast to produce a near ten-fold increase over their 2015 results and achieve three times greater projections for growth than predicted in January last year.

To make this happen, ANA has consolidated its former LCC subsidiary, Peach Aviation, and wholly-owned budget carrier, Vanilla Air, with full service ANA. Kansai-based Peach, Japan's first LCC, was launched in March 2012 and was the country's first LCC to record a profit.

Despite the change in corporate status, Peach will retain its management independence. "Peach Aviation's excellent achievement is the result of its own unique management style. They capture customers we don't have. For example, 70% of their international customers are foreigners. Where ANA can best help Peach is by supporting its aircraft acquisition and fuel contracts," Hirako said.

"My biggest mission is to settle these shortcomings with our airport operations and our flight operations. I have to make ANA more resilient"

Yuji Hirako
All Nippon Airways president and CEO

ASEAN ambitions

ANA is keeping a careful watch on the ASEAN (Association of Southeast Asian Nations) and is increasing its presence in the region. The carrier resumed flights from Narita to Myanmar's Yangon airport in 2013 and is the only airline to offer direct services between Japan and the ASEAN member.

Last September, ANA added Narita to Phnom Penh, Cambodia's capital, again providing the only direct air service between the two countries.

The airline has invested in a joint venture in Myanmar aimed at commencing international flights in 2018. The partners are ANA's Asian Blue Aviation Co. Ltd (49%) and Myanmar's Shwe Than Lwin Co Ltd's Golden Sky World (51%). Together, the investors have put an initial $150,000 into the start-up carrier. In August 2014, ANA dropped plans to acquire 49% of Myanmar-based Asians Wings, because it believed the market was saturated.

In 2016, ANA purchased 8.8% of Vietnam Airlines for US$109 million. Between them, the two carriers operate 10 international and 25 domestic code share flights.

The Japanese LCC market has room to grow and in Peach and Vanilla ANA has independent brands that provide services distinct from their full service parent. They allow ANA to tap into previously unrealized domestic demand and provide low-cost options for inbound international travelers looking to explore Japan.

Last year, Hirako said, three per cent of ANA's domestic travelers were non-Japanese. He expected that number to double.

Hirako has a reputation as an "ideas man". He is admired for his very personable leadership style, which takes him to the front lines of the airline's operations rather than relying on reports.

One of his recent suggestions was that Japan inbound tourism would benefit from code sharing between airlines and railway companies, notably the Japan Rail companies that operate the Shinkansen or "Bullet trains".

"If we are to grow in the inbound market we need to change our ways of thinking. Dreams can come true," he said.

Such a radical concept needs the full support of the railways, he agreed. "It comes from Germany where there are successful air/rail code shares in operation. Why not Japan?" he asked.

Leading ANA through its up-dated corporate plan is Hirako's primary task and he is dedicated to fixing two fundamental operational issues that damaged the carrier's domestic reputation in 2016.

The first was an IT outage in March of that year that resulted in the cancellation of 120 domestic flights and the inconveniencing of 18,000 passengers. Operations at 49 domestic airports were affected.

The second issue was problems with the Rolls Royce's Trent engines that power the airline's B787 fleet. ANA is the launch customer of the aircraft type and is the biggest operator of the airplane. It has 58 B787s in service and 25 more on order. It is essential to ANA's operations.

"My biggest mission is to settle these shortcomings at our airport operations and our flight operations. I have to make ANA more resilient," he said.

Hirako attends a weekly review meeting at the ANA Haneda Operations center, where reports from all airports in the network are analyzed. "After this meeting, which is at a very early hour, I make a point of visiting sites in our terminal to observe operations as they happen," he said.

Hirako has extensive airport operations experience. He was ANA's director of passenger services, Tokyo Airport Office, from July 2004 to April 2006. "I want our staff to find solutions through analysis and to prevent their reoccurrence," he said.

Other challenges ANA faced, said Hirako, were North Korea's threat to peace in Northeast Asia and the negative impact of Trump's electronics ban on trans-Pacific traffic. Also of concern to the airline is the U.S. president's threatened ending of the North American Free Trade Agreement (NAFTA). If reneged, it would force Japanese companies to retreat from Mexico, strangling demand for ANA's Tokyo to Mexico City route, which opened on February 15 this year.

So far, no Japanese companies are known to have pulled out of Mexico, but there have been reports one company that had planned to set up in Mexico decided against the investment.

"We'll need to keep an eye on what impact the new Trump administration will have," said Hirako.

ANA also is monitoring the situation at Tokyo's downtown Haneda Airport where 39,000 additional annual daytime international slots are planned to be introduced before the 2020 Tokyo Olympic and Paralympic Games. The allocation of those valuable slots is of great concern.

After a recent surge in inbound tourism, the Japanese

Always on ANA's mind

"We're obviously very interested in JAL's next medium term plan. All we want is to see competition on an equal footing with JAL – not in any distorted circumstances. JAL has huge cash reserves, which gives them added financial strength, so we must keep our eyes open. Having said that, we have other competitors so we must do what we have to do to maintain competitiveness'

ANA CEO, Yuji Hirako

> One of Hirako's recent suggestions was that Japan inbound tourism would benefit from code sharing between airlines and railway companies, notably the Japan Rail companies that operate the Shinkansen or "Bullet trains". If we are to grow in the inbound market we need to change our ways of thinking. Dreams can come true

Yuji Hirako
All Nippon Airways president and CEO

Yuji Hirako

President and CEO, All Nippon Airways (ANA)

January 25, 1958	Born in Beppu, Oita Prefecture, Kyushu, Japan (a major hot spring resort city)
March 1981	Graduated, Bachelor, Economics, Tokyo University
April 1981	All Nippon Airways
July 2004	Director, Passenger Services, Tokyo Airport Office
April 2006	Director, Revenue Management
April 2010	Vice President, Corporate Planning
June 2011	Senior Vice President, Marketing and Sales
April 2012	Senior Vice President, The Americas & General Manager, New York
April 2015	Senior Vice President, Finance, Accounting and Investor Relations ANA Holdings Inc. & Board member, Executive Vice President, Accounting, ANA
June 2015	Senior Vice President, Finance, Accounting and Investor Relations, ANA Holdings Inc. & Board member, Executive Vice President, Accounting, ANA
April 2016	Board member Senior Vice President, Finance, Accounting, Investor Relations & Facilities Planning, ANA Holdings Inc. & Board member, Executive Vice President, Accounting, ANA
April 2017	President and CEO, All Nippon Airways & Board member, ANA Holdings

A classical music lover, on his rare free evenings, Hirako likes to enjoy concerts or an opera with his wife.

Among his favorite composers are Wagner, Brahms and Bruckner. "One of the cultural highlights of our stay in New York was attending the "Ring Cycle" at the Metropolitan Opera House," he said.

government has doubled its 2020 forecast of arrivals to 40 million. To accommodate these visitors, the government plans major renovations at Haneda's Terminal 2 (T2), until now a facility exclusively used for ANA domestic flights and its associate airlines.

Some of the terminal's facilities will be upgraded to handle international flight requirements of customs, immigration and quarantine services, which will effect some domestic operations. In an area now used for aircraft parking, a detached boarding 'island' for domestic flights will be built on the north side of T2.

Some domestic network improvements might be affected by the late delivery – the fifth delay to date - of the Mitsubishi Region Jet (MRJ). ANA Holdings is the launch customer of the jet, with an order of 25 of the home grown aircraft.

"As the inaugural customer of the much-delayed B787 we have a lot of experience in dealing with late deliveries," said Hirako philosophically. "We will deal with the capacity shortages by leasing four B737-800s. Mitsubishi have assured us of delivery in 2020 and we are looking forward to operating the MRJ with its enhanced economic performance. In the meantime, we can manage."

In March 2019, ANA intends to introduce the A380 between Tokyo and Honolulu. ANA route planners are studying the best rotations for the aircraft to be flown between the cities. They have yet to decide if the three planes will operate from Haneda or Narita.

"The route will provide a solution to a problem of redeeming frequent flyer miles for our passengers. Many customers travelling on business want to use their miles for Hawaii. These big aircraft will provide much needed capacity for customers who are frustrated by the difficulty of getting seats. We can offer a "virtuous circle" because securing seats with mileage benefits will become easier," he said.

Another "big headache" Hirako faces is a forecast shortage of around 2030 cockpit crew as waves of pilot retirements fall due. To prepare for this eventuality, ANA has invested in flight training academies in Japan, Thailand and the USA.

"In Japan, we can count on some pilots joining us from the Air Self Defense Forces and the Civil Aviation College. We also have our own in-house training program and can recruit from abroad," he said.

Construction of a facility for cockpit crew and cabin attendants near Haneda Airport also will provide airport passenger services, maintenance and cargo personnel training.

And then there is Japan Airlines, once described by a former JAL chairman as "ANA's elder brother". Now reformed, streamlined and smaller, JAL's recovery from bankruptcy was assisted by government-guaranteed financing and corporate tax waivers, although it was not allowed to launch routes or invest in new businesses during its bankruptcy protection period.

ANA has lobbied strongly for a "a level playing field" to offset the "huge financial support" it claimed its rival has enjoyed. These restrictions on JAL ended on March 31 this year but as far as ANA is concerned that playing field has yet to be leveled. ■

Airlines urged to share more critical information

The world's airline leaders debated the perennial issues of rising charges, changing global economic conditions and infrastructure pressures at the International Air Transport Association's (IATA) 73rd Annual General Meeting in Mexico last month, but recent events took security to the top of the agenda.

Tom Ballantyne reports

Security and issues surrounding its implementation at airlines and airports was the most pressing subject of discussion at the International Air Transport Association's (IATA) 2017 annual general meeting last month, held this year in Mexico.

Terrorist attacks across Europe and elsewhere, some of them at airports, are making airlines nervous. Impromptu bans on personal electronic devices (PEDs) by the U.S. and to a lesser degree the U.K., have added to the angst carriers are enduring as they cope with governments' disjointed and ever more complicated security rules and regulations.

International Air Transport Association (IATA) director general and CEO, Alexandre de Juniac, who hosted his first AGM since he succeeded Tony Tyler last year, told delegates: "Aviation is a target for terrorists intent on destroying the freedom that is at the heart of our business.

"Information sharing among governments and with the industry is critical to staying a step ahead of emerging threats. We have the same goals - to keep passengers and crew safe. So it only makes sense that we work together as closely as possible."

To enforce IATA's message, delegates voted in favour of a resolution that called on industry stakeholders to keep flying secure by taking appropriate risk mitigation measures.

"The timing of the resolution is significant. Public and industry confidence has been rattled by inconsistencies in nations' responses to the potential for explosives to be concealed in large portable electronic devices (PEDs)," said de Juniac.

"It highlights the reason we need better information sharing and better coordination to introduce risk mitigation measures that maximize the protection of passengers and crew while minimizing unnecessary disruption."

Airlines have to trust the intelligence underpinning the recent UK and U.S. decisions to ban large PEDs on flights from some African and Middle Eastern

airports, he said.

"But we need to get security right. There is a clear duty for governments to make sure that the measures are logical, effective and efficient. That is not the case with the current PED ban. And it must change," said the IATA boss.

"In the short-term, these measures include more intense screening at the gate and skills training. In the medium-term, faster and more advanced explosive detection technology is the solution to evolving bomb threats. Painfully slow certification processes must be accelerated so we can actually use it," said de Juniac.

IATA also strongly endorsed the efforts of the International Civil Aviation Organization (ICAO) to establish a Global Aviation Security Plan (GASeP) to lay the foundations for more effective collaboration on security.

Also high on the AGM's agenda were carriers' fears that some countries appear to be moving towards regulation that protects their own airlines. No one was naming names, but clearly the efforts being made by the U.S. airline majors to persuade Washington to wind back on open skies and slow the growth of rivals from the Gulf were concerns.

De Juniac repeated his catch phrase that "Air transport is the business of freedom". "Aviation is globalization at its very best. But to deliver its many benefits we need borders that are open to people and trade," he said.

"Today, we face headwinds from those who would deny the benefits of globalization and point us in the direction of protectionism. This is a threat to our industry."

There also was discussion about recent incidents, such as the eviction of a paying passenger from a United Airlines flight that spread around the world on social media, and the IT meltdown suffered by British Airways that forced the cancellation of hundreds of flights.

United Airlines chief executive, Oscar Munoz, who was a panelist in Mexico, admitted he spoke too early about his airline's incident and that he should have delivered a more precise briefing about what had happened.

But the group managing director of Malaysia Airlines, Peter Bellew, said speed was essential. "You have 15 minutes to say you're sorry." He explained that as he packed for Mexico an incident involving Malaysia Airlines erupted when a passenger on a flight from Melbourne to Kuala Lumpur claimed shortly after take-off to have a bomb.

"As soon as we got the call we worked out the press statement that said we were sorry. Fifteen minutes later the aircraft landed and we had the first statement out. I actually think you have 15 minutes to say you're sorry because people were live streaming on Facebook as it was happening on the aircraft at 4,000 ft," he said.

"There is no excuse now. There is a secure instant messaging system. You can get a message around in seconds. Saying sorry is really important. You can't sit on the sidelines anymore. The speed of social media will overtake you."

Singapore Airlines CEO, Goh Choon Phong, who was elected as the new chairman of the IATA Board of Governors at the AGM, said: "From time to time, there will be a major event in the industry and it will be useful to look at it to see if there are lessons that can be shared by airlines.

"I am speaking from the perspective of the industry.

Infrastructure shortfalls persist

"Infrastructure in many parts of the world can barely cope with demand today. And development plans are not ambitious enough to accommodate the 7.2 billion passengers we expect in 20 years," the International Air Transport Association director general and CEO, Alexande de Juniac, said at IATA's AGM in June.

"Bottlenecks and deficiencies in airport and air navigation services exist in all corners of the earth." IATA wants all governments to fully implement the association's Worldwide Slot Guidelines to fairly and efficiently manage scarce capacity although the guidelines were not a substitute for building capacity where demand exists.

"Governments have a responsibility to provide sufficient capacity, with service quality aligned to user expectations at an affordable cost. It is a commonsense mantra that we must insist on in our dialogue with governments," said de Juniac.

Privatizing airports fails airlines and passengers

At the AGM, IATA urged governments to be cautious when privatizing aviation infrastructure assets. "Privatization has failed to deliver promised benefits in many countries - India, Brazil, France, and Australia to name just a few," de Juniac said.

"The concessionaire makes money. The government gets its cut. The airlines pay the bill, usually a big one. And passengers and the local economy suffer from higher costs. When governments privatize critical infrastructure, economic regulation is essential.

"To date, I cannot name a single long-term success story. Finding a solution is an important piece of work that needs government and industry collaboration. It's the only way to balance the investor's need for profit with the community's need for cost efficient connectivity," he said.

Where it is appropriate and possible we could have a more detailed discussion with the affected airlines. The important thing is, based on those incidents or events, what can the industry learn from these situations?"

"In most cases, we always say there is never enough communication, whether it is external or internal, so certainly better communication should be one aspect. You don't just look at it in isolation. It is important to try to draw lessons from it and that we use those lessons as an industry to improve in general."

At the AGM, IATA announced it had revised upwards its 2017 industry profitability outlook to a profit of $31.4 billion profit, from a previously forecast $29.8 billion.

"Airlines are defining a new epoch in industry profitability. For a third year in a row we expect returns that are above the cost of capital. But, with earnings of $7.69 per passenger, there is not much buffer. Airlines must remain vigilant against any cost increases, including from taxes, labor and infrastructure," said de Juniac.

IATA's figures reveal that the demand environment has been much stronger than anticipated, with GDP growth in 2017 forecast at 2.9%, the world's strongest economic performance since 2011. Passenger demand is expected to grow by 7.4% for the year, matching 2016, but 2.3 percentage points higher than previously forecast.

The revised figures translate into an additional 275 million passengers over 2016 and take the number of people expected to fly this year to 4.1 billion. If achieved, this would be the largest year-on-year growth in absolute passenger numbers recorded. ■

***** The 74th International Air Transport Association annual general meeting will be hosted by Qantas Airways in Sydney from June 3-5, 2018.***

Asia-Pacific remains dominant future airline market say manufacturers

By Dominic Lalk in Toulouse

The Asia-Pacific will continue to lead the world in total aircraft orders and deliveries in the next two decades as demand for single aisle aircraft remained strong, but the appetite for very large aircraft is diminishing quickly, the major manufacturers have predicted.

In Airbus' latest global market forecast, unveiled on June 9, the Toulouse manufacturer raised its 20-year forecast from 33,070 aircraft, predicted a year ago, to 34,900 jets, worth US$5.3 trillion. But it trimmed its traffic growth outlook from 4.5% a year to 4.4%, which reflected caution about the subduing of the mature markets of North America and Europe.

"The growth is in the Asia-Pacific," Airbus Commercial Aircraft chief operating officer - customers, John Leahy, told Orient Aviation in Toulouse. "Of course, Europe and North America are growing too, but nowhere near as fast. It's the Asia-Pacific that's driving the growth around the world. In 20 years, the number one domestic market by far is going to be domestic China," he said.

Of the 34,900 aircraft predicted in the forecast, 71%, or 24,810 airplanes, will be single aisles. There will be demand for 8,690 twin aisles and 1,410 very large aircraft such as the A380, Airbus said.

Boeing's latest global forecast, also published in June, was more optimistic than Airbus about the future market. There would be a need for 41,030 new airplanes in the next two decades, valued at US$6.1 trillion, it said.

The market's single aisle sector would grow the fastest, Boeing said, fuelled by low-cost carriers and the emerging markets of Asia. The Asia-Pacific would require 29,530 new airplanes, an increase of five per cent over the 2016 Boeing forecast.

"Passenger traffic has been very strong this year. We expect it to grow 4.7% each year for the next two decades," said Boeing Commercial Airplanes vice president marketing, Randy Tinseth. "The market is especially hungry for single aisle airplanes as more people start traveling by air."

Boeing's forecast for the wide body segment is for 8,210 passenger aircraft, with a large wave of potential replacement demand beginning early in the next decade. This is significantly lower than Airbus' calculation, which predicted demand for 10,100 wide bodies to 2036, including 1,410 very large aircraft such as the A380 or B747-8.

In its 2016 forecast, Airbus said the market could absorb 80 more A380s or B747-8s. The manufacturer plans to cut A380 production to one a month in 2018 and will need new orders to maintain that level of production.

Airbus has sold 317 A380s. Boeing's competing B747-8 has confirmed orders for 86 freighters and 48 passenger planes.

Air China, Korean Air and Lufthansa are the three operators of the B747-8. Only two passenger aircraft, for Korean Air, remain in the backlog. Last year Boeing said it would reduce B747-8 production to 0.5 a month. At current demand, it is likely Boeing will discontinue the type's production after 2018.

At the Toulouse briefing, the president of Airbus Commercial Aircraft, Fabrice Bregier said: "We will not launch an A380neo. There is not a business case to do that. This is absolutely clear."

In the same month, Airbus presented a development study for the A380plus, an updated but not re-engined neo version of its very large aircraft. It included improved maximum take-off weight, aerodynamic enhancements, larger winglets and other wing refinements that would allow up to 4% in fuel

burn savings.

An optimised maintenance programme and an updated cabin design, with room for up to 80 additional passengers, will lower the cost per seat by 13% compared with the A380, Airbus said. To date, there is no take up from potential customers for the aircraft.

In the single aisle market, Airbus has orders for 1,500 A321neo. In 2016, the A321 represented more than 40% of single aisle deliveries and more than 60% of single aisle orders.

AirAsia has 100 A321neo on order. Other orders in the region are All Nippon Airways (26), Asiana Airlines (25), Cebu Pacific Air (32), Etihad Airways (26), IndiGo Airlines (20), Korean Air (30), Lion Air Group (65), Philippine Airlines (21), Qantas Airways (45) and VietJet Air (31).

"We made the A321 invincible in the market. Boeing's been flailing around with 737-8s, 737-9s, 737-10s, [which are] all trying to answer an airplane that has more than 80% market share in the middle-of-the-market segment," Leahy said.

"Last year, 65% of our single aisle orders went to the A321 and why not? Compared with the 737-10 MAX, the A321 has ten more seats, 1,000 nautical miles more range and 10% lower fuel burn per seat. They do have a slightly lower price on that airplane, but you get what you pay for," Leahy said.

Boeing disagreed. Its MAX 10 will deliver 5% lower trip costs and 5% lower seat-mile costs than its competitor, it said.

"Boeing hit the sweet spot in the market with the 757, but for some reason they decided to stop building it. Sure, we could fit another two rows in the A321, but if we do, we have to make sure we find a way to keep the range," Leahy said.

"I don't want to do what Boeing has done with the 757-300, trading seat capacity for range. It did not work. They did the same to the B767-400 so they could not sell that either. And by the way, they're doing the same with the 737-10. We don't want to fall into that trap."

Leahy was wrong this time. When Boeing officially launched the B737 MAX 10 in Le Bourget, it sold contracts for 361 MAX 10s during the show, including 50 to Indonesia-based Lion Air Group. *See Boeing beats rival at Paris Air Show page 32.*

New competition in the wide body market is on the horizon. Leahy said the C929, the wide body under development by China's COMAC and Russia's United Aircraft Corp., is a serious contender. "They will be one of the big ones. In 20 years. Not too soon."

Airbus' supplier issues have eased, the briefing revealed. "Remember last year, the A350 had a very chaotic beginning. At mid-year we had only delivered 12 aircraft because we were stuck with cabin dilemmas. Most of you didn't believe we would achieve our target of 50 A350 deliveries. And you were right. We only delivered 49 aircraft and two test aircraft," Bregier said.

"This year's A350 production was off to a much better start with cabin equipment , which was not bad but not good enough. He again warned suppliers they risk a group-wide boycott if they failed to produce high quality components. "A supplier who is delinquent in Airbus Helicopters for example has no reason to think they can work with Airbus Commercial," he said.

The Airbus commercial chief confirmed the ramp-up for the A350 was on track for 10 XWBs a month by year-end 2018. The reliability rate of the A350 was close to 99%, which was ahead of the manufacturer's internal targets. Airbus delivered five A350s in May.

Bregier insisted the wide body market was still strong, despite a wave of deferrals in recent months. He also expressed confidence that A350-1000 launch customer, Qatar Airways, would take delivery of the first stretched A350 variant in the fourth quarter, regardless of operational difficulties at the Gulf airline.

Airbus Group CEO, Tom Enders, tried to ease concerns that the Gulf crisis could have a significant impact on the manufacturer. "We are far from being over-exposed to the region," he said, with only 13% of unfilled orders. "The region will remain important and relevant even allowing for some recouping, some consolidation. Nobody can exclude that for the long term," he said. Many in the industry would agree that the Gulf carriers have over-ordered and that tough times are ahead, including the possibility of order cancellations.

Bregier said the re-engined A330neo was "on good track", but Airbus was waiting for the delivery of engines from Rolls-Royce to prepare for the first flight. "Rolls-Royce is a bit late, but the performance of the engine tested on the bench was extremely good," he said. The A330neo will exclusively use the Rolls-Royce Trent 7000 engine.

The A330neo is approximately two months behind schedule, with first delivery to TAP Portugal expected in mid-2018. In the Asia-Pacific, only AirAsia X (66) and Garuda Indonesia (14) have ordered the type. Iran Air and Zagros Airlines have confirmed 28 and eight A330neo, respectively, and lessors have 55 A330neo on firm order.

The aircraft will be going head-to-head with the B787-10 when it enters the market. Neither the B787-10 nor the A330neo have sold well. Airbus has orders for 212 A330neo. Boeing, which had the aircraft on display at the Paris Air Show, has sold 149 B787-10s. ■

Le Bourget was Asia-Pacific order bonanza

Le Bourget's Paris Air Show was dominated by Asia-Pacific airline commitments for Boeing airliners, with many of the billion dollar plus deals signed off by the well-funded lessors of the region.

By Tom Ballantyne

It has been some time coming. Five years in fact. But Boeing finally outpaced rival Airbus in sales at the biennial Paris Air Show last month. And Boeing's victory was by a very healthy margin thanks to its latest single aisle airliner, the B737 MAX 10.

The U.S. manufacturer scored twice as many orders and expressions of interest than Airbus at the show when it added 571 aircraft, valued at an estimated $74.8 billion, to its order book.

Airbus received commitments for 229 jets, worth $25 billion, and appeared unfazed by its rival's performance. It said it was focused on meeting delivery targets pushed back by production snags rather than seeking new buyers.

Analysts who predicted a slow show were off target. By the end of the four trade days, the two big manufacturers had accumulated new business valued $83 billion, which easily outpaced the $50 billion in sales at last year's Farnborough Air Show.

The winning card in Boeing's hand was China. Its fast growing leasing companies led the procession to the signing table. The China Development Bank Financial Leasing Company agreed to spend $7.4 billion on 52 B737 MAXs and eight B787s.

Beijing-based Bohai Capital Holding locked in 125 of the same aircraft for delivery from 2021. Tibet Financial Leasing, a newcomer to the industry, ordered 10 B737 MAX 8s and 10 B737 MAX 10s for $2.3 billion. Chinese-controlled lessor, Avolon, sealed an $8.4 billion deal for 75 MAX planes and BOC Aviation, owned by the Bank of China, ordered 10 B737 MAX 10s worth $1.2 billion.

Lessors were not the only Asian buyers queuing for Boeing's latest offering. Other MAX buyers were India's SpiceJet (20 MAX 10s), Lion Air (50 MAX 10s), Okay Airways (10 MAX 10s, 7 MAX 8 and five 787-9s), Donghai Airlines (10 MAX 10s), Malaysia Airlines (10 MAX 10s) and Xiamen Airlines (10 MAX 10s).

A new Vietnamese airline, Việt Bamboo Airlines, told Boeing it wanted to buy 15 planes ahead of its launch in 2018.

Avolon chief executive, Domhnal Slattery, summed up the MAX rush when he said the lessor wanted to lock in orders for the type because slots are "very valuable real estate". The MAX 10 is oversold to 2020 and capacity is finite for an airliner favoured by low-cost carriers.

Airbus, in shrugging off the Le Bourget order differential with Boeing, said the show provided strong evidence that the commercial aircraft market remained healthy. But it was not about to let Boeing off the hook.

It pointed out a large number of the MAX 10 orders were existing orders for earlier MAX models that had been converted to the new type. Vertical Research Partners analyst, Robert Stallard, estimated that of the 336 MAX 10 announcements, 201 were conversions, so "only a net 135 should be considered new with 43 of those firm and 92 non-firm", he said.

Airbus Commercial Aircraft chief operating officer customers, John Leahy, declared "that would not qualify as a launch as far as we're concerned. Let's talk about the actual incremental orders they've got and I think our numbers are looking pretty good."

"Let's talk about our commercial success this week at Paris that extends our already diversified order backlog to a new industry record of over 6,800 aircraft."

Airbus is focusing on speeding up deliveries after delays on the A320neo series, the result of issues with its Pratt & Whitney engines, and the wide body A350, chief operating officer, Fabrice Bregier, told investors. Airbus planned to deliver 30 more planes to customers this year compared with 2016, which meant the company must accelerate work in the second half of the year, he said.

The MAX 10 is Boeing's first new model since the B777X series was unveiled at the Dubai Air Show in 2013. It is 1.68 metres longer than the $119.2 million MAX 9. It is the biggest member of the re-engined B737 family, which was launched in 2011. Boeing is confident the MAX 10 will put the brakes on the A321neo, which has won considerable sales since it was unveiled three years ago.

"We think the timing is just right," Boeing chief executive, Dennis Muilenberg, said. "The MAX 8 and MAX 9 continue to be at the heart of the market. The MAX 10 is going to add to a portfolio that boasts a production backlog of seven years." It will seat as many as 230 passengers, roughly matching its European rival while burning 5% less fuel (than the A321neo) because of lighter construction, Boeing said.

Le Bourget also was big business for the industry's engine manufacturers. Joint venture engine maker, CFM International, received record orders for 1,658 LEAP and CFM56 engines as well as long-term service agreements. Combined, its MRO and engine sales are valued at $27.3 billion.

Again, Asia led the way with multi-billion engine orders from China Eastern Airlines, Spring Airlines, China Southern Airlines and several Asia-Pacific lessors. ■

Japan Airlines plots catch up with 23% capacity surge

By Dominic Lalk

After exiting bankruptcy protection after seven years on April 1, Japan Airlines (JAL) is back on an expansion trajectory that includes a 23% international capacity expansion by 2021 and the goal of taking back market share lost to rival All Nippon Airways (ANA).

The airline's growth ambitions are heavily dependent on Japanese government plans to increase slots at Tokyo's Narita and Haneda airports. JAL chairman and director, Masaru Onishi, said last month that the government would release more information on its dual airport strategy in 2018, but a decision on slot allocation was unlikely before fiscal 2019. JAL was "strongly hopeful" its slot requests would be met, he said.

After Tokyo was granted the 2020 Summer Olympics, the Japanese government launched studies aimed at improving slot capacity at Narita and Haneda as well as building a new railway line to link Haneda and Tokyo Station in 18 minutes.

Haneda suffers from airspace restrictions because of a military base to its west and Narita to the east. Taxiways are being built to accommodate more flights, with completion scheduled for next year.

JAL's expansion drive began in May when the 66-year-old carrier announced new nonstop services between Tokyo Narita and Melbourne from September 1 and Narita-Kona from September 15. Melbourne will become JAL's second Australian destination after Sydney.

Returning to Kona was a JAL priority. Hawaii remains a favourite Japanese getaway so the Kona route will be served daily with a B767-300ER refurbished with the JAL SKY SUITE.

The oneworld member operates six daily flights to Honolulu, four from Narita and one daily flight each from Osaka and Nagoya. New competitor, budget carrier AirAsia X launched fifth freedom flights between Osaka and Honolulu in June and ANA has announced A380 flights to Hawaii from 2019.

JAL's recent "Challenge, Leading to Growth" plan highlighted the importance of the U.S. to the carrier. It flies to Boston, Chicago, Dallas, Los Angeles, New York, San Diego and San Francisco. Routes to Las Vegas, Seattle and Miami are on JAL's radar. It operates all its trans-Pacific flights in a joint venture with American Airlines.

Onishi said JAL had held talks with Cathay Pacific Airways about closer cooperation on trans-Pacific routes, which would provide access to Honolulu, San Diego and Dallas for Cathay, but Hong Kong and the U.S. do not have an 'Open Skies' agreement.

In May, JAL executives and Miami airport executives discussed the case for launching nonstop flights between Tokyo and Florida. More than 415,000 passengers travel between Asia and Miami annually via connecting flights. Miami is the busiest U.S. airport for leisure and business travel to Asia without a nonstop service.

JAL has B787-8s, B787-9s and B777-300ERs in its fleet and will receive 31 A350 XWBs from 2019. All these aircraft have the range to fly to Miami, a gateway to Latin and South America and a major hub for American, JAL's oneworld and joint venture partner.

In Europe, JAL has Paris, Moscow, London, Helsinki and Frankfurt in its network and the airline is considering the resumption of flights to Amsterdam, Madrid, Milan and Rome as well as Osaka to Paris and London. It has a joint venture with oneworld partners British Airways, Iberia and Finnair from Japan to Europe, but it is smaller than the partnership between All Nippon Airways and Lufthansa.

At June 30, JAL had 160 aircraft, all widebodies with the exception of 50 B737-800s. The carrier operates 38 B767-300ERs, some of which are relatively recent fleet additions and are furnished with the airline's latest cabin interiors. These will be retained to 2019-2020. The older B767s will be used on domestic routes until they are replaced with B787-9s.

Following its bankruptcy filing in January 2010, JAL received ¥350 billion (US$3.1 billion) from a government-backed corporate rehabilitation body as well as tax breaks. The carrier engineered a turnaround and its shares were re-listed on the Tokyo Stock Exchange in September 2012. The airline has since produced strong results, including multi-million consecutive net profits.

But unlike ANA, JAL's most recent fiscal year profit, to March 31, declined. It reported a 5.9% year-on-year fall in net profit to ¥164.1 billion, which it blamed on reduced fuel surcharge income and currency fluctuations. ■

Qantas and Jetstar sign for AFI KLM E&M B787 component support

Qantas Airways and its low-cost carrier subsidiary, **Jetstar**, have committed a long-term component pooling services agreement with **AFI KLM E&M** for the airline group's fleet of B787s. The contract for Qantas Airways' eight B787-9s and Jetstar's 11 B787-8s will cover pool access and repairs. The MRO will provide Qantas and Jetstar with direct pool access at its Kuala Lumpur facility.

Qantas is a long-term AFI KLM E&M client that has component agreements with the MRO for its A330s and, via a joint venture with the European MRO's Spairliners, its A380s. **AFI KLM E&M senior vice president, Fabrice Defrance**, said: "This is an important contract which confirms our strong position for B787 support and strengthens our position in the Asia-Pacific."

Separately, the MRO and **Safran Aircraft Engines** have confirmed their year-old joint venture will be called **Airfoils Advanced Solutions** and that the component repair facility being built by the partners in northern France will open late next year. The company, which plans to employ up to 250 staff by 2020, will repair high pressure compressor blades and variable stator vanes, mainly from CFM 56, GE's GE90 and Engine Alliance's GP7200 engines. ■

STELIA and Airbus renew A320 cockpit contract

STELIA Aerospace, a world leader in aero-structures and cockpit and passenger seats, have signed a new contract for the furnishing of the cockpits of the A320 aircraft family. Since the launch of the A320 program in 1982, STELIA has delivered more than 7,000 shipsets, over a 35-year period, with 100% on time performance.

STELIA Aerospace CEO, Cedric Gautier, said: "this contract was won thanks to the know-how of our engineering and industrial teams, who are able to offer a large number of technical solutions that address all the needs of our customers. It explains the presence of STELIA Aerospace in the Airbus A400M, A380 and A320 cockpits. This performance also is due to our ability to deliver on time at high rates".

The engineering company designs and manufactures the front fuselage section of the Airbus family, the fuselage sections and specific sub-assemblies for Airbus, fully equipped wings for ATR, fully equipped central fuselages for Bombardier's Global7000 and complex metallic and composite aerostructure parts for Boeing, Bombardier, Embraer and Northrop Grumman. ■

SIA engineering to service Embraer's E-Jets

Embraer Asia-Pacific has appointed **SIA Engineering (Philippines) Corporation (SIAEP)** as an authorized service centre for its E-jet family: the E170, E175, E190 and E195. Based at Clark in the Philippines, the company is a joint venture between **Singapore's SIA Engineering Co. Ltd (SIAEC)** and **Cebu Air Inc.**

SIAEC's executive vice president operations, Ivan Neo, said the company's appointment as an Embraer authorized centre would strengthen its position and enhance its capabilities as an MRO focusing on aircraft in the region. "This is part of the

SIAEC Group's strategy to increase its overall capabilities, which will expand our customer base and offer competitive solutions to E-Jet operators in the Asia-Pacific."

Embraer Services and Support president and CEO, Johann Bordais, said: "SIAEP has demonstrated its capability and expertise in aircraft maintenance. Given its experience, we believe that E-Jet operators will see value in their proposition."

Embraer has a global fleet of 1,200 E-Jets operated by 80 airlines in 60 countries. It has 150 of the jet family type flying with carriers in the Asia-Pacific, including China. Its latest aircraft, the **E195-E2 jet**, successfully completed its maiden flight in March. Its first delivery is planned for 2019. ■

Cathay Pacific buys Honeywell's GoDirect Connected Maintenance program

Cathay Pacific Airways and **Honeywell** have come to an agreement for the Fortune 100 software / industrial company to equip the carrier's A330 fleet with **Honeywell's GoDirect Connected Maintenance Program**. The Hong Kong headquartered airline and Honeywell conducted a trial of the program and found that GoDirect could reduce inoperative systems by up to 35 per cent.

"Honeywell's GoDirect Connected Maintenance Program helps support our commitment to passengers to reducing operational disruptions and limiting flight delays without adding sensors or a single ounce of weight to the aircraft, said **Cathay Pacific director engineering, Neil Glenn**. The program will be for the company's auxiliary power units that are fitted on more than 60 A330s at Cathay Pacific and at its wholly owned subsidiary, Cathay Dragon.

"Cathay Pacific is a leader in this shift to predictive flying. The aviation industry is going through a digital transformation sparked by the use of Big Data analytics and the Internet of Things. Honeywell is combining its mechanical heritage with access to better connectivity to help airlines achieve more predictive maintenance operations," **Honeywell Aerospace vice president airlines Asia-Pacific, Brian Davis** said.

Honey well is looking to expand its GoDirect program beyond APUs to the wheels, brakes and environmental control systems of aircraft. ■

Satair Group and Safran Nacelles agree lifetime contract for A340 airliners

The **Satair Group** and **Safran Nacelles** signed a lifetime agreement last month to deliver supply chain services for engine parts and components on A340-500/600 aircraft. The terms of agreement are that the Satair Group assume responsibility for Safran Nacelles entire supply chain for A340 nacelles and carry out support duties for the lifetimes of the four engine aircraft.

There are 90 A340-500/600s in operation, which Satair estimates will remain in service beyond 20320.

A physical transfer of Safran Nacelles A340 parts inventory from Paris to Satair's Copenhagen facility has been completed.

"This agreement with Satair Group on the entire supply chain for this legacy nacelle program enables us to focus on our utmost mission as a nacelle designer and integrator for present and future programs while also maintaining our MRO and technical support with A340 operators," **Safran Nacelles CEO, Jean Paul Alary**, said. ■

LEASING

TrueNoord attracts Blackrock as investor for Asian expansion

Regional aircraft lessor, **TrueNoord**, announced in June that funds managed by leading global asset manager, **Blackrock**, will be co-investing with Bregal Freshstream, in the its portfolio of leased aircraft.

TrueNoord CEO, Anne-Bart Tieleman said: "The regional aviation sector is a highly specialized sub-sector of the wider aircraft leasing industry and we have built a strong presence in it. With the backing of Bregal Freshstream [from 2016] and our new investor, Blackrock, we are poised to accelerate the momentum we have generated to date as we look to expand into key growth markets such as Southeast Asia and Latin America. The demand for regional aircraft in these regions is booming.

"In the regional sector, we expect to see the continuation of the recent trends that have characterized the commercial jet area as a whole, including industry consolidation, rapid portfolio turnover and the application of innovative structures to enable capital market funds to provide sources of equity. We also anticipate that lessors will continue to trade aircraft briskly, which will allow new lessors like TrueNoord to grow our fleet." ■

AerFin accepts final three Cathay Pacific A340-300s

AerFin Ltd (UK) has taken delivery of its ninth, tenth and eleventh **A340-300** (MSN 208, 2018 and 217, respectively) **from Cathay Pacific Airways**. The delivery of the final three aircraft of the type to AerFin marks the retirement of the A340-300 from the Hong Kong carrier and the conclusion of the arrangement between the airline and AerFin.

"AerFin has seen continued demand for CFM56-5C and A340 airframe components and we have been able to bring sustainable material supply to MROs and airlines from the acquisition of the Cathay Pacific [A340-300] fleet," **head of acquistions at AerFin, Auvinash Narayen**, said. ■

Airways Aviation 'Down Under' seeks Asia's business

Asia-Pacific demand for cockpit training facilities continues to grow. Global training company, Airways Aviation, has established a facility in Queensland and intends to be a major force in crew training in the region.

By Tom Ballantyne

Opened in 2014 at a facility on the southern Queensland coast, Airways Aviation's cadets are mostly individuals from Asia paying their way through their courses in the hope of working as commercial airline pilots.

But this strategy is about to broaden, the new general manager of the Australian arm of the training group, Leo O'Reilly, told Orient Aviation last month. "We are bidding for a couple of large airline contracts and are shortlisted for one of those. The client is looking to send up 48 pilots a year to train in Australia. We have got a fairly good chance of getting them," he said.

The company is no new newcomer to the pilot training business. Operating for some 30 years, it has flying academies in Oxford, England, at Huesca-Pirines airport in Spain and at Podgorica in Montenegro. It also has 15 pilot recruitment centres worldwide. Dubai's Emirates Airline is a client. "We put 2,000 pilots through the assessment process in two years for Emirates. We want to do that for every airline," O'Reilly said.

The Australian training school offers a fleet of six Cessna 172s for basic training, one single-engine Austrian-manufactured Diamond DA40, and one twin-engine DA 42 with full-glass cockpit, recently ferried to Australia from Jordan. At a facility near Brisbane airport there is a fixed-based Boeing B737 simulator while basic training is done at Caloundra, 90kms north of Brisbane, an area outside controlled airspace.

"I am planning to develop Caloundra into my training base so we need to build a new facility, hangar and purpose built student accommodation," he said. Airways Aviation has courses from recreational pilot licence and private pilot licence qualifications to a commercial pilot licence, multi-engine instrument rating and the "frozen" Air Transport Pilots Licence (ATPL). A "frozen" ATPL means students have been awarded a licence but do not have the experience levels required. The licence becomes unfrozen when they return to their airlines, record more simulator hours and fly as first or second Officers on the line.

"We are looking at buying a full-motion (B737) simulator and a cabin crew trainer. When we have a full-motion simulator, a fixed-base simulator and one cabin simulator the centre will be full and I'll be looking to expand to two fixed-base, two full-flight and two cabin trainers facility," he said.

Airways Aviation's O'Reilly believed its value is its detailed pilot selection process that begins with a Compass computerized aptitude screening and video interview and progresses, for successful candidates, to a two week series of flights that determines a student's ability to fly. If airlines elect to do the flight grading students are graded either red, amber or green.

"If they are rated green we give them a flight guarantee, a financial guarantee that they will complete their course in a lesser number of hours, therefore at lower cost," said O'Reilly.

"When an airline sends all green students we guarantee to graduate them at a certain cost. If they make it a selection of amber and green, the course costs increase depending on the number of amber students to be trained.

"And if they do want to send us red candidates, who score well in some elements of the test but might miss out on others, such as the mathematics, we are designing a course to remedy deficiencies," O'Reilly said. ■

Increased demand for Asia-Pacific cockpit crew

In June, several aerospace manufacturers upgraded their forecasts for new aircraft in the Asia-Pacific to 41% of the future airliner market. The jump in market growth heightens pressure on the industry to produce sufficient cockpit crew to serve the world's largest future aviation market.

"The airline industry will need 70 new type-rated pilots a day for the next 10 years to meet global demand"

Nick Leontidis
CAE's group president civil aviation training solutions

Tom Ballantyne reports

The world's airlines will need 255,000 new pilots in the next decade, with 90,000 of them flying in the Asia-Pacific, to sustain forecast growth in the commercial air transport industry and support retirements, a recent industry survey predicts.

Canada-headquartered CAE, the operator of the largest network of civil training locations in the industry, said in the CAE Airline Pilot Demand Outlook, released last month at the Paris Air Show, that 50% of pilots flying by 2027 have not started training yet. It added that cockpit crew will have to be produced at the rate of 70 every day to satisfy airline crew demands.

It also highlighted the necessity to progress 180,000 first officers to captains; a greater number of promotions than in any previous decade. CAE's group president civil aviation training solutions, Nick Leontidis, said: "this record demand will challenge current pilot recruitment channels and development programs. New and innovative pilot career pathways and training systems will be required to meet the industry's pilot needs and ever-evolving safety, competency and efficiency standards."

The report was released as aircraft manufacturers continue to revise forecasts upwards for aircraft to be delivered in the next two decades. Also at Paris, Boeing raised its forecast for new airplane demand to 41,030 new airplanes to 2037, valued at $6.1 trillion dollars. "Passenger traffic has been very strong so far this year, and we expect to see it grow 4.7% each year over the next two decades," said Boeing's vice president marketing, Randy Tinseth. Boeing predicted the Asia-Pacific will need 248,000 pilots, 268,000 technicians/engineers and 298,000 cabin crew in the coming 20 year period.

Airbus last month also forecast a doubling of the size of the world's passenger aircraft fleet over the next 20 years, worth $5.3 trillion in sales. Its Global Market Forecast 2017-2036 sees traffic growing at a rate of 4.4% annually as rising disposable income expands tourism and increases the number of first time flyers.

Airbus forecasts the need for 34,170 passenger and 730 freighter aircraft, worth a combined $5.3 trillion.

Brazilian planemaker, Embraer, also released a twenty-year forecast at Paris and said there would be demand for 6,400 new deliveries in the 70-130+ seat segment for regional jets worth some $300 billion. Some 1,710, or 27%, of these would be headed for Asia-Pacific.

In its report, the first it has done on pilot requirements, CAE said the Asia-Pacific is a vast geographic region that includes major as well as mature economies. "Strong economic growth, an expanding middle class, new low-cost carriers, new routes and increasing competition make the Asia-Pacific the fastest-growing region for air travel. Once limited to major Asia-Pacific cities, international airline service now is being extended to secondary and tertiary cities with new nonstop routes," CAE said.

"Both China and India have the potential to become even larger aviation markets as regulations are relaxed and investments in airports and air traffic management systems are made. In addition, India's recent implementation of less stringent foreign ownership rules may stimulate air travel growth."

CAE said demand for new pilots would be uneven. It suggested pilot rosters that include highly experienced contract captains and first officers from diverse airline backgrounds to address short-term operational requirements and also the development of younger first officers. Given the growing need for pilots in markets where English is not the primary language, the assessment of language proficiency is becoming increasingly important, it said.

With more than 230 full-flight simulators in 50 civil training locations worldwide, CAE serves approximately 3,500 airlines, aircraft operators and manufacturers across the globe. It operates the world's largest network of Ab-Initio flight schools, CAE Oxford Aviation Academy, at nine locations, with a capacity to train 2,000 cadets annually. ■

Hong Kong Airlines invests in cadet pilot program

Hong Kong Airlines last month launched its first Cadet Pilot Program. Fully funded by the carrier, it will be delivered in partnership with **UK-headquartered L3 Commercial Training Solutions (L3 CTS)** at its Airline Academy in Hamilton, New Zealand. It aims to develop high caliber students into qualified second officers who will play an important role in Hong Kong Airlines' growth.

Hong Kong Airlines vice chairman, Tang King-shing, said the new cadet program, which was announced on June 9, "forms a remarkable milestone for Hong Kong Airlines in nurturing and grooming our own talent asset to tie in with the company's commitment to the local aviation industry development. It is going to support the careers of new generation in Hong Kong and will add to the 1,100 diverse job opportunities we are offering this year". Hong Kong Airlines launched 11 destinations in 2016 and now flies to 30 cities in Asia-Pacific. It plans to step up its global market expansion by connecting Hong Kong with aviation hubs in the Asia-Pacific, North America and Europe. The carrier's fleet will be strengthened with the delivery of its A350 aircraft from the third quarter of this year. By year end 2019, its fleet is planned to exceed 50 aircraft.

Another of the airline group's projects, the **Hong Kong Airlines Aviation Training Centre**, equipped with 12 full flight simulators, is scheduled for completion in 18 months.

L3 CTS global airline pilot training, resourcing and simulation organization approved by the Hong Kong Civil Aviation Department. As well as its Airline Academy in New Zealand, it operates a training school in Bangkok.

L3 CTS president, Alan Crawford, said: "We are honored to have been selected to deliver Hong Kong Airlines' very first Cadet Pilot program through our airline academy. We take enormous pride in being able to launch dream careers for aspiring pilots." ■

Alpha Aviation adds A330/A340 simulator to Clark training centre

Alpha Aviation Group (AAG), one of Asia's leading pilot training providers, has launched its multi-million dollar Full Flight Airbus A330/A340 simulator at a ceremony at its Clark training facility in the Philippines. It is the first wide body simulator operating in the Philippines and fully replicates the cockpit experience and functions of both planes.

The purchase of the simulator comes at a critical moment for the aviation industry across Asia-Pacific. Falling oil prices coupled with a rising middle-class in the region have led to a surge in demand for air travel, in turn driving demand for more pilots.

The simulator will be financed by **BDO Leasing & Finance, the leasing and finance division of the Philippines' largest bank. Founder of Alpha Aviation, Bhanu Choudhrie**, said: "This new simulator will assist airlines across the region by training more pilots for lower cost to meet increasing demand for more commercial aviators."

AAG regional director Asia Pacific, Cristopher Magdangal, said: "At a time when new, talented pilots are needed more than ever in Southeast Asia, the launch of this state-of-the-art simulator will boost regional growth and ensure that AAG remains at the forefront of pilot training solutions across." ■

Top Chinese school joins Airbus global university program

One of China's most prestigious tertiary institutions, **Tsinghua University**, has joined the 20 campuses worldwide that are members of the **Airbus Global University Partner Program (AGUPP)**.

The Beijing university, the alma mater of China' paramount leader, **Xi Jinping**, will join the AGUPP global network of universities and engineering schools that will develop talented technical and engineering students. President Xi graduated in chemical engineering from Tsinghua in 1979.

Universities participating in the Airbus program aim to increase and support diversity in engineering and other high tech specialties with an emphasis on the innovation necessary to meet the future requirements of the aerospace industry. ■

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