Orient aviation

Vol. 24 No. 10
December 2017-January 2018
orientaviation.com

ALL NIPPON AIRWAYS KINGMAKER

Shinichiro Ito's leadership at ANA and its holding company has transformed Japan's "second international carrier" into a world beater

ORIENT AVIATION PERSON OF THE YEAR 2017

SHINICHIRO ITO
Chairman
ANA HOLDINGS INC.

Orient aviation 24 YEARS

Dubai pushes for Open Skies with China

Alliances challenged by new joint ventures?

The great divide in aviation security

SPECIAL REPORT
Year in Review:
winners, losers & the Trump factor

CONTENTS

Volume 24, Issue 10

COVER STORY

Cover Photo: Akira Igarashi

PUBLISHED BY

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

Publisher & Editor-in-Chief
Christine McGee
E-mail: christine@orientaviation.com

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

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

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

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

Photographers
Rob Finlayson, Graham Uden,
Ryan Peters

Chief Designer
Chan Ping Kwan

Printing
Printing Station(2008)

ADMINISTRATION

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

ADVERTISING

Asia-Pacific, Europe & Middle East
Clive Richardson
Tel: (44) 7501 185257
E-mail: clive@orientaviation.com

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

Follow us on Twitter @orientaviation
also - keep up with the news of the week with ***Orient Aviation's Week in the Asia-Pacific***


NOW'S THE PERFECT TIME
TO EXTEND YOUR SUCCESS
777
BOEING
777-300ER. A BETTER WAY TO FLY. The Boeing 777-300ER's unique combination of superior range, outstanding fuel efficiency and passenger-preferred comfort has created long-range success for carriers around the world. And with recent upgrades that further reduce costs and boost revenue, now's the perfect time to add to that success, in the air and on the bottom line. The 777-300ER makes every fleet a more profitable fleet. That's a better way to fly.
boeing.com/777
BOEING

Load factor up, profits challenged

It's been a big year in Asia-Pacific aviation. Changed marketing conditions have forced two of the most successful airlines in the world, Cathay Pacific Airways and Singapore Airlines, to enter into root and branch transformation programmes planned to return them to the top of the global airline profits league.

Meanwhile, Chinese carriers are continuing their march across the globe, bringing to heel mighty North American carriers used to setting the rules for trans-Pacific airline business. At another level, low-cost carriers are broadening their networks onto long haul routes and the Middle East carriers, although slightly less aggressive than in past years, are targeting the region's key growth centres for expansion.

So what is ahead for Asia-Pacific aviation in 2018? Analysts are unanimous in forecasting healthy passenger growth for the next 12 months, but how profitable that growth will be is another question.

On many levels, the issues that are impeding operations and costing airlines money today will continue to do so in the year ahead. The enduring problem of infrastructure shortfalls cannot be solved quickly and oil prices are continuing to climb.

The International Air Transport Association said this month that average prices for jet fuel are expected to pass US$73 per barrel in 2018. Staff costs account for 30% of total airline operating outlays and are more expensive than fuel, it added.

Another increasing financial burden for airlines is paying for stricter air passenger travel clearance procedures, a cost that should be borne by governments. Add to this a volatile geopolitical environment, natural disasters such as the active Bali volcano and the appeal of low-cost carriers to the younger aircraft passenger and the conclusion has to be that running an airline won't be any easier in 2018.

There may be more customers, but extracting sufficient yield from selling a seat to cover costs, let along make money in such a competitive market will remain as challenging for Asia-Pacific airlines in the years to come as it was in the past. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

Emirate pushing for "Open Skies" with China

At the Dubai Air Show last month, the **CEO** of the emirate's colossal airport group, **Paul Griffith**, made it clear that attracting a greater share of Asia's passenger market, particularly travelers from China and Southeast Asia, was a top priority for the group.

Speaking only days after **Qatar Airways** announced it intended to complete the purchase of 9.61% of Hong Kong's **Cathay Pacific Airways**, the chief executive of the Dubai Airports Company, which operates **Dubai International** and **Dubai World Central Airports**, said Dubai was in pursuit of "Open Skies" with China.

Griffiths said it was hoped China could be persuaded that opening its domestic market to more international airlines would benefit its economy. Australia is the only country with an Open Skies agreement with the Mainland.

Dubai Airports expected to reach its target of almost 90 million passengers for 2017, Griffiths said, and added a significant portion of its long-term growth would be passenger business from China and Southeast Asia.

"If you look to 2024, there's a projected increase of 1.3 billion passenger journeys from Southeast Asia and China. We are very excited about this possibility because Dubai is at the heart of that. We are well able to service that market because we are so well positioned geographically for it," he said.

Last year, the **United Arab Emirates (UAE)** introduced a visa-on-arrival policy for Chinese tourists, Griffith said, but an Open Skies agreement with China was the key to unlocking the potential of that market.

"If China was to declare Open Skies [with us] we'd be in much better shape. It means that one country declares to another that there is no restriction on the amount of flying that can be done by the airlines from both countries. This strategy produces the best and most competitive product for the customer, which is the best pricing.

"It makes everything much easier and usually results in a huge uplift in the amount of trade, tourism and commercial activity between the two countries."

The UAE and Chinese governments have held talks on Open Skies but they had yet to bear fruit, he said.

"Some countries are faster than others to embrace it. Australia is a good example. It does not matter which airline people fly as long as they arrive in Australia.

"They wrote bilaterals that have had an explosive effect on the Australian economy. Other countries are lagging behind. China has many years of experience in accommodating its huge amount of domestic travel, but they have not got going with the international scene until now." ***By Tom Ballantyne***. ■

Alliances under challenge as joint ventures increase

Asia-Pacific carriers are looking outside their traditional alliances for growth and investment opportunities. Addressing the increasingly competitive spectrum of airline operations, it is being speculated that China Southern Airlines, Asia's largest carrier, could relinquish its SkyTeam alliance membership.

Hong Kong's South China Morning Post reported last month **Delta Air Lines' new Greater China chief, Wong Hong**, as saying "I think we have to accept the reality. It is more for them to think through and decide".

More recently, **Japan Airlines (JAL)** and **Russia's Aeroflot** signed a strategic cooperation agreement in early December. Initially, the carriers will code share on international services between the two countries and on each other's domestic services. Ultimately, they will consider a joint business in the future, the airlines said.

JAL is increasingly looking outside the oneworld alliance for opportunities. The airline also signed codeshare deals with Hawaiian Airlines and VietJet Air earlier this year.

Talking to **FlightGlobal** last month, **China Southern vice-chairman and president, Tan Wangeng**, said the future of the airline's SkyTeam membership was "a sensitive topic".

In August, **American Airlines** closed a surprise US$200 million deal for a 2.68% holding in China Southern. In his interview with FlightGlobal, Tan said China Southern and American would strengthen their cooperation, particularly across the Pacific.

"This is the reason why we set the cooperation strategy relationship with American Airlines. It's just the beginning. In the future, China Southern will fly more to the U.S. and American Airlines will fly more to China," said Tan. **Skyteam** said it was "unaware of any plan" for China Southern to exit the alliance.

Separately, American and **Qantas Airways** are reapplying for approval of their trans-Pacific joint venture (JV). "The QF/AA JV is definitely still on the cards. We said previously we needed to do a better job of explaining the consumer benefits to the DoT (the U.S. Department of Transport) and we are in the process of doing that through a fresh application," a Qantas spokesman told Orient Aviation last month.

"The timeline for a decision belongs to the DoT, but we're not expecting an answer in 2017."

The Qantas application follows the commencement of a reinvigorated relationship between SkyTeam members

Increased loan costs heighten HNA Group scrutiny

At press time, Mainland aviation, tourism and grass roots lender, **HNA Group**, attracted additional speculation about its financial health when the Bloomberg news service reported the HSBC banking group had advised its bankers against writing deals with the Chinese conglomerate in recent months.

Bloomberg said HSBC's reservations about doing new business with HNA centred around the group's heavy debt burden, which is reported to exceed its assets.

At the same time, sources in the industry said the group was behind in repayments to the Agricultural Bank of China and that several provincial Chinese governments were worried HNA could not service loans they had advanced to the group. A reported delayed lease payment to **Lucky Air** was settled last week.

The Chinese conglomerate, which commenced life as a single carrier on the southern Chinese island of Hainan more than 30 years ago, controls nine Chinese and two Hong Kong airlines. They are: **Hong Kong Airlines** and **HK Express**, **Hainan Airlines, Air Chang'an, Beijing Capital Airlines, Fuzhou Airlines, Guangxi Beibu Gulf Airlines, Lucky Air, Urumqi Air** and **West Air**.

There is increasing pressure on HNA Group to reassure investors of its financial soundness after it went on an estimated US$50 billion global investment spree in the last two years. Its acquisitions have included Germany's Hahn airport, substantial holdings in technology companies, purchase of groundhandler, Swissport, for US$2.8 billion, US$1.9 billion for caterer Gategroup, 25% of the global Hilton hotel group for US$6.5 billion and 9.6% of Deutsche Bank for a speculated US$4.5 billion. It also controls aircraft lessor, **Avolon**.

HNA Group spokesman and recently announced **new**

board director, Zhao Quan, told the Financial Times in early December: "The U.S. is raising interest rates and the Chinese government is tightening and deleveraging. The general environment is affecting liquidity," he said. "In December, interest rates are high, not only for HNA."

He added the group was in no hurry to sell any assets, a change in direction from HNA Group **chief executive, Adam Tan**, who said the group might sell assets as it moved to accommodate the **One Belt, One Road vision of Chinese president, Xi Jinping**.

The Financial Times also reported that HNA and its subsidiaries operate financing platforms in China to raise money. It said it has a product that is offering 8.8% corporate bond.

"If I wait for January, the cost may be 100 or 200 basis points lower, why should I issue now," Zhao said. ■

Korean Air and **Delta**. In late November, the DoT approved a trans-Pacific joint venture between the two airlines, although its implementation has still to be approved by South Korea's Ministry of Land, Infrastructure and Transport.

The regulator is expected to approve the tie-up, but said it may be slow in being processed because this is the first time a South Korean airline has agreed to a JV with a foreign partner.

Just 18 months ago, most in the industry would not have believed Korean Air and Delta would establish such close ties. Although both airlines are SkyTeam members, their relationship has long been strained.

Now all is forgiven and the partners are expanding their limited code sharing with the addition of trans-Pacific cost and revenue sharing.

The two carriers also will work toward better schedule and frequent flyer benefit integration on their combined 370-destination network in Asia and the Americas.

All this is bad news for **Asiana Airlines.** The U.S. network of the Kumho Group subsidiary is dwarfed when compared with Korean Air. Relations between Asiana and its Star Alliance fellow, **United Airlines**, also could be better.

In the typical fashion of South Korean chaebols, Asiana has been slow in establishing initiatives with foreign partners, an attitude that has limited its cooperation with United.

"We have entered anti-trust immunity with Asiana. We do code sharing and some stuff together but not a JV type of thing. It can be a bit difficult. And we already have a wife in ANA. We're looking at things, but there is nothing concrete," the **head of United for South Korea, David Ruch**, told Orient Aviation.

"Asiana needs to form a strong partnership with a leading U.S. carrier if it wants to compete with its larger local rival and become a global carrier," an analyst told the **Korea Times.**

Incheon International Airport opened a second terminal in November and all Korean, Delta and SkyTeam flights now operate from Terminal 2. Asiana and the Star carriers remain in Terminal 1. ***By Dominic Lalk***. ■

Airport monopolies fail airlines and their passengers

Monopoly private ownership of airports has not benefited airlines or passengers said the International Air Transport Association director general and CEO as he seeks to persuade governments to keep control of key hub airports. Chief correspondent, Tom Ballantyne, reports.

Privatized airports have been a failure with no country or government able to efficiently regulate them, the International Air Transport Association director general and CEO, Alexandre de Juniac, said at a recent industry conference in Taipei.

They have increased fares and the costs to airlines of operating into the mainly monopoly airports, he said, as airfares have decreased significantly. "We have not seen a major improvement in quality of service offered by privately run airports that justifies the increased fees and charges," de Juniac said.

Speaking at the annual Assembly of Presidents of the Association of Asia Pacific Airlines, he said the "top five airports on the planet" are government owned. They are always on lists of airports worldwide for top quality and service delivery. Hong Kong, Singapore and Seoul Incheon lead the group, followed by Dubai and Amsterdam, he said.

"Privatized airports are difficult to regulate because shareholders must receive their returns. Secondly, they are operated by budgets and not for aviation interests. Governments need money so they privatize airports. The interests of aviation are very remote," he said.

"Perhaps the most worrisome point is that when governments privatize public entities, whether they be local or national, they wash their hands about this infrastructure, which is absolutely monstrous.

"A concerned government should take care of its airport. It is the key entry point or one of the key entry points of the country."

He said that in the struggle to fund infrastructure investments, particularly airports, often privatization is seen as the solution. "We have no issue with injecting a private sector mentality into the operation of an airport," he said.

But "this is the conclusion of three decades of largely disappointing experiences with airport privatization. The primary focus of airports should be to support local and national prosperity, to be an economic catalyst. But in private hands, shareholder returns take top priority. And we struggle with costs at privatized airports as far flung as Paris, Sydney and Santiago," he said.

"Our message to governments on airport privatization is to be cautious and to consult the industry before making any decisions.

"In India, the government takes more than a third of airport revenue for its own coffers. How can you operate that airport efficiently when you are increasing costs by a third? We have had an extensive look at this. It happened in Australia and in Europe. Now it is happening in South America and across Asia. And in Europe and South America we have been enormously disappointed."

Governments across Asia should take responsibility for building airports so airlines receive value, he said. "They can use public and private money. There is public money to be put into big hubs. It is critical. But the government cannot give airports away. It's a big mistake, even in terms of economics," he said. ■

"Our message to governments on infrastructure is that airports perform better in public hands"

Alexandre de Juniac
International Air Transport Association
director general and CEO

Good times ahead for airlines in 2018

Barring unexpected crises - and they happen all the time - 2018 is forecast to be one of the best 12 months in years for the world's airlines. Asia-Pacific carriers will lead the march to larger profits, the International Air Transport Association (IATA) said in December. Chief correspondent, *Tom Ballantyne*, reports from Geneva.

Airlines in the Asia-Pacific are expected to earn up to $9 billion in profits in 2018 compared with $8.3 billion in 2017, the International Air Transport Association (IATA) forecast early this month. The more positive earnings environment was boosted by a healthy 15% improvement in cargo revenue; a welcome trend after years of profit doldrums.

Despite the increased profitability, IATA pointed to mixed results across the region. "Passenger markets have been mixed in profitability, but mostly are improving to varying degrees," IATA director general and CEO, Alexandre de Juniac, said.

The trends range from increased airline start-ups that are keeping profitability low in ASEAN to strengthening domestic markets in China, India and Japan. The statistics report a pause in competitive pressures on long-haul connecting markets from the super-connectors,the generic label for the big three Gulf airlines and Turkish Airlines, said IATA.

The association said the global industry would report profits of $34.5 billion for the year, an upward adjustment of the June forecast of $31.4 billion. In 2018, carriers are predicted to post a record profit of $38.4 billion; the ninth consecutive year of profit for the global airline industry.

De Juniac said: "Per passenger, airlines on average will make less than $9. And the net margin of 4.7% is hard won."

Speaking to aviation industry writers at the organization's annual global media day in Geneva, de Juniac repeated the IATA view that the industry faced an infrastructure crisis – particularly at some Asian airports – unless governments moved to invest quickly in new airport and air traffic management facilities.

More positively, strong demand, efficiency and reduced interest payments will help airlines improve net profitability in 2018 despite rising staff costs, which are now averaging around 30% of total outlays. Return on invested capital should be 9.4%, which will exceed the industry's average of 7.4%.

Passenger numbers are

Fuel to climb in 2018

IATA forecasts oil will average $60 a barrel for Brent Crude in 2018, a 10.7% increase from $54.2 a barrel this year. Jet fuel prices are expected to rise even more quickly, to $73.8 per barrel compared with $65.6 in 2017.

"Airlines with low levels of hedging, for example in the U.S. and China, are likely to feel the impact of this increase more immediately than those with higher average hedging ratios, such as in Europe," IATA said. "The fuel bill is expected to be 20.5% of total costs in 2018, up from 18.8% in 2017."

expected to increase to 4.3 billion in 2018 from four billion in 2017 and revenue passenger kilometers (RPKs) will improve by 6.0%, a decline from the 7.5% growth of 2017, but the numbers will be ahead of the average of 5.5% of the last two decades. Available Seat Kilometres (ASKs) will be up 5.7% and load factor will increase to 81.4%. Revenue from the passenger business will improve 9.2% over 2017, to $581 billion, supported by expected GDP growth of 3.1% - the strongest global expansion for seven years.

IATA chief economist, Brian Pearce, said in Geneva the industry had added 1,315 city-pair connections this year, which took their total to 20,000 for the first time and double the 10,000 city pairs of 1996. China alone added 380 of them.

Airlines took delivery of 1,683 new jets and turboprop aircraft, which resulted in a worldwide ASK jump of 6.3%. According to the published schedules for 2018, airlines are planning a significant boost to capacity of around 5.7%, a pace likely to come in below the growth in traffic, he said.

Pearce said Boeing and Airbus forecast the industry would need to attract $5 trillion to $6 trillion of new capital to buy 35,000-40,000 new aircraft in the next 20 years, so a return on capital acceptable to investors – at least equal to the cost of capital – was critical.

"Until 2015, the industry as a whole had failed to achieve this. Since 2015 returns on capital have exceeded the industry's average cost of capital. We have upgraded our estimate of industry return on capital this year to 9.6%, down from a revised 10.3% in 2016.

IATA said cargo volumes were expected to grow by 4.5% in 2018, a fall off from the 9.3% growth of 2017 when companies had to restock inventories quickly to meet unexpectedly strong demand.

"This led cargo volumes to grow at twice the pace of expansion in world trade (4.3%). Cargo yields are expected to improve by 4.0% in 2018, which will be slower than the 5.0% of 2017. While restocking cycles are usually short-lived, the growth of e-commerce is expected to support continued momentum in the cargo business above the rate of expansion of world trade in 2018. Cargo revenues will continue to do well in 2018, reaching $59.2 billion, up 8.6% from 2017 revenues of $54.5 billion," IATA said.

De Juniac concluded: "For most of the airline industry's history, its financial performance has not matched the value it created. "But in recent years, airlines have dramatically improved profitability and have collectively been in the black for seven years.

"For any other business, that's normal. For the airline industry, it's an extraordinary achievement. Hopefully, we are on our way to normalizing it" ■

Positive predictions

IATA's de Juniac said highlights forecast for the world's airlines in 2018 were:

- A slight decline in the operating margin to 8.1%: down from 8.3% in 2017
- An improvement in net margin to 4.7%: up from 4.6% in 2017
- A rise in overall revenues to $824 billion: +9.4% on 2017 revenues of $754 billion
- A rise in passenger to 4.3 billion: +6.0% on the 4.1 billion passengers in 2017
- A rise in cargo carried to 62.5 million tonnes: 4.5% over the 59.9 million tonnes in 2017
- Slower passenger growth: +6.0% in 2018 from +7.5% in 2017 Slower cargo expansion: +4.5% in 2018 and +9.3% in 2017
- Average net profit per departing passenger of $8.90: up from $8.45 in 2017

Bang goes the oil price

After a long period of pain when oil prices stayed stubbornly low, well-hedged airlines are poised to reap benefits from rising fuel prices.

Only a third of Asia-Pacific airlines are well hedged against fuel prices rises and recent price jumps will hit some of the region's airlines hard, a recent survey on hedging has revealed. The warning comes as fuel prices climbed 12% in the past month and have risen by 31% since last year – albeit from a very low base.

Consultancy Crucial Perspective has examined all 33 listed airline stocks in the Asia-Pacific and found that only "Air New Zealand, Qantas, Virgin Australia, Singapore Airlines, Cathay Pacific, Thai Airways, AirAsia, AirAsia X, Asia Aviation (AirAsia group), Bangkok Airways and Cebu Air have substantial fuel hedging in place". The remaining airlines in the region are almost completely exposed to volatile fuel prices, the consultancy said.

Airlines operating younger and more fuel efficient aircraft and those with stronger local currencies such as the Chinese carriers Air China, China Eastern and China Southern Airlines, will mitigate this negative earnings impact because fuel costs are largely paid in U.S. dollars, it said.

Crucial Perspective principal, Corrine Png, who has covered Asian transport equities for more than 15 years at J.P Morgan, Citigroup and HSBC, said she expected Asiana Airlines, China Airlines, Jet Airways, Vietnam Airlines and Philippine Airlines to suffer the greatest negative impact on earnings from higher oil prices.

"A one per cent increase in the jet fuel price cuts these carriers' annual net profits by 14%, 11%, 8%, 6%, 5%, respectively, based on our estimates, because of their lack of or limited fuel hedging and thin profit margins," Png said.

"Qantas, Virgin Australia and Air New Zealand have higher than sector average fuel hedging levels at 86%, 83% and 71% of their fiscal 2018 fuel consumption, respectively. Japan Airlines and ANA HOLDINGS are hedged at 40% and 30%, respectively," she said. "Nevertheless, the recent spike in the jet fuel price is incrementally negative for the Asia-Pacific airline sector if it continues," she said.

"Historically, the share prices of Virgin Australia, Singapore Airlines, Qantas, Shandong Airlines and Japan Airlines have had the strongest negative correlation with spot jet fuel prices in the past five years notwithstanding their hedged fuel positions. This is mainly because extraneous factors have played a part in driving their share price performance." ■

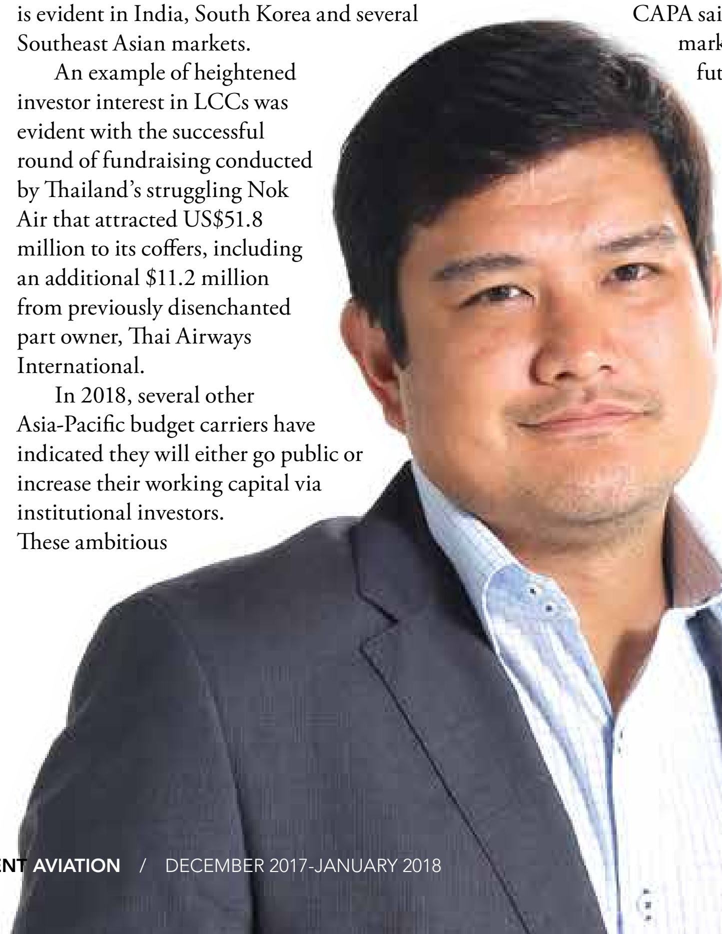
LIMITLESS SKIES FOR LOW-COST CARRIERS

Asia-Pacific budget carriers may only hold 18% of the air passenger market, but the modest numbers mask the influence these airlines have across the Asia-Pacific and beyond. Chief correspondent, Tom Ballantyne, reports.

With more than a thousand aircraft scheduled for delivery to Asia-Pacific low-cost carriers (LCCs) in the next decade, expansion of the sector in the coming 12 months is a foregone conclusion, especially as investor appetite for budget carriers is evident in India, South Korea and several Southeast Asian markets.

An example of heightened investor interest in LCCs was evident with the successful round of fundraising conducted by Thailand's struggling Nok Air that attracted US$51.8 million to its coffers, including an additional $11.2 million from previously disenchanted part owner, Thai Airways International.

In 2018, several other Asia-Pacific budget carriers have indicated they will either go public or increase their working capital via institutional investors. These ambitious LCCs include South Korean budget airlines, Japan's Peach Aviation, Vietnam's Vietjet and the offshoots of the AirAsia Group in the Philippines and Indonesia.



Analysts believed that after a tough few years, there is renewed vigor in the sector, especially among emerging Long Haul Low Cost Carriers (LHLCC). Consultancy CAPA said LHLCCs now accounted for five per cent of the market and are "very much where we're heading in the future".

The consultancy said there were 43 LHLCCs in 28 countries with 16 of them based in 10 countries in the Asia-Pacific. Their market share has increased globally to 11.3% in 2017, from 3.5% a decade ago. In the Asia-Pacific, it stands at 7.7% of the overall international market compared with 1.6% ten years ago.

Boeing Commercial Airplanes vice president marketing, Randy Tinseth, said in Seoul recently that by 2036, Northeast Asia would require nearly 1,500 new planes, valued at $320 billion, and that 45% of those orders would be for single-aisle aircraft.

"Most of the demand for single-aisle airplanes will be from low-cost carriers. When we look at growth going forward, almost all the

growth will be driven by LCCs," he said.

While the penetration of LCCs at all levels of the passenger market –from domestic to international – is below 20% in the Asia-Pacific, it is on a rapid upward curve. In the domestic sector, LCCs held 57.2% of all seats booked in South Asia and 52.6% of the market in Southeast Asia.

Budget carriers dominate local air traffic in Thailand, Malaysia, Indonesia, the Philippines and South Korea. Japanese LCCs, who were late-comers to the sector, have 10% of the market.

In North Asia, South Korea is a text book example of the sector's rapid growth. The country has six LCCs - Air Busan, Jeju Air, Jin Air, Air Seoul, Eastar Jet and T'way Air – and two more are awaiting clearance to fly.

By year end in 2016, the six budget carriers were carrying 57% of domestic passengers and 20% of passengers traveling abroad, South Korea's Ministry of Land and Transport reported. In November, Seoul-based T'way Air posted a record operating profit of $23.3 million for the third quarter of this year, a 56% increase over the same months a year ago. In the last three quarters, the LCCs' combined sales of $390 million were 50% higher than in 2016.

In August, Jeju Air reported its operating profit had grown by 2,448% in the second quarter of 2017 compared with the same three months in 2016. The results were a record high for the last 12 consecutive quarters. In the first half of this year, the carrier reported an operating profit margin of 9.29% and a net profit of $29.4 million, beating Asiana Airlines' net profit of $19.5 million and Korean Air's $183.3 million loss for the period. Jeju went public in 2015.

T'way is hoping to go public in 2018 and to use the funds raised to buy midsize and long haul aircraft by 2020 and launch flights to Europe and North America five years later. Air Busan, a subsidiary of Asiana Airlines, also is rumored to be preparing for an IPO. Its mid-term strategy is to introduce larger aircraft into its fleet after 2020 to fly long-haul to Hawaii, Australia and Europe.

Recently, Jin Air, the LCC affiliated with Korean Air, filed a registration statement with South Korea's Financial Services Commission with the intention of raising $341.9 million in an initial public offering (IPO).

While not as successful as their South Korean peers, Japanese LCCs have made inroads into the country's passenger market. Analysts forecast the sector, which is a little over five years in the making, would not succeed, but they were wrong. LCCs, which are mostly part or fully owned by All Nippon Airways or Japan Airlines, hold 10% of the domestic market and up to 20% of the regional leisure travel market.

Full service All Nippon Airways has benefitted from the success of its Peach Aviation and to a lesser degree, Vanilla Air. Japan Airlines' Jetstar Japan, the largest Japanese LCC, also has begun to prosper.

The market is expected to expand with the launch of the AirAsia Group's AirAsia Japan. CAPA has calculated that LCCs transport one in every 10 Japanese domestic passengers and said capturing a 10% market share was an achievement considering how reluctant Japanese passengers were expected to be about flying on an LCC.

"LCCs in Japan do have a higher cost than LCCs elsewhere, but they still hold a strong cost advantage compared with incumbent airlines," said CAPA.

It is agreed that Southeast Asia is the "competitive battlefront" for LCCs and that budget airlines with large fleet orders, such as the Lion Air and AirAsia Group, will drive the market. North Asia and China remain followers in the market because of a lack of liberalization said CAPA, but added the profile for aviation growth in China is "astonishing" and has great potential for LCC expansion.

The number of domestic airlines in China increased from 26 in 2007 to 44 in 2017. Routes flown grew to 2,739. International routes increased to 285 in the same period, CAPA said.

In September, the AirAsia Group announced it was moving closer to setting up a joint venture LCC in China. It has entered into a nonbinding long-term agreement with the China Everbright Group and two other partners for a carrier based in the central Mainland city of Zhengzhou. It is not yet known when it will launch.

In India, the market is dominated by LCCs with IndiGo heading the table and not just in its home country. In September it was reported that the Delhi-based budget airline had grown

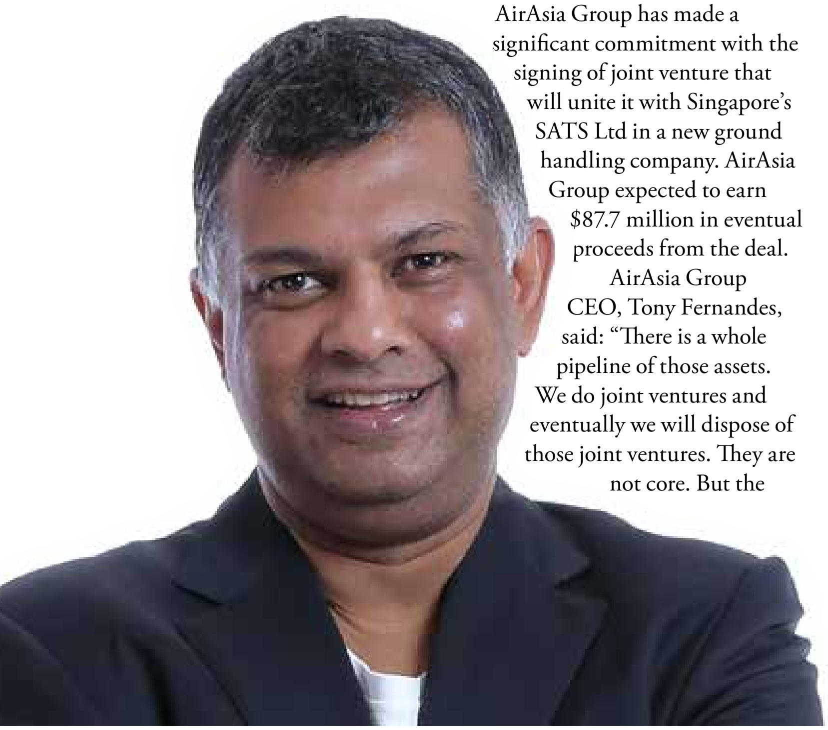
14.4% this year, to 35.11 million seats, leapfrogging past Indonesia's Lion Air at 8.8% and 30.54 million seats.

India's market can be chaotic and is burdened by high aviation taxes and charges, but it is destined to become the world's third largest domestic airline market in the next two decades, behind China and the U.S.

IPOs provide the main avenue for LCCs to raise funds. The AirAsia Group said it planned to sell its holdings in non-flying businesses and return the proceeds in special dividends to shareholders.

It is reported to be close to sealing a deal for the disposal of its aircraft leasing subsidiary and has completed the sale of its 50% equity in the Asian Aviation Centre of Excellence (AACE) to its joint venture partner, CAE, for US$100 million.

AACE has training centres in Sepang, Singapore and Ho Chi Minh City and a joint training facility with Cebu Pacific in Manila. Food, engineering businesses and duty free business are being considered for sale by the group.



AirAsia Group has made a significant commitment with the signing of joint venture that will unite it with Singapore's SATS Ltd in a new ground handling company. AirAsia Group expected to earn $87.7 million in eventual proceeds from the deal.

AirAsia Group CEO, Tony Fernandes, said: "There is a whole pipeline of those assets. We do joint ventures and eventually we will dispose of those joint ventures. They are not core. But the relationship will always stay."

In Vietnam, dynamic LCC, Vietjet, has committed to a series of deals that will expand its influence as well as its network. The Hanoi-based, privately controlled LCC has written a 12-year agreement with CFM, valued at $3.6 billion, to support the 215 engines it has bought to power its expanding single aisle fleet.

Additionally, Vietjet and GECAS, under GE, have signed a Memorandum of Understanding for aircraft financing valued at $1 billion. GECAS will support Vietjet in the financing and/or purchase of aircraft and enter into a lease back arrangement for 10 aircraft ordered by Vietjet.

Vietjet also will be a customer of global aerospace manufacturer, Honeywell Aviation's Auxiliary Power Units, for 98 of the airline's planes. Vietjet is a full member of the International Air Transportation Association (IATA) and is continuing with its plans to be the first Vietnamese company to list on an overseas stock exchange.

"We've been approached by some foreign stock exchanges including London, Hong Kong and Singapore, which expressed interest in our stock," said VietJet CEO, Nguyen Thi Phuong Thao. She told Bloomberg a year ago she planned to make VietJet "the Emirates of Asia".

Last April, the LCC received shareholder approval to increase its foreign ownership limit to 49% from 30%.

The downside of this optimistic growth is overcapacity, a situation that could force some LCCs to cancel and/or defer aircraft deliveries. Cebu Pacific, AirAsia, AirAsia X, the Lion Group carriers and the VietJet group account for close to 75% of Southeast Asia's LCC fleet and approximately 90% of the order books of aircraft manufacturers and engine-makers. At press time, AirAsia X announced capacity cuts to Australia.

For Boeing and Airbus, single aisle orders from Asia-Pacific LCCs are the mainstays of their future business, particularly energy efficient A320neos and B737 MAXs. Manufacturers also anticipated more orders for wide bodies from LHCCs.

All the news is good unless it is not. Factors that could trigger a capacity contraction in the region include the absence of slots for expansion, severe airport and airways congestion and disruptive geopolitical situations. Whatever happens, it is clear that more people will fly in 2018 and more of them will be flying with Asia-Pacific LCCs. ■

Airlines deliver strong performance in a challenging year

Airports swarming with passengers. Packed aircraft arriving at their destinations as airways clog up. Alliances of the past edged aside by joint ventures of the future and annual airline budgets are restructured to fund the digitalization of passenger and air cargo management. Welcome to the world of Asia-Pacific aviation in 2017. Orient Aviation reports on a better than expected 12 months for many of the region's carriers.

In the last 12 months in Asia-Pacific aviation, North American carriers have lost their supremacy on Trans-Pacific routes to predatory Mainland carriers. In the Middle East, the all-devouring Gulf carriers have been flatlined to an extent by the Trump travel bans that have depressed sales in markets important to them, including the Asia-Pacific.

At the heart of the region, airline alliances are losing the force they once held with their members and technological advances have provoked Qantas into challenging manufacturers to build a plane that can fly non-stop to Europe from Australia's eastern seaboard.

Rapid response is the name of the game from implementation of new technology in every part of an airline's operations – from analyzing possible new routes to cyber security defences, MRO practices and management of passengers bred to expect the best in cabin design and connectivity – yesterday.

Some airlines are doing it better than others. In Auckland, Air New Zealand continued to punch well above its weight, producing sequential healthy profits as it continued to build its reputation for innovation and excellent service.

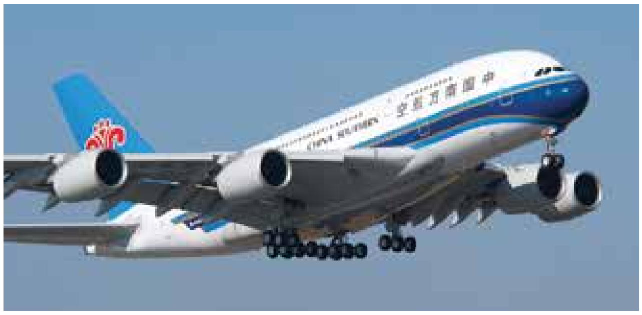
The Qantas Group, which was in loss four years ago is on target for a third year of record profits, while All Nippon Airways and Japan Airlines are keeping their shareholders happy with their outstanding performances.

For some legacy carriers, 2017 was a year to endure. Cathay Pacific Airlines and Singapore Airlines responded to their recent losses with a restructuring of their operations. Job losses, job restructuring and re-drawn contracts are part of the process. Cathay also acquired a shareholder that did not quite fit the mould of its past investors. Fellow oneworld member, Qatar Airways, bought 9.61% of the Hong Kong-based carrier near year end from Kingboard Chemical Holdings. Cathay CEO, Rupert Hogg, said he was looking forward to "continued constructive relationship" with the Gulf airline.

Issues dominating discussions during the year were rising jet fuel costs, over capacity that was maintaining downward pressure on yields, the threat of slot allocations being taken by China and other nations, unsatisfactory levels of dialogue between

airlines and governments on standardization of global security and safety and the impact of "Big Data" on airline operations, manufacturing and post delivery services. "We're carrying more passengers but making less money," was the familiar cry from many airline chief executives.

China's inexorable rise to influence was demonstrated when Boeing had an order confirmed for 300 jets during President Trump's visit to China in November. Chinese airlines



were not the only high growth sector in the region. Leasing companies are forming at an unprecedented rate as Chinese banks and investment companies surge into the business. There are now more than 70 leasing companies in China. While many are small, several are now amongst the world's top ten lessors. A shake out in the sector is expected.

A sign of things to come will be the launch of Qantas's direct B787 Dreamliner flights from Perth in Western Australia to London in March, the first direct scheduled commercial airline link between Australia and the UK. As new generation, highly efficient long-haul aircraft come into service it became clear the time is not far away when every point on the planet can be connected by non-stop services. Roll on 2018. ■

China stalking first world aerospace manufacturers

By chief correspondent, Tom Ballantyne

It was years behind schedule, but China's first commercial single-aisle jet, the C919, made its maiden flight in May, several years beyond its original launch deadline. It is expected to enter into service in 2020 and already has a 300 plus order book almost exclusively from Mainland airlines and lessors.

Hardly noticed amidst the hype that surrounded U.S. President Donald Trump's visit to China in November was the news that the U.S. Federal Aviation Administration (FAA) had signed an airworthiness certification deal with China. It was a decision that will open the door to sales of Chinese aerospace components to the U.S. and also to several countries that accept FAA validation documents.

Most of the world's airlines buy jets certified by credible agencies, notably the FAA and the European Aviation Safety Agency (EASA). Until now, Chinese certification was excluded from such standing beyond the Mainland.

The FAA agreement will grant China "comprehensive peer recognition" as an aerospace supplier, the Civil Aviation Administration of China (CAAC) declared. Previously, all American aviation products were eligible for use in China, but only a handful of Chinese aviation products could enter the U.S.

The breakthrough boosted Beijing's hopes of being a global supplier of commercial jet products in a market presently dominated by Airbus, Boeing and Embraer. All Chinese-built aerospace components can potentially be sold to U.S. customers because of the "mutual recognition" enshrined in the new agreement, said the CAAC.

Aircraft certified by China will not automatically be allowed to fly in U.S. airspace, the FAA said. "These products are subject to a validation process defined in the agreement", which could still include a full technical review.

A strong presence in Western aerospace markets may be years away for China, but its determination to be a force in global aerospace was emphasized with a decision by China and Russia to jointly build a green sheet wide body jet, the C929. The joint venture partners have targeted a maiden flight and first delivery of the aircraft for 2025 to 2028.

In a separate re-structuring of global aerospace manufacturing, Airbus surprised the industry in October with its announcement that it would take a 50.01% holding in Bombardier's stuttering C Series jet programme. The timing of the announcement, with completion of the deal expected mid next year, came shortly after the U.S. government said it would impose duties of up to 300% on Canadian jets after Boeing accused Bombardier of price dumping in the sale of its jets to Delta Airlines.

Airbus said the C Series jet would be assembled at its plant in Alabama, but whether this will allow Bombardier to avoid the proposed duties has yet to be seen.

In 2017, Airbus added to its

presence on the Mainland with the inauguration of its first wide body Completion & Delivery Centre for the A330 in Tianjin, the economic zone where the Toulouse manufacturer has been operating its successful joint venture A320 Final Assembly Line (FAL) since 2008. Airbus partners in the A320 FAL are the Tianjin Free Trade Zone and Chinese aerospace conglomerate AVIC.

Since the A320 FAL opened, Airbus has seen a rapid increase in the sale of its aircraft on the Mainland. At the September launch the A330 C&DC, Airbus hinted that if there were sufficient orders an A350 C&DC could follow on the Mainland.

A few months earlier, Boeing Commercial Airplanes confirmed its first joint assembly line in China would be built in Zhoushan, Zhejiang provice. The joint venture, with the Commercial Aircraft Corporation of China, is the first Boeing facility to be built outside the U.S, and is a change of strategy for Boeing.

Construction began in May with the first aircraft expected to be delivered to customers by December next year. The island facility will complete cabin outfitting, painting, maintenance and delivery of B737s, with the venture expected to work up to delivery of 100 of the aircraft annually.

Both Boeing and Airbus have launched new aircraft this year. In March, the B78-10 successfully completed its maiden flight followed by the B737MAX in April. The latest version of Airbus's A330 wide body, the A330neo first flew in October.

The year did not start well for Rolls-Royce when the engine maker admitted it had paid almost $900 million to settle bribery and corruption charges that had dogged the company for years. Investigators in more than a dozen countries sifted through allegations to prove that Rolls-Royce used middle men to pay millions of pounds sterling in bribes to more than a dozen airlines, including Thai, Indonesian and Chinese carriers, to secure commercial and military aircraft engine orders.

However, with orders rolling in for new aircraft from around the world, business was good for the engine manufacturers, who wrote billions of dollars in new business. Although the well-publicized problems with Pratt & Whitney's new geared turbofan engine (GTF) continued to cause delays to deliveries of Airbus' A320neo. Some, according to Airbus chief salesman John Leahy, were lined up on the tarmac "like gliders" awaiting delivery. Towards the end of the year, the problem was easing as fixes were put in place to resolve the issue. ■

China's "Silicon Valley" city chosen for Airbus innovation centre

A powerhouse of the digital economy, China's Shenzhen, which borders Hong Kong's northern boundary, has been chosen as the site for the Airbus China Innovation Centre.

Known as the Silicon Valley of China, Shenzhen is the home of Tencent Holdings, whose market valuation is close to that of Facebook, and also is the home of several multi-billion dollar new economy companies in Greater China.

Airbus China Innovation Centre CEO, Luo Gang, and Shenzhen leaders announced last month they had "signed a cooperative framework agreement with Invest Shenzhen to establish a long-term strategic partnership to accelerate innovation and the shape of future flight".

The cooperation agreement has three major goals:

** Accelerate R&D, applications and industrialization of the inflight experience, connectivity, new energy and urban air mobility.*

** Cultivate an integrated hardware and software ecosystem by relying on Shenzhen's high end aviation R&D and advanced manufacturing industry value chain.*

** Establish a technological innovation system with the support of the city innovation ability, talent resources and business environment.*

"The innovation centre will benefit from the advantages of policy planning, talent resources and a favourable investment and financing environment in Shenzhen to impact global aviation innovation," Luo said. "The city boasts global competitive advantages in technology, research and development, industrialisation and international expansion"

Initiatives at the recently established centre include autonomous flight, urban air mobility (UAM), inflight experience and interaction with leaders in industries relevant aerospace.

Airbus also has a research centre, A3, in northern Califormia's Silicon Valley.

Newsmakers of the year

The revolving door was busy at airline C-Suites across the Asia-Pacific in 2017 as several airline CEOs were sidelined, departed prematurely or just decided to take a break.

The most surprising departure came late in the year when the group managing director of Malaysia Airlines Berhad (MAB), Peter Bellew, resigned half way through his three-year contract. He returned to his former employee, Irish-headquartered LCC Ryanair, as chief operating officer.

MAB was not impressed and wasted no time in promoting the airline's COO and career MAB pilot, Captain Izham Ismail, to the top job. "Bellew's departure, if anything, has accelerated our plans to localize the leadership of the Malaysia Airlines group," the airline said in its announcement of Ismail's appointment in October.

At the start of 2017, global airline leader, Cathay Pacific Airways, signaled a year of change when it announced it would undergo management restructuring and leadership changes that would begin at the top. In May, the airline's chief operating officer, Rupert Hogg, succeeded Ivan Chu as Cathay CEO. Hogg's promotion was accompanied by the announcement of the first stage of the company's three year transformation programme that resulted in an initial culling of 600 obsolescent positions at the airline. Cathay's strategy step change is intended to reduce costs by HK$4 billion (US$512 million) and return it to profit as it battles fierce Mainland carrier competition, shifting patterns of passenger behaviour and customer expectations of ever lower fares.

Across the tarmac in Hong Kong, another expatriate, Andrew Cowen, took the fall at HK Express in October after being held responsible for a shortage of training staff at the airline that forced the cancellation of 14 of the carrier's flights in the "Golden Week" peak season. Hong Kong airline's former chief commercial officer, Li Dianchun, is now in charge and is working in tandem with HK Express' executive chairman, Zhong Guosong.

Elsewhere in the region, Patee Sarasin, the chief executive of LCC Nok Air since its launch in 2004, stepped aside in September, although he was permitted to remain at the carrier as deputy chairman. Nok Scoot CEO, Piya Yodmani, took charge of the domestic LCC and immediately began its turnaround.

At full service carrier, Thai Airways International, no permanent CEO is in sight following Charamporn Jotikasthira's completion of his three-year contract with the carrier in February. Usanee Sangsingkeo has been THAI's acting president for almost a year as the airline's board continues its search for a permanent replacement for Charamporn, a former president of the Stock Exchange of Thailand.

Earlier in the year, in April, Arif Wibowo was dismissed as president of Garuda Indonesia and returned to subsidiary

Airbus' "legendary" Leahy to retire in January

Every airline boss in the world has a story about their relationship with Airbus super salesman, John Leahy. Redoubtable, indefatigable, extremely knowledgeable and combative when the public occasion required it, the 67-year-old American in Toulouse is credited with selling 90% of all Airbus airliners during his decades with the company – and providing plenty of entertainment for the aviation media industry while he was at it.

Now finally ready to disrupt his life by retirement, he will be succeeded by Eric Schulz, 54, the current president of Civil Aerospace at Rolls-Royce, a position the aeronautical engineer has held since January 2016. Air Shows won't be the same with John Leahy.




Citilink as losses mounted at the flag carrier. A former finance director of PT Bank Mandiri, Pahala Masry, is now in the hot seat where he has set about the task of stemming losses. Early decisions include eliminating loss-making destinations in the Garuda network and deferring and/or renegotiating aircraft orders.

In the same month, there was a more orderly succession of leadership at All Nippon Airways (ANA) where ANA chief executive, Osamu Shinobe, was promoted to vice chairman of ANA HOLDINGS INC. and a 36-year veteran of the carrier, Yuji Hirako, succeeded him. Cosmopolitan Hirako was most recently an executive vice president and airline board member who led the carrier's expansion to new U.S. destinations in the last three years.

In Australia, the Qantas Airways group announced its biggest management reshuffle since 2014, although it did not involve the group's CEO, Alan Joyce. In August, Qantas International & Freight CEO, Gareth Evans, moved to low-cost subsidiary Jetstar as group CEO. Former Jetstar boss, Jayne Hrdlicka, was given responsibility for Qantas Loyalty and, and most interestingly, Digital Ventures. Alison Webster succeeded Evans as CEO Qantas International.

Further west, one of the biggest airline management shake ups in years was announced in January when the big spending Etihad Aviation Group revealed the architect of its alliance strategy, James Hogan, would formally depart the group on July 1. Hogan then became invisible in the group's operations. The news was no surprise to the industry. It was widely known that the group was suffering big losses from its airline investments, particularly airberlin and Alitalia. Ray Gammell will continue as acting interim CEO of the Abu Dhabi group until Tony Douglas takes on the job permanently next month. Hogan and partners have set up a financial services company headquartered in Geneva.

In India, a market that is approaching China in significance, the leadership of the country's two longest surviving airlines, Air India and Jet Airways, changed hands and a successor to Phee Teik Yeo, the launch CEO of joint venture full service carrier, Vistara, has been confirmed by India's aviation regulator.

In November, Bangalore Metro Rail Corporation managing director, Pradeep Singh Kharola, was confirmed as the new chairman and managing director of Air India, following the return of the plain speaking former Air India boss, Ashwani Lohani, to the railway business as head of India' s rail company. Kharola will be at the centre of plans to dispose of ailing Air India to investors – and possibly rival airlines - a commercial strategy that gets some Indians hot under the collar.

Indian American, Vinay Dube, filled the vacant CEO chair at Jet Airways in June, 17 months after Cramer Ball left the carrier for Alitalia. Two acting CEOs, Gaurang Shetty and Amit Agarwal, kept the seat warm for Dube, who has returned to India after living abroad for three decades and working in senior positions at Delta Airlines, American Airlines and Sabre Inc.

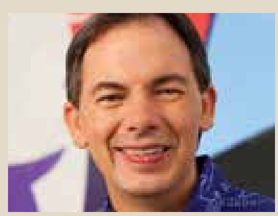
At joint venture Tata-Singapore Airlines carrier Vistara, launch CEO Phee Teik Yeoh was succeeded by Scoot and Tigerair boss, Leslie Thng. Thng was chief commercial officer of Budget Aviation Holdings, the parent company of Scoot and Tigerair, from May 2016 to October this year and served as CEO at SilkAir for almost four years from September 2012.

Phee has returned to Singapore to take up a senior position with SIA after launching the full service carrier in January 2015 in an environment of heated opposition from threatened Indian controlled carriers. Vistara changed how Indians flew by offering standards of service and on time performance that local full service operators could not match. ■

On the move in 2018

In March 2018, Ken Choi, the very successful CEO of Jeju Air, will pass on the leadership of the carrier to his executive vice president, Lee Seok-Ju. Since Stanford University educated Choi took over Jeju Air, the budget carrier has grown into a US$800 million business and launched a successful IPO in 2015.

At Hawaiian Holdings, chief executive, Mark Dunkerley, has announced he will retire from the airline group after a decade and a half at the carrier. Dunkerley joined Hawaiian in December 2002 as chief operating officer and was promoted to CEO in June 2005. He will be succeeded by current chief commercial officer, Peter Ingram.



ALL NIPP AIRWA KINGMA

The first of April 2009 was not the most auspicious day for Shinichiro Ito to take up his new job as president and CEO of All Nippon Airways (ANA). The Great Recession had set in across the world, after a 50% wipe out of the U.S. stock market on September 29, 2008. Some banks had gone bust. Governments were forced to bail out multi-billion dollar corporations. Companies were shedding jobs by the thousands in every significant global economy. The final two quarters of 2008 recorded negative economic growth and were followed by similar crippling figures in the first six months of 2009.

The world economy was in crisis, and therefore so was the airline industry. "Fiscal year 2009 was one of the worst years for financial results at ANA," Orient Aviation 2017 Person of the Year Shinichiro Ito told Orient Aviation in Tokyo last month. The airline had announced a US$43 million loss for its fiscal 2008 year

ORIENT AVIATION PERSON OF THE YEAR 2017

SHINICHIRO ITO
Chairman
ANA HOLDINGS INC.

ON
YS
KER

Under the leadership of Shinichiro Ito All Nippon Airways (ANA) was transformed from the financially vulnerable "second international carrier of Japan" to a five star global success story. Now chairman of parent ANA HOLDINGS, Ito has put innovation at the heart of a company that is now one of the most profitable airline groups in the world. *Chief correspondent, Tom Ballantyne, reports from Tokyo.*

Photos: Akira Igarashi

and in Ito's first year in charge, ANA losses hit a new low of $616.7 million.

Characteristically, Ito remained calm in the crisis; a trait that those who know him say is a hallmark of his leadership. But it was not only cash flow, or lack of it, that concerned Ito. "We saw Japan Airlines (JAL) go bankrupt [in January 2010]. We talked with employees and the Board of Directors and told them that we wanted to keep standing on our own," Ito said.

"As CEO, I asked our employees for their full co-operation in coming up with more efficient operations as well as cutting wages right up to the board of directors. We did as much as possible, as much as we could think of, including combining some subsidiary companies into a single administration."

It was rationalization at its best. Backing up the restructuring was a cash raising exercise that supported aircraft purchases aimed at propagating growth. ANA returned to the black in 2010.

Despite an improving financial situation, ANA's problems were far from over. A critical part of the airline's long-term strategy was centred around the arrival in its fleet of Boeing's game changing B787, "Dreamliner". The new aircraft type promised a 20% reduction in fuel and configurations that were calculated to make money on new but thinner long haul routes, especially to the U.S.

ANA ordered 50 B787s in 2004 and expected the first of them to arrive at its headquarters in the third quarter of 2007. Instead, first delivery was delayed several times. The first B787 delivered to ANA was more than three years late.

As Ito and his team waited for Boeing to deliver the B787s, a much larger crisis hit not only the carrier but all of Japan. On March 11, 2011, an earthquake with a magnitude of 8.9 erupted 150 kilometres off the coast of Japan's largest island, Honshu.

The resultant tsunami, which destroyed hundreds of thousands of homes and caused a cooling system failure and consequent meltdown at the Fukushima nuclear power station, took more than 16,000 lives. It displaced thousands of people from their homes and fractured essential infrastructure across the region.

Ito said: "At that time, including Sendai airport which was the centre of that earthquake, a lot of the airports in the region were not operable. Our employees worked very hard. They stayed there in order to fix the situation and start operations as soon as possible. A number of volunteers from the ANA group also worked in the region to help survive the crisis."

"For instance, we did some re-forrestation - planting trees. These are the kind of activities outside our operations that the ANA group contributed to society to help people recover from the disaster."

Ito believes contributing to society is important for an airline like ANA. "It is in the Japanese culture to help because Japan has a lot of natural disasters like typhoons and earthquakes. Japanese themselves have that kind of ability, the mindset, ANA does back up those employees who are willing to volunteer," he said.

In September 2011, six months after the earthquake and the tsunamis (there were several of lesser force after the initial one), the natural disasters were estimated to have cost the direct Japanese economy US$199 billion. At that time Ito welcomed its first B787 into the ANA fleet.

As a result of strikes at Boeing, an assembly line process that did not go as planned and several issues with new technology parts and engines from Rolls-Royce, the first B787-8 flew its inaugural passenger service from Tokyo Narita to Hong Kong in October 26, 2011.

But delayed entry into service was only one of the problems ANA had with the B787. As the aircraft began to fly the ANA network it emerged that the lithium ion batteries equipping the aircraft could catch fire both in flight and on the ground.

Ito said: "We were the launch customer. I personally believed very deeply in the capability of the B787. We did have to make a very difficult decision to ground the aircraft. From an airline perspective, we had to perfectly be confident with the safety of the aircraft itself and the implications.

"It was a very difficult decision to make. But we turned the battery problem into a deeper relationship between

Myanmar deal not dead

All Nippon's investment strategy has become an important avenue for opportunity. It has purchased 8.8% of Vietnam Airlines and intended to seek approval for its joint venture, Asian Blue, in partnership with local investor, Golden Sky World.

The plan hit a road block in October when Asian Blue's application process for an air operator licence (AOC) did not progress. Despite reports to the contrary, Ito told Orient Aviation that ANA's willingness to structure a new joint venture with a different partner is not dead.

"If we are to invest in any companies there are two basics we need to accomplish: One would be to contribute to the network expansion of the ANA group. Number two would be that it benefits our customers," he said.

"The investment we made with Vietnam Airlines was a win-win situation for both of us. With regard to the Myanmar example we were trying to be a company that would contribute to the development of the airline industry in Myanmar. We were still in the preparation stage luckily, so we did not see any losses, for the record."

"But we would like to try hard again so we can support the development of the Myanmar airline industry."

Asian Blue is ANA's second foray into Myanmar. In August 2013, it announced it would take a 49% holding in Myanmar's Asian Wings Airways, at a cost of US$25 million. It was the first investment by a foreign carrier in a Myanmar airline and was intended to expand the Japanese airline's international network.

However, the equity tie-up foundered and was then annulled in 2014 because of "an increasingly" competitive domestic market in the emerging nation.

ANA remains determined to forge presence in Myanmar. It has 30 Myanmar aviation workers at its facilities at Narita undergoing training that is intended to contribute to the aviation development of Myanmar.

Boeing and us because we really discussed this problem. And we did order more Dreamliner aircraft. As of today, we have more than 80, including those we own and those on order. We turned it into more of a positive situation."

Ito's confidence in the B787 never wavered. He said ANA called the aircraft "The game changer" because it allowed the airline to establish point to point services to secondary cities such as San Jose, Dusseldorf, Mexico City and Seattle. "We would never have been able to operate to those places if it was not for the Dreamliner," he said. "These routes are very profitable nowadays. I believe the Dreamliner was the one that made it come true."

Keeping a young fleet has been a hallmark of ANA's growth. It has 268 aircraft, including 12 B767 freighters, with 97 more aircraft on order. These include 28 A320s or A321neo, six B777-300s, 20 B777-9s, 17 more B787-9s and three B787-10s. In September, ANA became Japan's first carrier to take delivery of the A321neo.

The delivery of three A380s to ANA is scheduled to begin in 2019, making the carrier the only airline in the world to order the big jet in the last three years. Why the A380? "There is a huge demand between Japan and Hawaii, but fewer slots are available," Ito said.

"We were not able to be a dominator in the Japan-Hawaii market. It is the reason we chose to have a very big aircraft to carry that demand. The A380s will be dedicated to Hawaii when they arrive and will be configured with more than 500 seats."

In November, ANA announced it would terminate its partnership with Hawaiian Airlines in March next year. ANA CEO, Yuji Hirako, recently told a media reporter the airline is considering shifting some of its B767s to open up the market for medium haul destinations of up to eight hours via the group's low-cost subsidiaries, Osaka's Peach Aviation and Narita'sVanilla Air. ANA is now analysing new Asian destinations to introduce its subsidiary LCC into the market.

In the last six years, apart from achieving five star and top five global airline status, ANA has overtaken its arch rival, Japan Airlines, as the country's largest airline.

But that does not seem important to Ito."Although we are the largest airline in Japan, mentally we don't really feel like it," he said. Why is that? "Because size does not matter," he said. "What is important is being safe, having satisfied customers and being profitable."

That fiscal discipline was a trademark of Ito's leadership at ANA and he has carried it with him to the parent company. ANA HOLDINGS reported a record net profit of $0.8 billion in 2016, a 26.4% increase over the previous year. Recent results have been even better. In November, ANA upgraded its profit forecast for the current year, ending March 2018, to a record $1.1 billion. Its net profit in the first half, from April to September, has more than doubled.

Despite these successes, the Japanese government's multi-million rescue of a bankrupt JAL continues to rankle with Ito. "During my leadership as CEO I strenuously argued that the government's support (for JAL) was a little

Less budget and Gulf carrier competition

A fundamental reason for ANA's recent spectacular results compared with some of its full service peers is that low-cost carriers have a relatively small presence in Japan and the Gulf carriers are not dominant in the market.

"In Japan, LCCs only own 10% of the market, which is fairly low compared with the Southeast Asian market," said Ito.

"Number two, the Gulf carriers are not that dominant in Japan. Number three, the very fundamental Japanese traffic is still there. These are the three basic reasons we can still show the growth.

"Also, we own the LCCs," Ito said. Indeed Peach, which ANA recently brought under its wing through an increased equity, was a significant contributor to its latest record results.

"In the European or Southeast Asian market LCCs' share is over 50%. Japan is unlikely to see LCCs have more than 50%. There's a very big restriction, a hurdle, for the LCCs. The Japanese domestic market relies very heavily on Haneda airport and it has slot restrictions," he said.

"So LCCs are not able to own enough slots. In the meantime, maybe 30% of the market for LCCs is a fair guess. We are basing our future strategy on the premise that LCCs might own 30% or more of the market."

bit too much help for JAL at that time," he said.

Ito fought ANA's corner with the Japanese Congress and asked that new slots at Narita and Haneda be skewed to ANA. "At the end of the day, here we are. During those difficult times, I repeatedly said to ANA and our group employees that we needed to stand on our own without government support," he said.

The carrier has stuck by that mantra with stunning effect. Is it a level playing field today [between ANA and JAL]? "There is fairly fair competition, but there is still a way to go," Ito said diplomatically.

The ANA HOLDINGS perspective is that "if we are to invest in any companies there are two basics we need to accomplish: One would be to contribute to the network expansion of the ANA group. Number two would be that it benefits our customers," Ito said.

While its relationship with the SkyTeam alliance's Vietnam Airlines is outside ANA's Star Alliance structure, Ito rejected any suggestion that global alliances are approaching their use by date.

"We started international services in 1986 and for the first 16 years we were in the red. We did not make any profits at all," he said. "We joined the Star Alliance in 1999 as the ninth member. Now here we are doing joint venture business with United Airlines and Lufthansa. So becoming a member of Star had a very big impact for us.

"We learnt a lot about international service. Today, because the Star Alliance has 28 carriers and because we were the ninth member we are in the centre and trying to make Star Alliance more profitable and more efficient. We want to be the most efficient alliance group."

Ito said partnerships outside the alliance were now normal. "I am aware that in the case of Vietnam Airlines, it is a member of SkyTeam," he said. "There are some occasions when airlines are partnering with airlines that are outside their own alliance.

"The industry is showing progress and that's the way they are showing progress. It does not have to directly mean the alliance is over. Creating benefit for our customers always comes first. If we are benefitting our customers we can do certain partnerships. The Star Alliance as an organization is becoming a little more flexible than before."

In the past decade, ANA has earned a well-deserved reputation for innovation and service. Ito conceded the carrier went through a very difficult period, but said ANA never ceased to invest in the latest, most modern cabin product.

"We try very hard to introduce the latest product into our cabins. But our reputation comes on top of that. It is not only about the product. We ask our employees to try very hard to show customers Japanese hospitality," he said.

"That's why our customers are very satisfied and have seen the benefit of flying with ANA - on top of the very high quality of innovation itself."

The airline has increasingly turned to social media to reach the market, using YouTube, Twitter and other social

Four major changes in aviation post 2008

"One would be the rise of low-cost carriers. We never thought they would grow so much. Number two would be the progress of the technology, for example the introduction of the B787s and new aircraft," Ito said.

"Three would be the regrouping of the airlines – mergers - such as in the U.S. and Europe. Number four would be the Gulf carriers," he said.

Ito believed the biggest opportunity for the group's expansion was increased traffic in Asia and how that growth is handled, not just in the region but in travel to North America and elsewhere.

media sites to expand awareness across every passenger demographic.

It has invited social media influencers from across the Asia-Pacific to travel to slightly lesser known destinations in Japan in the hope they will attract new categories of travellers to Japan.

Last month, it signed a partnership agreement with Airbnb to solicit more demand for domestic travel. The partnership will allow users to earn extra miles and coupons if they reserve Airbnb properties from the ANA and Peach websites.

The growth of Chinese carriers does not faze Ito. Some analysts have compared their emergence with Gulf airlines, but Ito disagreed. "The Gulf carriers grew on transit traffic while Chinese airlines have a huge domestic population to feed their growth," he said.

"The Middle East carriers do not have the Mainland advantage. If we go head to head in a competition with the Chinese carriers we have the chance to bring Chinese customers onto our planes. It is important."

Another challenge for Japan's airlines is their ability to handle the aggressive target of 40 million visitors to the country in 2020, the year of the Olympic Games in Tokyo.

"The Japanese government has a very robust target and the airline industry has a very big role to play in it. From an ANA perspective, we are introducing reasonable fares that can only be purchased from outside of Japan market places. We are trying our best to contribute to hitting the Japanese government's target."

"But if the target is reached can airlines handle it? "The target is 40 million annually. This year the government said they are close to 30 million. We say that to serve 40 million visitors there needs to be 300 flights a day plus what we have today. Haneda and Narita cannot be capable of handling that number of flights," he said.

"There has to be more local, secondary airports used. We are seeing a significant trend. Right now, a lot of passengers coming from nearby countries are landing in local areas in Japan and not Tokyo or Osaka. There is a big increase in the numbers [flying] to these local airports. This is how we will handle the increase."

Like any airline leader, Ito recognised the industry's challenges. "The world is changing at significant speed. If you look back ten years, we would have never imagined today. It is very difficult for us to predict how it will look in another ten years," he said.

"ANA and the ANA group have experienced ups and downs, but we are in a pretty good position today. There will be more ups and downs, but we are very well prepared. We should not be looking for a very big jump in growth, but sustainable growth."

Amidst all the planning and complexities on the corporate front Ito said ANA's most fundamental principal is safety. "It is always our top priority of ANA. Also, it is important to continue to evolve high quality of service for our customers. If we can hit these two targets we can be confident of our growth."

And Ito's future? "I would like to have a very happy retirement," he said, as the rumour mill continues to predict he will retire in March next year. Is that [retirement] coming soon? Orient Aviation asked. "That is very secret," he said with a laugh. ■

A life time partnership

As he celebrates his 67th birthday on December 25, Shinichiro Ito, Chairman of the Board of ANA HOLDINGS INC., can look back on a long and distinguished career with ANA that has seen him lead the carrier to the forefront of global airline operations. Born in Miyazaki in southern Japan, he joined All Nippon Airways in 1974 after graduating from Kyushu University's Faculty of Economics.

During his 43-year career with All Nippon Airways (ANA), he has worked in operations and administration, corporate planning, sales and services, engineering and maintenance and human resources. He was appointed to the airline's board of directors as senior vice president of marketing in 2003 where he was responsible for marketing, sales, personnel and employee relations and customer services promotion. He became president and CEO of ANA in April 2009 and served in that role until the group moved to a holding company structure in 2013.

Ito was the first president and CEO of ANA HOLDINGS INC. as well as the board chairman of the group's airline business. He was promoted to chairman of the board of ANA HOLDINGS in 2015. He lives in Tokyo with his wife and two children.

The great divide in aviation security

The International Air Transport Association (IATA) has made another plea to the world's governments to establish global standards for aviation security after it was revealed that 40% of countries worldwide had failed to meet the basic recommendations of the 40-year-old Chicago Convention. Chief correspondent, *Tom Ballantyne,* reports.

Global standards are critical to effectively manage the security of a global industry, said IATA director general and CEO, Alexandre de Juniac, earlier this month. "States are responsible for implementing effective security measures. Annex 17 of the Chicago Convention, which has been in place for four decades, makes this clear.

"But shockingly 40% of states have struggled to implement even its baseline requirements. This is not good enough."

De Juniac said:"Airlines have operational know-how. Governments have the financial and intelligence resources. We have to put them together effectively in a continuous dialogue that is focused on improving security."

IATA said aviation security could be strengthened by addressing the following four areas:

- Closer government to government cooperation to eliminate the long-term challenges of extraterritorial measures such as the requirement that airlines conduct interviews with passengers travelling to the U.S.

Failure to share information contributed to the loss of the 298 people aboard MH17

- The universal application of global standards, particularly the International Civil Aviaion Organisation's Global Aviation Security Plan (GASeP)
- Failure to share information between governments and the industry results in differing – and less efficient – responses to threats. An example of this problem was the confusing 2017 ban on Portable Electronic Devices (PED) by the U.S. and the UK.
- Efficient implementation of new and existing technology such as the use of Explosive c Trace Detection to lift the U.S. ban on large PEDs in the cabin.

"Threats to aviation are real. We understand unilateral additional measures of an extraterritorial nature may be unavoidable at certain times. But these cannot be long-term solutions," de Junaic said.

> "We cannot predict the next security challenge. But we know some things for sure. Our common defense is stronger when governments and the industry work together"
>
> **Alexandre de Juniac**
> IATA director general and CEO

He welcomed the development of the Global Aviation Security Plan (GASeP) by the International Civil Aviation Organization (ICAO) and urged its swift implementation.

"Development and implementation are different things—as we clearly see with low levels of compliance to Annex 17 requirements. Capacity building will be critical. States will need to integrate the priority actions outlined in GASeP into their respective National Civil Aviation Security Programs if it is to be effective."

"The failure to share information among states manifests itself in many ways. At its most tragic, it is clear that failure to share information contributed to the loss of the 298 people aboard Malaysia Airlines MH17. The aircraft, en route to Kuala Lumpur, was shot down over the Ukraine in July 2014.

Technology, said de Juniac, played a critical role in keeping aviation secure. "For example, the utilization of explosive trace detection (ETD) screening was integral to the lifting of the U.S. ban on large PEDs in the cabin. And the use of ETD will soon become an Annex 17 standard." IATA highlighted two areas for improving the development and use of technology: for certification processes to be streamlined and coordinated across jurisdictions and that information technology (IT) should be employed more intensely so that passenger information can be referenced at airport checkpoints.

"IATA's Global Passenger Survey highlights that passengers are frustrated with security and border control processes; and they are willing to share information if it makes these processes easier," said de Juniac. ■

MTU Aero Engines upgrades 2017 profit forecast

Germany's leading engine manufacturer, **MTU Aero Engines**, has reported a 17% profit jump for the nine months to September 30 and revised upwards its predicted profit for the full year to Euros 390 million (US$452.0 million).

MTU Aero Engines CEO, Reiner Winkler, said: "Based on these results [for the reported nine months] and the positive effects on earnings that we can now expect to derive from our product mix, we are able to raise our earnings forecast for this year."

The strongest performer in the MTU stable for the nine months was its commercial MRO business where revenues grew by 26% to Euros 1.727 million. Winkler

said MRO demand for V2500 engines that power the A320 family was particularly strong. "Our engine leasing and asset management business also contributed significantly to revenue," said **MTU chief program officer, Michael Schreyogg**.

Commercial engine revenue rose 5%, from Euros 1.738 million to Euros 1.821 million. "For 2017, as a whole, we expect spare parts revenue to be stronger than projected and revenues from commercial engine production to grow slightly less strongly," Winkler said.

"In the spare parts business, we are looking at a rise of around 10% in $US terms and in series production an increase in the mid to high single digit range. Engine revenue came from the V2500, the GEnx for the B787 and the PW1100G-JM for the A320neo." ■

Honeywell and Lufthansa Technik create global MRO capability for A350 fleets

Global aerospace manufacturer, **Honeywell**, has signed on **Lufthansa Technik** as a licenced component repair centre and exclusive asset provider for all Honeywell components on the HGT 1700 Auxiliary Power Units (APU) on A350 aircraft.

Under the agreement, the German headquartered MRO will offer all A350 operators worldwide "an unequalled experience with MRO services for all Honeywell components, including APUs", Lufthansa Technik said.

Lufthansa Technik vice president corporate sales EMEA, Robert Gaag, said the MRO's capabilities range from single component MRO to more integrated, flight hour based nose-to-tail asset availability solutions.

"The groundbreaking design of the A350 demands an equally impressive MRO solution to ensure fleets remain operational and efficient," **Honeywell Aerospace vice president airlines for Europe, Middle East, India and Africa, David Shilliday**, said. "With our continued support, Lufthansa Technik has a winning combination of technology and expertise to offer an unparalleled customer experience."

Since the A350's entry into service in 2014, Lufthansa Technik has managed six in-service fleets with more than 50 A350 in-service aircraft.

Separately, **Lufthansa Technik Component Services Asia Pacific Hong Kong** has celebrated its first anniversary with the news that material supply contracts for more than 100 aircraft have been signed by the new facility.

Important management positions have been shifted from Germany to the region, with **Burkhard Pfefferle-Tolkiehn** heading the Hong Kong facility as vice president component services for Asia Pacific.

"With **Lufthansa Technik Shenzhen**,

Siemens, Airbus and Rolls-Royce fast track electric development

Three giants of the manufacturing world have formed a partnership to develop a near term flight demonstrator that will bring hybrid electric powered commercial aircraft closer to production. The new initiative follows the E-Aircraft Systems House collaboration between Airbus and Siemens that was launched in 2016.

Airbus, Rolls-Royce and Siemens AG said the E-Fan X hybrid-electric technology demonstrator hoped to fly in 2020 after a ground test campaign likely to be conducted on a BAe146 flying test bed. One of the four gas turbine engines on the BAe will be replaced with an electric motor when system maturity was proven, the three companies said in a joint statement in London in November.

Airbus will be responsible for overall integration as well as the control architecture of the hybrid-electric compulsion system and batteries and the engine's integration with flight controls.

Rolls-Royce will be responsible for the turbo-shaft engine, two megawatt generator and power electronics. Both OEMs will work on the fan adaptation to the existing nacelle and the Siemens electronic motor.

Siemens will deliver two megawatt electronic motors, their power electronic control unit, the inverter, the Dc/DC converter and the power distribution system.

The partners are committed to meeting the European Union's technical environment flight path goals for 2050 of a 60% reduction in CO_2, a 90% cut in NO_x and a 75% elimination of noise; goals that cannot be attained with existing technologies. ■

we are the market leader for many repair services and it is our aim to extend this position to other areas," he said. Lufthansa Technik has representative offices in China, Japan, Singapore, India, Thailand and the Philippines and will soon be present in Taiwan. More than 500 aircraft from 30 Asia-Pacific customers are under long-term exclusive contracts for component services with the MRO. ■

Tata Consultancy and Rolls Royce set up Bangalore analytics hub

Information technology and business solutions firm, **Tata Consultancy Services (TCS)**, and propulsion manufacturer, **Rolls-Royce**, announced last month that they will expand their partnership "to exploit future data innovation opportunities" and accelerate their "Digital First" vision.

The long-term collaborators said they will build a world class analytics and agile applications facility in India's Silicon Valley – Bangalore. Rolls-Royce's Digital First strategy will be supported by TCS's Connected Universe Platform intended to produce applications for the Internet of Things (IoT). The consultancy is a subsidiary of Indian listed conglomerate, Tata Group, and employs 389,000 consultants in 46 countries.

TCS will provide IoT digital platform capability that will allow data to be captured, shared and analysed to enable the manufacturer to more quickly develop and introduce new products to the market. TCS will set up a customer delivery centre in Rolls-Royce's home city of Derby in the UK that will be dedicated to servicing Rolls-Royce at its sites across the world.

Rolls-Royce chief digital officer, Neil Crockett, said: "This is an example of how we intend to unleash data innovation through collaboration. It will allow us to take advantage of fast-paced data innovation, including the acceleration of our application of industrial artificial intelligence and a range of other cutting edge breakthrough opportunities."

TCS CEO and managing director, Rajesh Gopinathan, said: "Organisations are building on a digital foundation to transform their businesses. TCS continues to be the global technology partner of choice for navigating and taking advantage of the opportunities in the new Business 4.0 era." ■

JALCargo and CHAMP Cargo systems deepen technology ties

Japan Airlines (JAL) and IT cargo solutions and distribution company, **CHAMP Cargosystems**, deepened their three-year-old partnership last month with an agreement to employ IT streamlined solutions to the global carrier's cargo and mail operations.

The partnership is expected to provide speedier e-documentation and delivery to JAL's cargo customers worldwide. At the recent Association of Asia Pacific Airlines Assembly of Presidents, the director general and CEO of the airline industry's global association, Alexandre De Juniac, said the air cargo industry remained an industry dominated by paper documents. He urged all cargo and logistics providers to adopt a global e-paper trail to bring the industry into line with IT operations in all other areas of airline operations.

Japan Airlines executive officer cargo and mail, Hiroo Iwakoshi, said: "CHAMP's comprehensive understanding of the air cargo industry clearly contributed to the great results we have accomplished from our business transformation project thus far. We are confident this new phase will offer the same outcomes."

CHAMP Cargosystems CEO, Arnaud Lambert, said: "I am proud that Japan Airlines has again entrusted CHAMP to provide the technology to support these exciting projects that will see the airline's cargo business processes taken to a new level."

The Luxembourg headquartered company produces the Cargospot cargo management application, the CHAMP business intelligence tool, a ULD manager asset sytem and the Customs Gateway reporting system. It also operates offices in Singapore, Manila, Frankfurt, Zurich, London and Atlanta. ■

Narita Airport buys Smiths Detection hold baggage scanner systems

Japan's Narita International Airport has ordered 20 Smiths Detection high speed CTX 9800 DSi explosive detection systems (EDS) for its hold baggage screening, for delivery and installation from 2019-2022. Narita Airport handles almost 50% of all international passenger traffic into the country and 60% of its international air cargo shipments.

The greater Tokyo airport has been a client of Smiths Detection's hold baggage scanner systems for ten years. The new CTX units will replace 27 legacy Smiths Detection baggage scanners and will screen baggage faster and take up less space in airline cargo handling areas.

Narita is the launch customer for the CORAL Advanced Predictive Analysis Suite, which can predict and schedule maintenance on hold baggage or checkpoint screening networks. Smiths Detection said the upgraded system meant threats, substances and cyber security enhancements can added over time to the units' capability. CTX can be programmed to handle up to 1800 bags an hour with either legacy systems or its new offering. ■