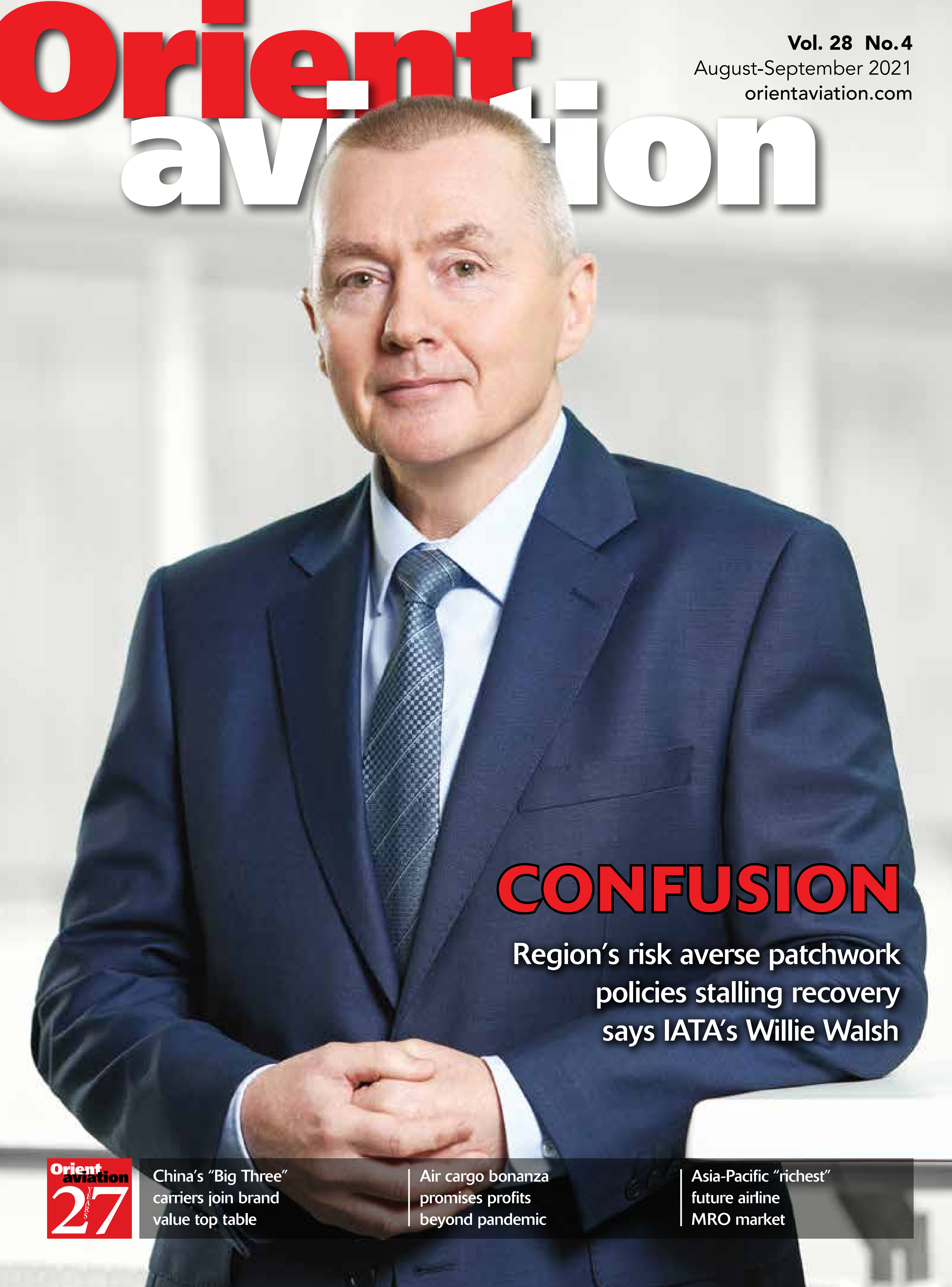
Orient aviation

Vol. 28 No.4
August-September 2021
orientaviation.com



CONFUSION

Region's risk averse patchwork policies stalling recovery says IATA's Willie Walsh

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China's "Big Three" carriers join brand value top table

Air cargo bonanza promises profits beyond pandemic

Asia-Pacific "richest" future airline MRO market

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ORIENT AVIATION MEDIA GROUP
17/F Hang Wai Commercial Building,
231-233 Queen's Road East,
Wanchai, Hong Kong
Editorial: +852 2865 1013
E-mail: christine@orientaviation.com
Website: www.orientaviation.com

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

Associate Editor & Chief Correspondent
Tom Ballantyne
Tel: +61 2 8854 1458
M: +61 4 1463 8689
E-mail: tomball@ozemail.com.au

North Asia Correspondent
Geoffrey Tudor
Tel: +81 3 3373 8368
E-mail: tudorgeoffrey47@gmail.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
Defne Alpay
Tel: +44 771 282 9859
E-mail: defne@orientaviation.com

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

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Airline MRO forever changed by pandemic

All sectors of the aviation industry have changed dramatically as a result of a global pandemic that has gone on far longer than anyone expected. The business of providing maintenance, repair and overhaul (MRO) services, either by original equipment manufacturers such as Boeing and Airbus or independent operators, is no exception. Lockdowns, travel restrictions and quarantine measures worldwide have played havoc with MRO operations, forcing them to innovate and fast. They have gone through a steep learning curve but it is one that will benefit them and their airline customers.

The pace of digitalization has been ramped up. MROs have discovered there are many processes that can be performed online and/or virtually. And while MROs will not reveal details of their financial dealings with customers, they have had to face a commercial landscape where customers have lost billions of dollars and are deep in debt from the pandemic.

MROs say they recognize the difficulties airlines are facing and are doing all they can to assist their customers. It is likely that probably has included allowing some of their customers to defer payments. Just as important, it has forced airlines into a more detailed assessment of their priorities - and decide what is necessary and what is not when it comes to maintenance of their fleets.

A good example of such adaption comes from MTU Maintenance Zhuhai. Because of the pandemic, a U.S. Federal Aviation Administration (FAA) inspector could not travel to China to conduct an audit on an overhauled engine. Instead, it was done online, an efficient and successful process that certainly saved money - and not least in time and travel costs.

To abate a concern that adopting virtual repair and maintenance practices might reduce aircraft and engine maintenance standards, MTU and its MRO peers stress that whatever they are doing on-line or virtually, the end result matches the high standards and product quality of pre-pandemic processes. Although it is a time of great upheaval, it is anticipated these changes in MRO processes will be a huge plus for carriers, whether in the Asia-Pacific or elsewhere. In theory, when the recovery takes hold, MRO advances in digitalization and a shift to online communications and virtual reality should bring cost efficiencies to the sector and, in turn, to airline costs. In other words, the cost efficiencies identified as a result of the pandemic will be completely integrated into the sector's standard operating practices. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

China's 'Big Three" carriers top of Asia-Pacific table for brand value

The coronavirus pandemic has decimated airline profits and spread red ink across the industry's accounts. It also has seriously damaged the value of their brands, including those of leading carriers in the region.

In a report from **Brand Finance**, the world's leading brand valuation consultancy, the value of the world's top 50 most valuable airline brands has declined by a third, from $108.6 billion in 2020 to $72.9 billion in 2021 as the sector was battered by COVID-19.

In its **Brand Finance Airlines 50 2021** airline list only three Asian carriers appear in the top ten table for brand values.

They are mainland airlines **Air China** (6), whose brand value is estimated to have fallen 34.1% to $2.9 billion, **China Southern Airlines** (7) down 35.8%, to $2.6 billion, and **China Eastern Airlines** (8) with a brand value decline of 32.5%, to $2.2 billion.

The top three most valuable brands are U.S. carriers. **Delta Air Lines** is the world's leading airline for brand value, although still down by 37.5%, to $5.7 billion, followed by **American Airlines** with a fall-off of 39.9%, to $5.4 billion, and **United Airlines**, sitting at $5 billion or 39.2% lower than before the outbreak of the pandemic.

Emirates Airline comes in at number four, down 31.9% to $4.7 billion.

There are three new entrants into the rankings in 2021: **Saudia** (brand value $506 million) in 39th place, **Jetstar** (brand value $360 million) at 49 and **Avianca** at 50. "As predicted, airline brands have had a turbulent ride since the outbreak of COVID-19, with brand values plummeting across the board. With recovery closely tied to vaccination rates, we will likely witness short-haul flights and their airline carriers rebound quicker compared with long-haul," Brand Finance's valuation director, Savio D'Souza, said.

"Airlines that successfully fly through the economic storm of the pandemic and protect their brands are likely to be more resilient and perform better as we return to normality."

In addition to measuring overall brand value, Brand Finance determines the relative strength of brands through a balanced scorecard of metrics that evaluate marketing investment, stakeholder equity and business performance. Across the rankings flag carriers receive higher global and domestic Brand Strength Index (BSI) scores. In Brand Finance's latest **Global Brand Equity Monitor**, flag carriers outperformed non-flag carriers on two key metrics: recommendation by 16 points and reputation by 12 points.

In general, flag carriers have benefitted from greater state support than their non-flag carrier counterparts. They have received large allocations of direct financial support and indirect support from furlough schemes and tax deferral concessions. They also have kept flying on essential routes during the pandemic, an option not available to lower cost peers who had to suspend routes. The visible presence of flag carriers during COVID has boosted trust and the reputations of their brands. ■

Veteran Asia insider tasked with delivery of Boeing's expanded ambitions for Asia

The Boeing Company has appointed **Alexander Feldman** as Southeast Asia president, succeeding Ralph "Skip" Boyce, a trilingual U.S. State Department officer and a former U.S. ambassador to both Thailand and Indonesia. Boyce, who joined Boeing in 2008 after 31 years with the U.S. State Department, has retired.

Feldman's responsibilities also span the roles of director and chairman of Boeing Singapore Pte. Ltd and president director of PT Boeing Indonesia.

Feldman's CV most recently includes 12 years as president and CEO of the US-ASEAN Business Council (US-ABC), including the chairmanship in 2020-2021.

An International Relations graduate from the Ivy League's University of Pennsylvania, Feldman has held senior roles at the U.S. State and Commerce Departments and a number of Asia-based businesses.

At the US-ABC, the Eisenhower Fellow and Council of Foreign Relations member has represented 170 businesses, including Boeing, the OEM said.

"We are really sorry to see Skip leave and thank him for having done such a tremendous job leading and growing the Boeing operation and presence across the region, which now includes newly opened offices in Jakarta and Hanoi," Boeing International president, Sir Michael Arthur, said.

"We are excited to have Alex join Boeing. He brings to the team a strong combination of diplomatic and business skills garnered during his more than 30 years in the private and public sectors of the region."

Feldman, who served in the administrations of U.S. presidents, George H. W. Bush and George W. Bush, said: "With more than 380 million people under the age of 35, Southeast Asia will bolster Boeing's growth for decades to come and support hundreds of thousands of American jobs as well as countless others across the region."

In the statement, which also highlighted the expansion of Boeing's presence in Indonesia and Vietnam, the company said Feldman helped assemble a government and industry coalition that provided financial and medical support for Indonesia and the broader region, to contain the 2021 surge in COVID-19 cases.

His appointment takes effect on August 27. ■

Hopes of a late 2021 recovery "evaporate" for region's airlines

Even if plans for travel bubbles are on the shelf because of the new Delta variant in the ongoing pandemic, Asia-Pacific governments should be talking to each other to ensure coordinated health measures are in place when travel markets begin to open up.

That is the view of the region's peak airline body, the **Association of Asia Pacific Airlines (AAPA)**.

Persuading governments to agree to synchronized health measures is the "greatest impediment" to progress, **AAPA director general, Subhas Menon**, said. "That is where we are directing a lot of effort - to attempt to convince governments to make use of current down time to mutually agree harmonious measures for travel health protocols from vaccination to testing to quarantine," he said.

While the International Civil Aviation Organization (ICAO) is planning a high-level conference towards the end of 2021 to seek clarity and co-ordination on health issues, Menon told Orient Aviation "we need to start thinking about it and talking to each other about it so we put things into motion".

Historically it has been difficult for countries to concur on such issues so Menon advocates progress based on bilateral agreements. Each nation knows the countries they want as travel bubble partners, he said, "so you can start talking about the issues to make sure you have a recognition framework for testing centres and vaccination labs as well as certificates". "All of these matters need to be worked out in the next few months. That is what we are talking to them about as well asking them to speed up these agreements," Menon said.

In the meantime, airlines concede hopes of a beginning of an industry recovery by year-end have evaporated. "Everyone was looking forward to a recovery starting by the end of this year, but now it does not look like it because of low vaccination rates, especially among young people. They are the ones we rely on for the supply chain, for tourism, for businesses to expand beyond their national borders, but unfortunately this is not the case," Menon said.

While 2020 has been confirmed as the worst year in the history of aviation, 2021 is proving to be worse than last year, he said. Nevertheless, airlines are a bit better off this year, he added. "Their losses have come down. Their costs have come down significantly and most airlines have restructured their debt or raised cash in capital markets backed by their shareholders and their governments," he said.

"Having said that, they don't have an indefinite amount of cash. It's going to run out sooner or later if they can't operate and earn enough money to cover their costs." ■

Europe's emissions strategy reverts to new taxes on airlines

By associate editor and chief correspondent, Tom Ballantyne

The European Union (EU) is at it again. In the middle of the COVID-19 pandemic and the worst crisis airlines have experienced in the history of flying, EU legislators are proposing new taxes on aviation fuel and regulations that will force carriers flying in European skies to use increasing amounts of sustainable aviation fuel (SAF).

Airline industry bodies are dismayed by the EU's plans, angrily pointing out the last problem their members need now is additional fees on bottom lines that have been decimated by the pandemic, not to mention the debt they have accumulated and will have to repay for at least a decade to come.

The policy recommendations are part of a sweeping set of proposals put forward by the European Commission aimed at reducing the EU's net greenhouse gas emissions by at least 55% by 2030.

Under the ReFuelEU Aviation Initiative, fuel suppliers will be obligated to blend increasing levels of SAF (sustainable aviation fuel) in the jet fuel delivered to EU airports. That number will rise from 5% in 2030 to 20% in 2035 and ultimately to 63% by 2050. A minimum tax for polluting fuels is to be introduced gradually over a decade, starting in 2023.

The EU wants to make sure carriers flying through Europe, including Asia-Pacific airlines, don't dodge the regulation by fuelling up outside the EU to avoid the new taxes or the SAF regulation. Instead, they will have to fuel-up consistently during aircraft turns within the EU so they cannot avoid fueling at airports with SAF, where the fuel price is expected to be higher.

For airlines the issue is that SAF is far more expensive than normal jet fuel and the infrastructure required to meet global aviation fuel requirements is decades away. "Taxes are unhelpful and usually harmful to consumers. It will be more productive if governments support and incentivize the accelerated development and deployment of sustainable aviation fuels on a cost-effective basis," said Association of Asia Pacific Airlines (AAPA) director general, Subhas Menon. "All parts of the aviation ecosystem, including fuel suppliers, need to come together to overcome this significant challenge which is beyond the airlines to address on their own."

The International Air Transport Association (IATA) reacted strongly to the proposed EU SAF regulations condemning them as counterproductive to the goal of sustainable aviation. "Aviation is committed to decarbonization as a global industry. We don't need persuading or punitive measures like taxes, to motivate change," said IATA director general, Willie Walsh. "In fact, taxes siphon money from the industry that could support emissions reducing investments in fleet renewal and clean technologies." A better approach would be tax incentives to spur SAF production, Walsh said.

> "We should all be worried that the EU's big idea to decarbonize aviation is making jet fuel more expensive. That will not get us to where we need to be. Taxation will destroy jobs. Incentivizing SAF will improve energy independence and create sustainable jobs. The focus must be on encouraging the production of SAF and delivering the Single European Sky"
>
> **Willie Walsh**
> International Air Transport Association director general

IATA's data on SAF in aviation underscores the challenge ahead. While SAF reduce emissions by up to 80% compared to traditional jet fuel, insufficient supply and high prices have limited airline uptake to 120 million litres in 2021, a fraction of the 350 billion litres airlines consume in a 'normal' year.

What is required are market-based measures to manage emissions until technology solutions are fully developed, IATA said. "The industry supports the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) as a global measure for all of international aviation. It avoids creating a patchwork of uncoordinated national or regional measures such as the EU Emissions Trading Scheme, that can undermine international cooperation," the global airline body said.

"Overlapping schemes can lead to the same emissions being paid for more than once. IATA is extremely concerned by the Commission's proposal that European States would no longer implement CORSIA on all international flights."

"Modernizing European ATM through the Single European Sky initiative would cut Europe's aviation emissions between 6%-10%, but national governments continue to delay implementation," IATA said.

"Just recently the European Council failed to show any leadership in cutting emissions through harmonizing European air traffic management," Walsh said.

"The most practical near-term solution to reducing emissions is SAF. But energy transitions are only successful when production incentives drive down the price of alternative fuels while driving supplies up. Making jet fuel more expensive through taxation scores an 'own goal' on competitiveness that does little to accelerate the commercialization of SAF." ■

Air cargo bonanza promises profits beyond the pandemic

It is hardly news air cargo is the shining light of Asia-Pacific aviation amid the gloom of the pandemic. Statistics indicate the sector's recent growth will endure beyond COVID-19 requiring the region's airlines to expand their cargo divisions to keep pace with demand. Associate editor and chief correspondent Tom Ballantyne, reports.

Air freight traffic is solidly back to pre-pandemic levels. And there is more good news on the horizon. The International Air Transport Association (IATA) has reported air cargo is now much more competitive with ocean shipping. At press time, air freight was only six times more expensive than ocean transport compared with 12 times more costly pre-COVID-19.

At the same time, rapid growth in e-commerce, accelerated by stay-at-home orders, lockdowns and demand for transport of temperature sensitive drugs, chemicals and medicines are propelling air freight growth to bigger profits. Air cargo has become crucial to moving medical supplies around the world and that growth is expected to continue after the recovery because online retailing and express home deliveries have become part of daily life.

For example, in the first half of 2021 Chinese commercial airlines carried 3.74 million metric tonnes of cargo and mail, an increase of 6.4% over the same period in 2019. International cargo flights increased by 7.8%.

Global air cargo is forecast to increase by 4.9% annually, to around $144 billion, by 2027. But given market indicators, the projections may be conservative. Differing predictions aside, it is generally agreed the Asia-Pacific will remain the fastest growing air cargo market in the world, rising in excess of 5% a year and achieving a value of more than $60 billion by 2027.

While there continues to be a cargo capacity shortfall because of lost belly space from a depleted passenger jet fleet, airlines are lifting cargo capacity. The passenger-to-cargo conversion business is booming. Cargo Facts Consulting has reported active and planned passenger-to-freighter conversion sites across all jet aircraft types have increased to 25 worldwide.

The cargo sector's latest statistics, for June this year, reveal a continued upward trend even though comparisons between 2020 and 2021 are distorted "by the extraordinary impact of COVID-19", IATA said. But global demand in June this year was up on 2019. Global demand this year, it reported, increased 9.9% compared with June 2019, the 14th consecutive month of improvement. And while the pace of growth did slow slightly in June, air cargo outperformed global goods trade for the sixth consecutive month.

In June, Asia-Pacific airlines reported demand for international air cargo increased 3.8%, a decrease from the previous month (5.3%) due to a slight slowdown in growth in several large trade routes such as Within Asia. International capacity remained constrained in the region, down 16.9% versus May 2019. But as was the case two months earlier, the region's airlines reported their highest international load factor at 75.2%.

IATA said underlying economic conditions and favourable supply chain dynamics remain supportive for air cargo, adding Purchasing Managers Indices - leading indicators of air cargo demand - show business confidence, manufacturing output and new export orders are growing at a rapid pace in most economies.

"Propelled by strong economic growth in trade and manufacturing, demand for air cargo is 9.4% above pre-crisis levels. As economies unlock, we can expect a shift in consumption from goods to services. This could slow growth for cargo in general, but improved competitiveness compared to sea shipping should continue to make air cargo a bright spot for airlines while passenger demand struggles with continued border closures and travel restrictions," said IATA director general, Willie Walsh.

Association of Asia Pacific Airlines (AAPA) director general, Subhas Menon, echoed these sentiments and said air cargo volumes carried by Asia-Pacific airlines have largely recovered to pre-pandemic volumes in response to strong demand. "This contrasts starkly with the depressed state of international passenger traffic, which has remained largely

stagnant with no improvements in over a year," he said.

In May, international air cargo demand in Asia measured in freight tonne kilometres (FTK) saw 23.1% year-on-year growth compared with a year earlier, significantly outpacing the 3.6% increase in offered freight capacity, as belly hold space remained constrained due to limited commercial passenger operations. As a result, the average international freight load factor rose by 11.7 percentage points to 73.7%.

Some cargo operators are doing even better. Singapore Airlines Cargo, for example, saw its cargo load factor in June rise to 87.6%, which was 5.1 percentage points higher year-on-year, as cargo traffic rose by 52.0% on the back of a capacity expansion of 43.3%.

Cathay Pacific Airways has reported its freight load factor increased by 5.6 percentage points to 80.6% and capacity, or available freight tonne kilometres (AFTKs), was up by 2.7% year-on-year, although down 44.4% versus June 2019. "With quarantine restrictions easing following the high uptake of vaccination among our aircrew, we were able to further reinstate our freighter capacity, especially on our long-haul routes.

"We also were able to mount considerably more cargo-only passenger flights compared with the previous month, especially on short-haul routes, to meet the reasonably strong regional demand," the airline said.

"Regarding cargo, we are cautiously optimistic that overall demand will be strong for the remainder of the year. Gradual resumption of passenger services will provide us with greater belly capacity and should coincide with the usual cargo peak season.

"To provide additional lift we are converting two more of our B777 passenger aircraft into cargo-only 'preighters' by removing seats from the Economy Class cabin, bringing our total to six 'preighters'. These aircraft will provide support to our general cargo and post shipments around Asia."

In all of this, the shift from seaborne freight to air cargo is very significant for the future of the sector. Interestingly, it has been acknowledged by the world's biggest shipping company, Denmark-based Maersk, which has subsidiaries and offices in 130 countries and around 83,000 employees worldwide. It also has an air freight division. Its analysis is air cargo demand remains strong as shippers "seek alternatives to the ocean" ahead of the peak season.

The company has published its assessment of Asia-Pacific freight markets. In Greater China, it said, shippers should rebuild inventories to beat the peak season rush. It wrote there is a shift from ocean to air and a commitment to longer term charters. Maersk Airfreight has added routes and service options in China to help its customers adapt to the ever-changing market situation.

Demand is predicated to strengthen in Thailand, Malaysia and Singapore in the coming months. Prospects in Vietnam remain weak from the impact of COVID-19, although exports from the country and Cambodia are reviving with business from Europe and the U.S. Cargo volumes in Myanmar continue to be adversely affected by the political situation. Imports will see longer transit times and space constraints as demand remains high in hub airports.

In Australia and New Zealand, COVID-19-related cancellations on some direct flights between Australia and New Zealand have put pressure on export capacity, but there is an increased appetite for space from New Zealand to Australia as ocean shipments are affected by delays and port congestion.

In Indonesia and the Philippines, air freight is driven by strong export demand for retail, garment and electronics products to the U.S and Europe. "In the Philippines, air cargo capacity to European destinations is higher than to the U.S., but remains tight to both markets. In Japan and Korea, rates have declined slightly, except to U.S. destinations. Space remains tight and demand is high, which requires longer lead times," Maersk said.

As the more contagious Delta variant of COVID continues to wreak havoc on international passenger operations, indicating there is no immediate end in sight to the global pandemic, air freight appears certain to continue to play a more significant role in the operations of Asia-Pacific airlines. ■