Orient aviation

Vol. 30 No. 3
June-July 2023
orientaviation.com

BACK FROM THE BRINK

Provide value to customers and profits will follow, believes president and COO of Philippine Airlines, Captain Stanley Ng, a leader who started his career at the flag carrier's check in desk

Orient aviation 30 YEARS

Affluent "YOLO" passengers boost premium cabin business

India's massive airline shakeout post Air India's privatization

Golden era ahead for aviation leasing in the Asia-Pacific?

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

Publisher & Editor-in-Chief
Christine McGee
E-mail: christine@orientaviation.com
M: +852 6438 3379

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
E-mail: production@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
E-mail: ray@orientaviation.com

Download our 2023 media planner at:
orientaviation.com/advertising

CONTENTS

Volume 30, Issue 3

COVER STORY


GEARED FOR SUSTAINABILITY
PRATT & WHITNEY
DEPENDABLE ENGINES
GO BEYOND
Delivering the most sustainable power for single-aisle aircraft with up to 20% less fuel and CO_2. Compatible with 50% SAF today and 100% tomorrow. A proven platform for cleaner, greener innovation. Powered by an industry-first geared architecture.
Sustainability starts with the gear.
LEARN MORE AT PWGTF.COM
PRATT & WHITNEY
GTF

Governments not doing enough to support "greener flying" targets

Airline leaders attending the International Air Transport Association (IATA) Annual General Meeting (AGM) in Istanbul earlier this month were divided about the ability of the industry to achieve its stated goal of net zero emissions by 2050.

Qatar Airways group CEO, Akbar al Baker, holds an extreme opinion. There is absolutely no chance of reaching this target he told AGM delegates. Airlines are fooling themselves if they thought they could, he added.

He may be right. He may be wrong.

In a more measured response, Air New Zealand CEO, Greg Foran, said airlines were right to set a target and have a go. In essence, it did not matter if the 2050 target was missed. If net zero was achieved in 2051, 2052, 2053 or even 2055, ultimately it will be achieved, he said.

The year 2050 is an "aspirational" target. It is not set in stone. But it is certain that if the emissions reduction numbers are not met by 2050, it will not be the fault of aviation. Airlines are spending billions of dollars on new generation fuel efficient aircraft. They are investing in sustainable aviation fuel (SAF) projects, powering their facilities with solar energy and are decarbonizing.

Many airports are following the same path. Aircraft and engine manufacturers are investing in research to reduce the emissions of their products.

If there is a threat to the "aspirational" goal being met, it is the failure of governments to do their part.

At the 41st International Civil Aviation Organization (ICAO) Assembly in October last year, governments endorsed aviation's emissions reduction target and agreed to the aspirational goal of achieving that outcome by 2050.

IATA said governments, and also suppliers and financiers, can no longer stand by in this challenge. "We all have skin in the game. And each [of us] must deliver the products, policies and investments needed to decarbonize," Walsh said.

"The problem is all of us know how impossible it is for the governments of the world to harmonize even if they have agreed a resolution."

Some countries are doing the right thing. Other nations are hardly doing anything. There has been no major shift of fossil fuel subsidies to green energy. Certainly not to SAF, agreed to be a game changer for net zero emissions success. A proportion of the funds being invested in coal, gas and oil should be redirected to SAF.

Governments must encourage the rapid growth of SAF either by direct funding or by offering subsidies and tax breaks to attract private investment to SAF.

It is time for governments to walk their talk by investing in the infrastructure necessary to produce and deliver SAF to airports and airlines in the volumes needed to meet the industry's net zero emissions reduction goal. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

"YOLO" baby boomers populating "pointy end" of airlines post-pandemic

The International Air Transport Association (IATA) recently reported travel in first and business class has recovered faster than total passenger traffic, reaching 86% of 2019 levels in February compared with 81% overall air traffic demand. Historically, corporate clients have been the mainstay of the premium cabin market, but this is no longer so – at least for now.

Big spending leisure travelers are indulging in "revenge flying", trend analysts proffer. Also, other airline customers are traveling for "bleisure" combining business with leisure often accompanied by their spouses or partners.

Reportedly, the pandemic has created a shift towards the "You Only Live Once" or "YOLO" mentality among the affluent when they travel. YOLOs are now more ready to purchase luxury products and experiences, including premium air fares. Some airlines report bookings from leisure travelers have "almost completely compensated" for the drop in corporate airline ticket sales.

Many Asia-Pacific airlines are focusing on meeting the needs of this new clientele. YOLO and Bleisure passengers are more demanding than corporate travelers, expecting more than a comfortable space to work or sleep during a red-eye flight.

In Taiwan, where traditional culture associates important family and social events with sharing exquisite meals, all three major carriers, China Airlines, EVA Airways and STARLUX Airlines offer signature dishes to their premium passengers prepared in partnership with renowned Michelin star restaurants and chefs.

Focusing more on "soft products", such as food or inflight entertainment, is critical to winning the hearts of deep-pocketed leisure travelers, these airlines believe.

But the corporate traveler is not being ignored, with several airlines investing in the "hard product" of business and first class cabins.

Recently, Qantas Airways and Etihad Airways announced major upgrades of their premium cabins. At Japan Airlines, a new first class will be arriving in the carrier's premium cabins from the northern hemisphere winter.

At All Nippon Airways, premium passengers will soon be travelling again in cabins with interiors designed by master architect Kengo Kuma. Nigel Goode, chair of aircraft interior designers, PriestmanGoode, told the Financial Times recently demand from airlines is "really picking up" and carriers also are looking at cabin re-designs that appeal to a younger generation of travelers.

Some airlines are betting leisure travel in the premium cabin is here to stay, believing that once passengers experience luxury flying they will find it difficult to return to the back of the bus. Other forecasters claim it is not a sustainable trend. Factors threatening the permanence of Bleisure demand, they predict, are over-capacity as a result of massive aircraft orders, inflation's erosion of household disposable income and concerns about carbon emissions from flying. ***By Tomasz Sniedziewski.*** ■

Global alliances cement top post-COVID leadership roles

Hawaiian Airlines senior vice president for global sales and alliances, Theo Panagiotoulias, is the new CEO of the Star Alliance. He succeeds Jeffrey Goh, now the group CEO of Gulf Air Holdings Inc. Goh stepped down from Star last December at the conclusion of his contract. Charlotta Wieland, who was seconded from SAS Scandinavian Airlines as interim CEO, will return to her home airline and also rejoin Star's Alliance Management Board as SAS's representative.

In October 2022, Patrick Roux, a top executive at Air France-KLM, took on the role of CEO at SkyTeam, following the successful four-year leadership of Kristin Colvile, who now is vice president reservations, sales & customer care and operations at her employer of more than 30 years, Delta Airlines.

In May, Rob Gurney, CEO of the oneworld alliance since August 2016, announced his decision to depart the alliance on July 1 after eight years in the role. An executive search to identify Gurney's successor has been underway for several months with an announcement of the alliance's next CEO expected imminently.

Before his move to Hawaiian Airlines in 2014, Panagiotoulias was Sabre vice president and general manager Asia-Pacific after spending 15 years with American Airlines. ■

Singapore Airlines to host 2023 Association of Asia Pacific Airlines annual Assembly of Presidents in November

SIA will welcome delegates to the 2023 Association of Asia Pacific Airlines Assembly of Presidents to be held in the Lion city from November 9 to November 10.

From June 2 to June 4 next year, Emirates Airline will be hosting industry leaders from around the world at the 80th International Air Transport Association (IATA) annual general meeting in Dubai.

Rival carrier, Qatar Airways, has hosted two IATA AGMs, in 2014 and 2022 in Doha. ■

India's massive airline shake out

By Anjuli Bhargava

To say India's airlines are navigating never before seen turbulence is an understatement. To someone viewing the sector in January 2020 - pre-pandemic - and today, it is practically unrecognizable.

But before we attempt to forecast how the new skies of India will soon look, we must understand why India's airlines always are on the brink of collapse. What is wrong with this business?

Over time, India's airlines have been trapped in a vicious cycle of profitless growth. Most of them do not make much money, or almost no money, from their core business of flying passengers. Airlines operate various routes, tot up losses from core operations and then order more aircraft to fund their losses through sale and leaseback of aircraft.

Along the way, they occasionally earn revenue from non-aeronautical activities. Even airlines running their businesses quite well rarely are in the black.

India's largest private airline, IndiGo, last reported a substantial profit in 2017-2018.

International factors have compounded the troubles of the country's airlines. The pandemic, followed by the Ukraine war and its continuing fallout, rocketed oil prices skywards although the situation is less onerous than it was a year ago.

Carriers in India have borne the brunt of these geopolitical crises with aviation turbine fuel

(ATF) prices across the country increasing by almost 542% since May 2020. This situation and other factors have produced combined airline losses of Rs 16,777 crore (US$20.93 billion) for fiscal year 2021 and Rs 20,000 crore in 2022. In the 2023 full year, they will exceed these numbers.

An absurd anomaly, peculiar to India, has made airline economics unviable. Airlines in India pay more for fuel than their foreign counterparts who refuel in India because local carriers are charged the import parity price and an 11% excise duty to the central government. This is compounded by additional state VAT, ranging from 3% to 25%, but averages around 20%. In states with high off take - Delhi, Maharashtra, Tamil Nadu and West Bengal - the rates vary between 20% and 25%.

Pleas to bring ATF under GST have fallen on deaf ears. In most other countries with developed aviation sectors, if and when a similar tax is applicable, airlines receive input credit on the tax paid. But not in India.

To finance the losses they routinely make, India's airlines order aircraft to earn some money through the sale and leaseback of planes. This results in more and more capacity entering the market, which lowers fares further, making the economics even more unviable and resulting in more aircraft orders.

It is a vicious cycle of profitless growth. Worse, even this sale and leaseback income is on the decline. For every aircraft ordered, the difference that used to be US$8 million to $9 million has near halved. Nonetheless, this practice helps some airlines fund their losses from flying.

It is against this backdrop of unviable airline economics we can look at what is expected for the industry in coming months and perhaps the decade. Triggered by the sale of India's national carrier, a massive shakedown is playing out in India's skies.

The new Vistara and Air India combine

Fireworks are expected when the Tata run Air India completes its merger with Tata-SIA run Vistara, a move dreaded but accepted as a "fait accompli" by employees of both carriers. When finalized, India will have a new and serious international and domestic player that can wrest back some of the India traffic that flies overseas on Emirates, SIA and a clutch of foreign airlines in the absence of India offering these routes.

For this to happen, the Indian government needs to adopt a more conservative policy in granting of bilaterals while Air India, and the Tata's for their part, need to offer a service comparable with the best in the world.

The latter remains a big if since this requires an across the board shift in the mindset and attitudes of Air India's former public sector staff. It may be easier said than done.

The domestic arm of the Air India will act as a hub and spoke for the group, bringing in passengers from cities across India to fly directly to the destinations they desire.

A new well funded low fare player

Giving new and expectedly credible competition to India's low-fare market leader, IndiGo, will be a new combined entity; the merged AIX Connect and Air India Express.

As things stand, AirAsia India, renamed AIX Connect in December 2022, is flying with 28 A320 planes (of which five are neos). It connects 18 destinations in India and commands a market share of 6% -7% Directorate General Civil Aviation (DGCA) data states. The airline has surprisingly low on-time-performance, especially at the metro airports, hovering around 60%-65% compared with most rivals. It remains loss-making. It also has been in the news for pilot training and safety violations. Recently, the DGCA took some action to bring it more in line with industry standards.

Air India Express, subsumed within Air India, flies with 26

B737NGs and primarily operates as a shuttle service between a clutch of Indian states and the UAE, Oman, Qatar and Doha, among other destinations. It caters to Indian unskilled and skilled labor heading to gulf regions in search of work.

Although cultural challenges of a 5000-odd combined staff will persist, the networks of the two airlines are likely to be quite complementary as there are no overlaps as of now. "AIX Connect is focussed on India domestic and AIX on short-haul regional routes and as such, the two do not compete", pointed out an airline insider. He argued the merger is likely to be far smoother than the two biggies – the Vistara-Air India combination - which many are dreading, not just on account of its scale and size but also for their widely differing cultures.

The combined entity that emerges from this marriage will be a low fare airline operating with 54 aircraft (A320s and B737NGs), primarily in the Indian domestic and short haul regional routes space, and competing with the giant in this segment, IndiGo. Total capacity is divided half and half and while there may be minor adjustments, the capacity deployment post-merger is largely to remain unchanged.

The difference is likely to be in the capacity deployed on metro to metro connections, which in the case of IndiGo is almost 20%, whereas the new merged entity will focus more intensely on the metro to non-metro and non-metro to non-metro sectors.

By keeping its metro to metro capacity low, the new entity will ensure it is not in direct competition with IndiGo and other carriers. In due course, the fleet will be upgraded. Barring five A320neos, almost all the aircraft are pretty old.

As IndiGo changes its contours and colors

India's largest private airline is on a solid wicket. With a market share of more than 50% and demand for flying bouncing back, the last two years of red ink on its balance sheet should soon be a blip, easily forgotten.

The fundamentals of the airline remain strong and unless the Indian authorities mess up in some major way, the fundamentals of the economy will fuel the airline's future.

Fortunately, IndiGo is neither in denial nor incognizant of the new challenge it faces. The airline is pretty much a different creature from what it was in 2019. A lot of changes have taken place at the airline. Some for the good and some time will tell as it gears up to take on new competition.

This includes a virtually brand new team at the helm after some heavy weight exits, including former CEO Ronojoy Dutta. Perhaps the most critical question the airline's board and management will need to answer is: where do we go from here?

Should IndiGo stick to its knitting? Or give in to the temptation of facing the new threat with all guns blazing? In other words, does it continue to doggedly focus on what it knows and does best? For this read the domestic market and tier 2 and 3 cities.

Or does it take the riskier path of altering its DNA, reinventing itself to become an Emirates Airline, a Singapore Airlines or even the new Tata hybrid? Should it metamorphose into a full service airline with wide-bodies, long-haul destinations and caviar on board? The answer only may be known after Air India becomes a credible rival.

The rest of the pack

But the Indian airspace remains full of surprises and one such surprise was, in the midst of all the gloom and doom in the aviation sector, a new low fare airline, Akasa, took to the skies. On August 7, 2022, it launched operations with two 737 MAX 8s and an order for 72 of the type.

Its fleet has grown to 20 aircraft. In May, it had a staff of 2,500. This is a record of sorts among the airlines in India. SpiceJet, AirAsia India and Vistara took five, four and three years, respectively, to reach the same size post launch. Only IndiGo managed it in around 18 months. Expectations for Akasa remain high as it starts with a clean slate and none of the baggage its rivals carry.

Meanwhile, following on the heels of erstwhile Jet Airways, Mumbai-headquartered Go First recently declared bankruptcy and many in the industry are uncertain that its closest rival airline, SpiceJet, will survive its past troubled history and stay afloat. Late last month, SpiceJet's management issued a release that denied all rumors of its imminent closure and said it is setting its house in order, including bringing back some of its grounded fleet to scheduled flying.

Industry observers, however, argue survival for airlines with a market share below 10% in today's environment will be increasingly challenging, Watch this space for developments. ■

Go First shutdown sends tremors through airline leasing industry

Aircraft manufacturers and lessors continue to be concerned about an order issued by an Indian government authority that bars aviation lessors from repossessing aircraft from bankrupt local carrier, Go First. The airline grounded its fleet on May 3.

Lessors have lodged applications with India's Directorate General of Civil Aviation to repossess more than 40 of the airline's 54 planes. At least three lessors - SMBC Aviation Capital, SFV Aircraft Holdings, and GY Aviation Lease - have appealed a decision issued by the National Company Law Appellate Tribunal (NCLAT) on May 10.

On May 22, the NCLAT upheld insolvency resolution proceedings against the crisis hit airline, derailing efforts of aircraft lessors to take possession of their aircraft from the struggling carrier that is controlled by India's Wadia Group.

A two-member NCLAT bench directed aircraft lessors and the Interim Resolution Professional (IRP) of Wadia Group to approach the National Company Law Tribunal (NCLT) about the claim of possession and other respective claims relating to aircraft whose leases were terminated by the lessors after the company filed for insolvency.

Boeing also has expressed concern about the impact on aircraft lease rates in India if the order continues to stand. Some 88% of the 673 commercial planes in the fleets of Indian carriers were on lease as on May 3 according to aviation analytics consultancy Cirium's data. With leasing being such a critical part of India's airline scene – more than 2,200 new aircraft are scheduled to be delivered to the country's carriers in the next two decades – lessors are appealing for the matter to be resolved.

Boeing Commercial Airplanes vice president sales and marketing for India, Ryan Weir, when asked if aircraft lease rates for India's airlines will increase due to the NCLT order, he told local media: "It is probably too early to comment on the outcome. We are concerned about what will happen with lease rates if the current order stands," he said.

"Pushing the Cape Town treaty through legislation is the single most important act India can do to appease the lessors and create a framework that works. It has proven to work in other jurisdictions. Once it is ratified, it will do the same thing in India.

"In doing so, lessors will be provided more comfort in placing their extremely expensive assets in the country."

In 2008, India signed the Cape Town Convention (CTC) and Protocol, an international treaty framed to reduce risk for aircraft lessors and financiers. India introduced a Bill in 2018 and a new Bill in 2022 to implement the CTC, but it has not been passed by Parliament.

Weir added: "I don't think we know what the impact is going to be (due to Go First's situation). It is an unfortunate set of circumstances for airlines, lessors and the travelling public. We are certainly working very closely with our customers to identify and discuss any impact of the court rulings. We are working with lessors to understand their perspective as well."

After filing an insolvency application with the NCLT, Go First ceased flying. The airline has placed blame for its cash crunch squarely at the feet of engine manufacturer Pratt & Whitney, declaring almost 50% of its fleet was grounded by delays in the supply of engines to the airline.

SMBC Aviation Capital, in its application before the NCLAT, said "lessors and international aircraft owners see India as a risky jurisdiction for aircraft leasing".

At press time, Go First's commitment to resume a slimmed down flying schedule "shortly" had yet to be honored. Industry analysts believe the LCC has too many obstacles to overcome to return to flying any time soon. ■


cfm
LEAP
92% asset availability
LEADERS AREN'T BORN.
THEY'RE ENGINEERED.
LEAP turns heads in the boardroom.
LEAP-powered aircraft are achieving the highest days flown ratio* for their thrust class.
That means fewer spare aircraft and more flights, which helps profitability climb.
Another reason to say LEAP. By example.
*Compared to 83% for competition, per third-party data.
cfmaeroengines.com

INDUSTRY'S PANDEMIC PAIN HAS PASSED

After three years of crisis the mood among airline leaders attending the International Air Transport Association's (IATA), 79th Annual General Meeting (AGM) and World Air Transport Summit was surprisingly upbeat. But nobody was under any illusion about the challenges ahead in striving for total post-pandemic recovery.

International Air Transport Association director general, Willie Walsh, delivered a succinct State of the Industry address to representatives of the 300 member airlines and senior government officials, strategic partners and equipment suppliers who attended the association's AGM in Istanbul early in June. Airlines, he declared, are en route to a profitable, safe, efficient and sustainable future.

"The pandemic years are behind us and borders are open as normal," he said. "Despite economic uncertainties, people are flying to reconnect, explore and do business. Latest data show passenger traffic above 90% of 2019 levels. Airports are busier, hotel occupancy is rising, local economies are reviving and the airline industry has moved into profitability," he said.

It was, however, a message tempered by the fact industry margins remain wafer thin. In his address, Walsh said with revenue of US$803 billion globally, airlines will share $9.8 billion in net profit this year.

"Put another way, airlines will make, on average, $2.25 per passenger. The value retained by airlines for the average plane trip won't even buy a subway ticket in NYC (New York City)," he said. "Clearly that level of profitability is not sustainable. But considering we lost $76 per passenger in 2020, the velocity of the recovery is strong."

In the Asia-Pacific, a few carriers are making record

> Inflation continues, cost pressure is acute and in some areas, labor is in short supply. Unfortunately, many of those we do business with are adding to these pressures. OEM (Original Equipment Manufacturers) suppliers have been far too slow in dealing with supply chain blockages that are raising costs and limiting our ability to deploy aircraft. Airlines are beyond frustrated. A solution must be found

Willie Walsh
IATA director general

profits, but airlines will remain in the red this year, he said. IATA is forecasting airline losses of $6.9 billion for the region although that result will be only half of the $13.5 billion they lost in 2022. Nevertheless, for a global aviation industry that suffered its deepest losses in history, around $183.3 billion, from 2020 to 2022, the outlook is highly encouraging, he said.

But, said Walsh, suppliers must find a solution to supply chain blockages, and added they have been too slow to react to this issue. He also took a swipe at airports and air navigation service providers, accusing some of them of "shifting the costs of their inefficiency to airlines".

His targets, however, did not include any in the Asia-Pacific. Walsh singled out Amsterdam's Schiphol Airport, accusing it of having "no shame". "After a self-made operational disaster in 2022, the airport continues its three-year program of raising charges by 37% — with 12% this year," he said.

South African airports want a 38% jump in their charges only to be outdone by ATC demands for a 63% hike.

In Europe, airlines paid a EUR1.9 billion (US$2.3 billion) addition to the air traffic management cost base in 2022. "You would expect good performance. But delays were triple anticipated traffic and capacity and environment targets were missed," Walsh said.

"With such bad behavior on open display, calls for lighter touch economic regulation of our monopoly suppliers must not be taken seriously by any government. Considering these many challenges, that airlines are turning a profit at the industry level is truly impressive."

While sustainability and the industry's drive towards net zero emissions by 2050 were the major topic of discussion during the AGM - around a third of Walsh's address was dedicated to the subject - delegates were not ignoring other issues.

They were told jet fuel is expected to average $98.5 per barrel in 2023 and that their total fuel bill is forecast to be $215 billion for the year. That is cheaper than the $111.9 per barrel previously expected (at December 2022) and the average cost of $135.6 experienced in 2022.

High crude oil prices were exaggerated for airlines as the crack spread (premium paid to refine crude oil into jet fuel) averaged more than 34% in 2022 — significantly above the long-run average.

As a result, fuel was responsible for almost 30% of total expenses. In recent months, the crack spread has narrowed and the full-year average crack spread is expected to be around 23%, which is more closely aligned with the historical average rate. Fuel costs will account for 28% of the average cost structure, still above the 24% of 2019.

Also addressed were the potential economic and geopolitical threats of inflation, rising interest rates, the possibility of recession and the war in the Ukraine. Walsh said the conflict was not having a major impact on profitability for most airlines.

"An escalation, however, would likely have negative prospects for global aviation. Already broader geopolitical tensions are weighing on international trade. Any escalation of such tensions represents a downside risk to the industry outlook," Walsh said.

Airlines can be impressed by the industry's safety record. Today, there are more than 400 carriers on IATA's Operational Safety Audit (IOSA) registry. But it is never "job done" on safety, he said. "So, we are marking two decades of success by making IOSA even more effective with a transition to a risk-based approach."

There was, however, a call for governments and their agencies to speed up final reports on accidents, which are vital to preventing accidents. Of the 214 accidents in the last five years, only 96 final accident reports are available. "This is an inexcusable violation of the Chicago Convention and a disservice to the safety of our passengers and crew. Governments and their agencies must improve," Walsh said.

Another issue causing angst at airlines is passenger rights. More than a hundred jurisdictions have developed unique regulations intended to protect air travelers. And at least a dozen governments are looking to join this group or toughen the rules they already have enacted.

Airlines question the basis of this approach. IATA recently surveyed 4,700 travelers across 11 markets to understand their experiences. It found 96% were satisfied with their last trip, 77% said air travel was good value for money and 73% were confident they would be treated fairly by their airline in the event of operational disruptions.

> With more governments introducing or strengthening passenger rights regulations; the situation is no longer sustainable for airlines. Every journey is not perfect. There are lessons to learn from rare but widely reported incidents where customers are not treated as they should be. But governments are going beyond the reasonable

A "very good year" predict

Asia-Pacific airlines still lag the world in recovery from COVID and airline leaders made it clear at the IATA AGM there are major regional challenges to overcome.

If anyone thought obstacles such as supply chain issues, manpower and the network rebuilding post the COVID crisis are almost over, they need to think again. As passenger numbers rise and more capacity becomes necessary, many carriers are facing difficulties in keeping sufficient aircraft available to meet passenger demand.

The biggest issues of all persist: supply chain delays and shortages of spare parts. Korean Air CEO, Walter Cho, said while waiting for delivery of many of the aircraft it has ordered it is having to return some of its own planes it did not plan to keep flying.

"Another issue is engine shortages," Cho said. "Several of our aircraft are sitting in our hangars with no engines on them. This is a serious matter right now. We are talking with the manufacturers, but we don't see a quick resolution as yet.

"But we believe we can cope with it for the next couple of years until the supply chain issue comes down a little more."

Air New Zealand CEO, Greg Foran, a member of the AGM's CEO Insight panel, said spare parts were his particular challenge. "As recently as a few months ago, we ended up taking delivery of some brand new A321s for our domestic business and literally within a few minutes of them landing we were taking parts off those planes to keep some other ones operational," he said.

"We keep a close watch on exactly how many parts we are robbing off a plane to put on another one and they are running about double what they were traditionally. It is across the entire supply chain."

Sufficient spare parts are a huge issue at Air India, said CEO Campbell Wilson, also a member of the Insight Panel. "We are noticing it most acutely because we had 13 787s grounded for many years as Air India could not pay for spare parts. It was robbing aircraft to keep others flying. We needed to procure 30,000 spare parts to get these aircraft up and running. And that is not including anything to do with cabin interiors," he said.

"If I had 30,000 out of stock I probably wouldn't be in business," quipped Foran. "I was running at 104 and was

IATA complains that whenever there is a delay or a cancellation, where specific passenger rights regulations exist, the burden of care and compensation falls on the airline, regardless of the part of the aviation chain at fault. It is urging governments to ensure responsibility for flight issues is shared more equitably across the air transport system.

"The aim of any passenger rights regulation surely should be to drive better service. It makes little sense that airlines are singled out to pay compensation for delays and cancellations that have a broad range of root causes, including air traffic control failures, strikes by non-airline workers and inefficient infrastructure," Walsh said.

Another concern is a rise in unruly passenger incidents. Latest figures show there was one unruly incident reported for every 568 flights in 2022 up from one per 835 flights in 2021. The most common categorizations of incidents in 2022 were non-compliance, verbal abuse and intoxication. Physical abuse incidents remain very rare but they recorded an alarming increase of 61% over 2021, occurring once every 17,200 flights, IATA reports.

"The increasing trend of unruly passenger incidents is worrying," IATA's deputy director general, Conrad Clifford, said. "Passengers and crew are entitled to a safe and hassle-free experience on board. For that, passengers must comply with crew instructions.

"While our professional crews are well trained to manage unruly passenger scenarios, it is unacceptable that rules in place for everyone's safety are disobeyed by a small but persistent minority of passengers. There is no excuse for not following the instructions of the crew." IATA is calling for more states to take on the necessary authority to prosecute passengers under Montreal Protocol 2014 (MP14). ■

ed for Asia-Pacific airlines

worried about that. So 30,000 makes me feel pretty good. Thank you Campbell."

Cathay Pacific chairman, Patrick Healy, in a separate briefing, said his airline's biggest bottleneck was recertification of staff. "As you know, the restrictions Cathay Pacific faced during COVID were particularly onerous. We had aircrew quarantines in place until September last year. So recertification is one of the key bottlenecks. But like airports and airlines all over the world there are many bottlenecks in bringing capacity back after such a long break."

Despite these challenges, the 2023 outlook for the region's airlines is good. IATA forecasts losses at the region's airlines will likely halve to US$6.9 billion, from $13.5 billion in 2022. It should be noted, however, that some exceptional carriers, particularly Singapore Airlines, and more recently Qantas Group, are reporting all-time record profits.

In a briefing on the region, IATA Asia-Pacific regional director, Philip Goh, said: "For April we are looking at 82% of 2019 total capacity. This is driven by a very strong domestic recovery. It is now 102% [plus] of 2019 numbers in the Asia-Pacific. International is a bit lower. It is 66% of 2019, but in January it was 56% so there is a strong recovery in that sector. In a nutshell, it's very, very good."

IATA's regional director for North Asia, Dr Xie Xingquan, was just as optimistic as Goh. "China's domestic capacity is above 2019 levels. In April and May it was 10% higher than 2019 levels. For international traffic, North Asia is lagging behind the rest of the world. As of today, its passenger traffic is 40% of 2019 numbers, but the pace is resuming faster and faster," he said.

Everyone agreed there needs to be an increase in flight connectivity. "Crucially, it needs to come back," said Goh. "There are so many factors involved with airlines putting back capacity. It is not all they are doing or not doing. There is the infrastructure, the airports and the ground handling agents to service them.

"There are a multitude of factors to overcome, whether it's manpower, aircraft or supply chain. All these hurdles. If we can improve that connectivity and maintain and absorb pent-up demand then I think it will be a good recovery story."

Goh said constraints on growth included manpower shortages. "Some people chose not to come back to the industry, which is very sad, but the industry is going all out to attract people to aviation. Hopefully we will overcome this and make sure people are going through the right training to get the job done. Everyone is working to overcome the manpower hurdles. It will just take some time to get it all sorted out," he said.

COVID hangover in the region also is an issue. "In terms of COVID-related restrictions, there are some countries in the Asia-Pacific that still have them. About 10 countries I think," Goh said. "Some, like India, Indonesia and the Philippines, we continue to advocate that their governments sunset those restrictions because they are no longer required. Hopefully, everybody will remove the remaining restrictions soon."

While the situation varies across the region, most carriers are working hard to resolve complex problems. Cathay Pacific's Healy pointed out that while three years of COVID created an enormous challenge for the entire industry, it was probably more so for Cathay Pacific because of Hong Kong's level of pandemic restrictions.

"Since Hong Kong and the Chinese Mainland opened up in January, demand has been astronomical. We have been building back capacity as quickly as we can. We exceeded 50% of pre-pandemic capacity by March 31 and now serve more than 70 destinations. We are confident we will hit our target of 70% of pre-COVID capacity by year-end and we are on target to be fully recovered to 100% at the close of 2024.

"We have put those plans in place. Together with the opening up in January, things are going pretty much according to the plans that we made at that time. Recovery is going very well."

Healy also pointed to opportunities, particularly at Hong Kong's international airport. "It used the downtime of COVID very smartly and accelerated improvement plans. The airport installed a lot of new technology during the downtime. It now has facial recognition at all check-in gates, which is tremendous. Really world class technology," he said.

"And of course, the third runway, which everyone is looking forward to immensely, is on track for completion at

Industry must not be defeated by challenges to achieving 2050 net zero emissions

Safety will always be the airline industry's number one priority. But sustainability and the drive towards net zero emissions by 2050 comes a close second and it dominated discussions at the International Air Transport Association (IATA) AGM and World Air Transport Summit in early June. The burning question for delegates? Is the target achievable?

the end of 2024 or early 2025. There will be the complete three-runway system fully in operation in Hong Kong. Capacity will progressively increase in the wake of that and give us enormous growth opportunities."

KAL's Cho echoed the experience of his industry peers, describing demand as very strong, especially on long-haul routes to Europe and the U.S. "We are utilizing every resource we can to manage it, but once China [fully] opens up there will be even more of a surge in demand to travel to China. We will be able to manage that as well.

"Due to the supply chain issues our aircraft are not fully in operation, but we believe we can manage by utilizing existing aircraft a little more to match supply with demand this summer. This year we see a very strong result and we expect a very good year on the passenger side. We have full connectivity now, but our routes to China are not open fully. However, we see it coming soon and once they open up, it will be in full function again."

IATA's Xie said despite narrowing their losses, Mainland carriers are facing some pressure on operations. The desire to travel and the demand for air tickets have risen in the Mainland market, but so has air capacity, affecting the load factor and ticket prices, he said.

"Air ticket prices quickly fell after the May Day holiday, but costs have not dropped significantly," Xie said.

Visa restrictions, capacity caps and Russian airspace over flights are other issues stemming the restoration of capacity in and out of China. IATA hopes governments still with restrictions can reciprocate the relaxation of policies elsewhere and resume air transport connectivity. China's international flights have yet to reach 50% of 2019 levels, but Xie said optimistic projections have China's overseas air traffic recovering to pre-pandemic numbers in the first quarter of 2024. ■

The International Air Transport Association (IATA) may have released its most detailed plan yet for the airline industry to meet its 2050 net zero emissions target - a series of roadmaps covering all that must be done. but there is evidence many airline chiefs are not sure the goal can be achieved, while some are extremely pessimistic about the industry's ability to hit the target.

In an interview with CNN's Richard Quest at the association's Istanbul AGM early this month, outspoken and often controversial Qatar Airways Group CEO, Akbar al Baker, went as far as describing the 2050 target as a "PR exercise". He added: "Let us not fool ourselves. We will not even reach the targets we have for 2030, I assure you."

Al Baker insisted the industry's targets are unrealistic, given the present volume of Sustainable Aviation Fuel (SAF) being produced and said airlines are "in denial" about the rate of progress in reducing emissions from flying.

"I'm not saying it can't be done, but to do it in the (2050) time frame, the industry is far behind," he said.

SAF is expected to be the key factor in achieving the industry's net zero emissions goal. Currently, SAF production is less than 0.1% of the volumes global aviation needs to achieve its 2050 goal.

IATA director general, Willie Walsh, told AGM delegates the trend is positive, pointing to a tripling of SAF production last year, to 300 million liters (9 million gallons). SAF production must increase to 450 billion liters (117 billion gallons) by 2050 to achieve aviation's net zero goal by 2050.

Other CEOs at the AGM were not nearly as pessimistic as al Baker on the subject, but nor were many of them totally confident the target could be reached. Taking part in a CEO "Insight Panel" at the summit, Air New Zealand CEO, Greg Foran, said he was not smart enough to be as definitive as al Baker.

"What I do know is: what other options are there? I am not prepared to give up at having a shot at something. I like the concept of having some ambition, putting a line in the sand and going for it," he said.

"We don't have to be so definitive that if we don't get there in this particular year that we are not prepared to extend it out. But at the same time, you have to be brave enough to have a go at these things"

Greg Foran
Air New Zealand CEO

Fellow panelist, Air India CEO, Campbell Wilson, conceded he did not know if the target could be reached. But he agreed with Foran. "It was very clear when the target was adopted that there would be requirements for technologies and other efficiency measures we would need to develop over time," he said.

> It would be wrong for us to try and convince people that this is going to be easy and it is going to be cheap. It is not. But the idea we can't do it? No, I don't accept that
>
> **Willie Walsh**
> IATA director general

"We are investing in aircraft. It's going to take many, many factors, SAF being one. But we have to try all of these things so clearly the objective of a more sustainable industry is a desirable one."

In a separate briefing Cathay Pacific chairman, Patrick Healy, said the Hong Kong airline has a commitment to use 10% of its aviation fuel as SAF by 2030. "We were one of the first airlines to invest in SAF. We made an early investment in Fulcrum Bioenergy in 2014," he said.

"There is an uptake agreement associated with it that will provide us with approximately 2% of the 10% of SAF we will need by 2030. We still have a long way to go to secure the remainder of the 10% - like everyone else. It is a challenging situation but it is something we must meet."

IATA's series of roadmaps, released at the AGM, are a critical element of the association's efforts to help airlines along the sustainability road. They are the first detailed assessment of the key steps necessary to make net zero by 2050 an aviation success. They cover technology, infrastructure, operations, finance and policy.

While each category is necessary to meeting the 2050 target, finance is particularly important. IATA calculates a cumulative US$5 trillion will be needed for aviation to achieve net zero emissions by 2050. "They will, of course, evolve as we dig deeper and set interim milestones on the way to net zero," Walsh said.

He also emphasized the roadmaps are not just for airlines. "Governments, suppliers and financiers cannot be spectators in this challenge. We all have skin in the game. And each must deliver the products, policies or investments needed to decarbonize," he said.

"The roadmaps are a call to action to all aviation stakeholders to deliver the tools needed to make this fundamental transformation of aviation a success with policies and products fit for a net-zero world."

Separately, IATA's Asia-Pacific regional vice president Philip Goh, called on airlines in the region to strengthen their readiness for transition to the SAF mandate. Government policies and incentives are crucial to encourage the scaling up of SAF production and the development of the SAF mandate in the Asia-Pacific. "It is not as fast as in other regions," he said.

"Most airlines and governments in the Asia-Pacific are just starting their SAF journey. We work closely with stakeholders to collaboratively progress, including encouraging governments in the region to put in place policies to scale up the production and adoption of SAF," Goh said.

The IATA roadmaps were not developed in isolation. A peer-to-peer review was conducted, complemented by modeling provided by the Air Transportation Systems Laboratory at University College London, to calculate emission reductions for each technology.

IATA's senior vice-president sustainability and chief economist, Marie Owens Thomsen, explained the roadmaps show stakeholders where they should focus their efforts. "There are two certainties. By 2050, we need to be at net zero carbon emissions. And the steps to arrive there outlined in these roadmaps will evolve as the industry's expertise grows," she said.

"Policy is particularly important early on as to a large extent it sets the scene for private sector investors to move. With that, the private sector can decarbonize at scale and with speed. Without the right policy incentives and bold investments, many of the technologies and innovations simply won't happen at scale.

"Everything is related. It is why we have the five roadmaps. To tie all the parallel elements together and give our stakeholders, including governments, a complete understanding of everything that needs to happen."

IATA media releases about sustainability dominated the AGM. As well as unveiling the roadmaps, the airline lobby group announced it had signed a Memorandum of Understanding with the United Nations Environment Programme (UNEP) to address sustainability challenges in the aviation industry. Making aircraft cabins more sustainable is a priority for airlines and their passengers, it said.

"The complex and asymmetrical regulatory environment, however, often is an obstacle by preventing circular economy best practices. In the absence of a global approach, differing regulations at both ends of a journey severely limit the actions that airlines can take," it said. Already, IATA and UNEP are working on joint guidance on Re-thinking Plastics in Aviation.

In another release, IATA announced its new partnership with ATPCO (Airline Tariff Publishing Company), a privately-held corporation

that engages in the collection and distribution of fare and fare-related data for the airline and travel industry. ATPCO plans to create a new amenity that will use IATA CO_2 Connect data to help shoppers understand the carbon cost of various itinerary options.

SAF production, however, remains the major challenge. "Why are we not moving faster?" asked Walsh. "The willingness of airlines to use SAF is definitely not the issue. Every drop of SAF ever produced has been purchased and used.

"The problem is insufficient production capacity to meet demand. It is why we must increase the pathways for SAF production and diversify feed stocks while maintaining their sustainability credentials.

"Doing so will open production opportunities best suited to particular geographical locations. Governments should be jumping over themselves to be first in line for the job creation, local economic stimulus and biodiversity protection that SAF production brings - significant benefits for both developed and developing economies alike."

> We do not want to miss that opportunity. Support from governments and value chain partners will be needed in this journey
>
> **Philip Goh**
> IATA Asia-Pacific vice president

Unfortunately, Walsh said, politicians have not made good on their promise to stop financing fossil fuels. "We have not seen a major shift of fossil fuel subsidies to green energy. Certainly not for SAF," he said.

Looking ahead, Walsh said the sustainability challenge is, bar none, the biggest aviation industry leaders will face. "This will be difficult and take time. As pioneers building the net zero emissions age for aviation, scrutiny of our efforts will be extreme," he said.

"We must welcome it as a means of telling the impressive story of aviation's decarbonization and its contributions to society. Last year, airlines transported goods valued at $8.5 trillion, supporting enormous economic opportunities.

"This year, we expect to safely enable 4.4 billion flyers to do business, reconnect with loved ones, explore our beautiful planet, fulfil something on their bucket list or expand their horizons." ■

Taiwan's airlines progress toward industry's net zero emissions target

By Tomasz Sniedziewski in Taiwan

As Taiwan's airlines deal with rebuilding their operations post pandemic, they also are advancing their pursuit of net zero emissions by 2050.

On May 22, coinciding with International Day for Biological Diversity, Taiwan's flag carrier, China Airlines, operated its second "Sustainability Demonstration Flight", between Taipei and Singapore, as a participant in SkyTeam's second The Sustainable Flight Challenge (TSFC).

The demonstration flight was CAL's first passenger flight flown with jet fuel blended with 10% of Sustainable Aviation Fuel (SAF). CAL introduced SAF to its flight operations in 2017 aboard A350-900 and A321neo ferry flights. This time around, the A350-900 passenger flight, which also carried cargo, used an ECO Travel program to achieve carbon neutrality for the demonstrations flights.

For many passengers, the main attraction of the CAL flights was the option to pre-order the low-carbon plant-based meals created by China Airlines and the Michelin Star Yang Ming Spring restaurant on the leg out of Taipei. The SkyTeam carrier said interest in the plant-based meals was ten times higher than on regular flights. More than half of all passengers onboard opted for the low-carbon menu, setting new records in all cabin classes.

The demonstration flights were equipped with blankets and pillow and headrest covers manufactured from PET bottles and tablecloths produced with recycled coffee grounds. Overall, the Sustainability Demonstration Flight used up to one hundred eco-friendly and carbon reduction initiatives.

Environmental values also are part of the ethos of Taiwan's EVA Airways. On May 5, the Star Alliance carrier took delivery of its eighth 787-10 at Boeing's Charleston, South Carolina facility. The 17- hour ferry flight to Taiwan was EVA's first SAF operation. The 30% proportion of SAF in the fuel blend also was the largest quantity of sustainable fuel ever used in Taiwan's aviation industry.

Like the rest of the world, Taiwan's airlines face limitations in access to SAF supply. Taiwan intends to follow Japan and Singapore and manufacture SAF.

BACK FROM THE BRINK

Nearly 18 months after emerging from Chapter 11 Bankruptcy protection, Philippine Airlines (PAL) is on the way to full recovery, already reporting healthy profits. The airline's president and chief operating officer, Captain Stanley Ng, spoke to associate editor and chief correspondent, Tom Ballantyne, about the carrier's path back to sustained profits.

For PAL president & COO, Captain Stanley Ng, affectionally known to his staff as Captain Stan, there is a significant advantage to being a pilot when running an airline. Commanding an aircraft, he explained to Orient Aviation, you face challenges every day. "Whatever happens, it is really up to you how you manage, navigate and make sure the flight is safe and economical at the end of the day." In other words, the buck stops here.

He brings the same attitude to the top job at PAL. But also, while leading by example and being the one making the decisions, he tries to include everyone in the decision-making process, whether they are board members, shareholders or employees.

"My brand of leadership is always to encourage a culture of transparency and engagement. Encouraging all staff to come forward with their suggestions," he said. "Instead of a top-down approach, I prefer a bottom-up approach because every single day with the passengers they see what's going on.

"Their insight is more valuable than any directive from the top because at the top you sit in the office. You don't know everything that is going on. You might try to save a little bit here and there so for me it is not the most profit. It's an output of our great service. I always tell people it is not the cost. Sometimes we are so focused on cost or spending too much, but in reality it is about the value we provide."

Doing just that, which is improving customer service, has been a key driver of PAL's recovery. Like other carriers, PAL suffered badly through the pandemic, filing for Chapter 11 Bankruptcy in September 2021. Unlike many airlines forced to do the same, but taking a year or more to come out of it, PAL emerged from Chapter 11 in just four months, in January 2022.

Capt. Ng was immediately named acting president, an appointment confirmed three months later. His aim, he declared at the time, was to make PAL one of Asia's top three full-service airlines as early as 2025.

His first year in charge showed encouraging signs of financial recovery and the prospect of achieving that goal. In the twelve months ended December 31, 2022, PAL reported an operating profit of $297.2 million and a net profit of $196.9 million. It was its first operating profit since 2019 and its first net profit since 2016.

While it did emerge from the red, like most airlines its operating expenses rose, to $2.27 billion, up from $1.31 billion a year earlier, due to an increase in flights operated coupled with the impact of rising fuel prices.

Jet fuel costs represented the biggest expense for the airline. However, PAL's positive performance was consistent for all four quarters of 2022 and largely was a result of increased passenger demand following eased travel restrictions and the reopening of borders in most countries.

This year has begun with just as much promise. In May, PAL reported an operating profit $135.2 million and a net profit of $108.2 million for its first quarter to March 31. Revenue for the period was $776.9 million, up 66% on the $466.6 million it generated in the same months last year.

The gains were a result of the airline capturing increased demand as COVID-19 restrictions continued to melt away across the Asia-Pacific. Passenger numbers increased by 156% compared with the same months in 2022. PAL flew 3.4 million customers from January 1 to March 31.

"I think we are making progress," Ng said. "Of course, financially we are breaking records every time. We are doing well. However, it's not sustainable if we don't improve customer service and all the other things."

So far this year PAL has inaugurated nonstop Manila-Perth and reopened multiple routes between the Philippines and China's cities.In addition to an extensive domestic network anchored at its gateway hubs in Manila, Cebu and Davao, it is the only airline operating nonstop from the Philippines to the U.S. and Canada. It also has the largest network of flights from Manila to multiple cities in the Middle East, Japan and Australia.

In another critical development, announced in May, PAL ordered nine A350-1000s. They will operate to the U.S. and Canada. Services to Europe are planned.

"We realized, and we decided, we had to have a new fleet moving forward to satisfy the needs of our customers. Around the middle of last year we started looking at which aircraft would serve our mission to supply our long-haul fleet," Ng said.

"The A350-1000 will give us a competitive advantage because by that time, among all the carriers, we will have the latest technology and innovation inside the aircraft. We will be able to define that and put that in the aircraft. We expect them to start arriving in the fourth quarter of 2025."

Financing of these aircraft has not been finalized, Ng said, but the proposal is to own around half of ordered airplanes and do sale and lease back arrangements with the remaining aircraft.

The A350-1000s are a critical element in PAL's network plans. They will allow the flag carrier to expand nonstop to more destinations in the U.S. and Canada. "The U.S. market is really important to us. It is actually the route that kept us afloat during the pandemic because of the early opening up of the U.S.," Ng said.

"But we also believe in the vision of going back to Europe, having our tail, our flag there in Europe is important to us. With the delivery of the new fleet that will make the mission possible. I believe the demand is there. We just have not had a good aircraft to fly direct to Europe."

He added having a strong code-share partner would help, allowing PAL to fly passengers to Europe and transfer to a partner connecting them to other European destinations. At this stage, no such agreement has been finalized.

As it is for many airlines, China is an important market for PAL. Pre-pandemic it was 20% to 25% of PAL's revenue. "It did not just contribute to our revenue internationally. Much more importantly, it contributed to local tourism. When Chinese tourists come to the Philippines, most of the time they also travel to various local destinations.

"The issues in China about its COVID situation are done. However, there are some things we have to figure out, including the issuing of visas to the Philippines even as we can see a lot of demand for charter flights from China.

"A lot of charters are asking for planes but we just cannot provide them because we don't have the capacity. We still must figure out a way, maybe short-term leases of planes. That is part of the plan as well."

PAL has a fleet of 81 aircraft. It owns 15: nine A320-200s, two Bombardier DHC 8-400s and four DHC 8-300s. The other 66 planes are leased, including nine B777-300ERs and ten Bombardier DHC 8-400s. Leased Airbus aircraft are two A350-900s, ten A330-300s, 21 A321-200s, eight A321neos and six A320-200s. Thirteen A321neo have been ordered and are scheduled to arrive at the carrier in the fourth quarter of 2025 or in early 2026.

Domestic destinations are split between a full-service model and a hybrid. "For the major domestic destinations we are still doing a full-service. The bigger destinations like Cebu are still doing a business class and full-service is available," Ng said.

"However, for some smaller provinces we have moved into a hybrid model. It's still not low cost. It will never be low cost because we still provide food and a lot of other services like baggage allowances.

'But it is a reduced service because sometimes the flight is less than an hour and passengers don't see much value in paying for a business class seat. We have modeled it as a comfort class. That is with wider seats, but not necessarily providing full meal service when sandwiches will work. Something like that."

PAL has a program to refurbish some of its fleet to match passenger expectations. "Previously, we had some planes flying to various Asian destinations that did not offer IFE. The direction today is to provide more value so customers see more value. We also have a new chef to improve our menus. It is trying to satisfy the needs and beyond of customer expectations."

Ng told Orient Aviation transforming the airline is more about focusing on people and not just strategy. "If you have a good strategy but you don't have good people to activate your mission then I don't think it is going to happen," he said. "So, customer experience is number one. We always focus on that. It is very valuable to me. It is about the customer but in practice it is beyond that."

Work also has to be done to change the mindset of people brought up in a legacy culture, he said. "We are working on this. We have progressed I would say, but there is still a long way to go to align every mindset," he said.

"For example; we don't say no to customers and genuinely try to go beyond the regular delivery. Exceeding expectations. Because in today's world we have so many challenges from supply chain to manpower. All these things. We have to

Destined for the top

It's not often that an airline chief has the honor of piloting the aircraft carrying his country's leader to an important international gathering, but for Philippine Airlines president and COO, Captain Stanley Ng, that is exactly what happened last November. Ng, the first active pilot to serve as the airline's top executive since the 1960s, was Pilot-in-Command of the flight that flew the president of the Philippines, Ferdinand R. Marcos, First Lady Liza Araneta-Marcos and the official Philippine Delegation to the ASEAN 2022 Summit in Phnom Penh.

It was a highlight of Ng's time at the airline in a career that began in 2003 and has seen him rise through the ranks to PAL's top job in January last year. Ng joined PAL as an airport-based customer relations assistant. He is a Chinoy, a Chinese Filipino, and speaks Mandarin, Fukien and Cantonese. Aside from his main job doing check-ins and boardings, he was the interpreter for Chinese speakers using the airport. It was an enriching experience, teaching Ng to go above and beyond when it comes to serving passengers.

After almost a year as a ground staff employee, Ng successfully applied for PAL's Flying School. After graduating, he served as a Second Officer and was then promoted to First Officer on the A320, He was appointed a PAL commander in 2014. He was PAL's A320 chief pilot until 2019 when he was promoted to senior vice president for airline operations, in charge of the airline's internationally respected pilots and cabin crew as well as PAL's operational airport and engineering teams. Ng recently completed an Advance Management Program at Harvard Business School and is a Bachelor of Science in Business Administration and a Major in Computer Applications from the De La Salle College of Saint Benilde.

He is the son-in-law of PAL owner, billionaire Lucio Tan, the Chinese-born Filipino entrepreneur who heads Fortune Tobacco Corp, Asia Brewery Inc. and of course, PAL. Ng is married to Tan's daughter Lilybeth, who is PAL's Assistant Vice President for Pilot Affairs. Tan himself is the longest-serving chief executive of PAL.

In May, Lucio Tan III, recently appointed to succeed his grandfather Lucio Tan as president of PAL's parent company, PAL Holdings, said: "I am committed to providing stability and upholding the highest levels of integrity within the company. I look forward to working closely with the PAL team, under the leadership of Captain Stanley Ng, to ensure a collaborative and cohesive approach in serving the best interests of our customers."

differentiate ourselves from the others to win this competition. That is an attitude I emphasized when I started," he said.

"We believe that today the government is really pushing for tourism and that is a significant amount of GDP for the country. We are at one with the country to promote tourism to help our country."

To achieve its targets Ng said PAL is focusing on differentiation, investing in systems and processes to enhance the flying experience, improving back-end support and implementing digital innovations, all with the aim of elevating service for customers to grow its market.

Digitalization is one of the main pillars of PAL's rebuilding. "In terms of technology we are still quite behind. We have been trying to improve a lot. It is not just trying to have an initiative of digitalization. So far, we have identified the problems that can be solved," Ng said.

"It's not only marketing but locating and removing pain points and inconveniences for our passengers. That is the focus. Soon we will launch a customer relationship management system. PAL has never done this. But today this is critical and is the only way to know our customers better and predict their behavior. This is really important to us."

After more than a year of planning a total overhaul of PAL's back-up systems, the ERP (Enterprise Resource Planning) systems, is underway. ERP systems organize all the internal processes of the airline from inventory management, the supply chain, sales, accounting and more. "It will involve three to four years of implementation, changing all the back-end systems, the entire enterprise," Ng said.

As for the challenges ahead, Ng recognizes there may be many. "Not to mention all the volatility, like energy prices or manpower issues. Those will happen. There may be recession from time to time. That may be a risk," he said.

"But I believe if we have the right mindset we can tackle any challenges that come to hand. One of the biggest is competition. Other airlines are aggressive. They are trying to improve their service to. At the end of the day it is

> **I told the team we are not just here to exist. We are here to win the game. So, we better have a deeper purpose of doing this, like giving back to the nation and promote the Philippines as a destination because we are an amazing country that has not had enough marketing support in the past**
>
> **Captain Stanley Ng**
> Philippine Airlines president and COO

differentiating us so consumers choose PAL. This is what we have to identify.

"We also would like to have supply chain resiliency for our programs. During the pandemic it was quite difficult to source suppliers from overseas. We can't get our stock. We can't get spare parts. We can't get a lot of things timely, so having local suppliers and supporting the local community and having a touch of Filipino is important.

"Even the food that we serve today has a lot of Filipino touches. We collaborate with famous local Filipino chefs to promote their food and Filipino cuisine. It is part of our vision, to help promote the country and its products."

There is little doubt PAL has had a chequered history. Founded in February 1941, it was once the largest airline in Asia. Over the years it has been through periods of financial distress, receivership and bankruptcy, government ownership, privatization and re-privatization, as well as industrial problems and frequent revampings of its management. Today, all the signs point to it heading back to where it belongs with Captain Stanley Ng in the cockpit. ■

Meeting Demand for Better Trained Pilots

Every airline faces the challenge of bringing highly trained pilots into the cockpit, and to fulfill their biggest responsibility: transporting passengers to their destination safely. Doing that successfully is dependent on prepared pilots knowing what to do in all situations.

The best way to ensure an uneventful flight is through rigorous flight training with a simulation device. This training empowers pilots with the unwavering composure needed to get through any unexpected situation and land the aircraft safely.

FlightSafety's commitment to aviation safety drives us to create a full spectrum of simulation devices to answer every pilot training need. FlightSafety has been supporting training for more than 70 years and designs, builds and supports the industry's leading full-flight simulators (FFS) and other training technology.

Every state-of-the-art, advanced-technology FlightSafety simulator is built to order. Our expert team designs according to your training requirements, to create an exact replica of your aircraft. We create Level-D qualified simulators for a range of commercial aircraft, including the Airbus A320, A220 and Boeing 737 MAX.

Our decades of experience, along with world-class engineering and manufacturing capabilities, translate into the world's most advanced simulation devices. These devices are used by airlines around the globe, to meticulously train pilots to be the best.

When your pilots train on FlightSafety simulators and training devices, you know that they have trained on the highest quality equipment available, and have achieved nothing short of excellence.

Technology Enhances Safety

Advanced-technology simulators and training devices provide your operation with a seamless training experience. FlightSafety has engineered, developed, and manufactured hundreds of simulators for organizations around the globe,

Utilizing the high fidelity VITAL visual system, our immersive simulators replicate the operating characteristics of virtually any commercial aircraft. Our cost-efficient simulators and other flight training devices meet and exceed regulatory requirements and answer your specific needs, ensuring pilots are prepared for anything they might experience in the cockpit.

You can trust our expertly manufactured training equipment to provide the highest caliber training options, all of which meet national and international regulatory standards.

Made for the Model

FlightSafety is a global innovator of technology training devices for commercial aircraft operators around the globe. The state-of-the-art simulation design, manufacturing and support facility has enabled it to increase simulator production to meet your immediate needs and those of the global aviation market.

Whether you operate Airbus, Boeing, ATR, Bombardier CRJ, Embraer, De Havilland, Beechcraft or other commercial aircraft, FlightSafety simulators faithfully replicate the look, feel and performance of your aircraft. Currently more than 130 aircraft models are approved for professional training.

One of the most significant advantages of advanced-technology simulators is that they allow pilots to practice in a range of different scenarios, including extreme weather conditions and emergencies. The simulators replicate real-life scenarios, allowing pilots to practice their skills and decision-making abilities, making them better prepared to handle any situation that may arise during flight.

FlightSafety uses industry-leading technology to design and manufacture your Level D full-flight simulators with electric six-degrees-of-freedom motion bases, glass displays, industry leading ultra-high resolution visuals, and flight decks that perfectly replicate the look and feel of the aircraft. Training tools developed based on manufacturer-approved data for each aircraft, that allows the fidelity and consistency of the training to be most effective.

Choosing a manufacturer with a history of quality and manufacturer support is important. Training time can be compromised if there isn't a level of dependability and integrity standing behind the product.

Multiple Training Solutions

FlightSafety's recent acquisition of FRASCA International enhances our ability to provide training device solutions for every need. Multiple options are available for regional and commercial airlines, at all levels of operation. Our flight training devices (FTDs) incorporate the same software used in FFS to create true Free Play devices. They meet FAA (levels 4-7) and EASA (level 1-2) regulatory standards.

Depending on the regulatory level needed for the device, FlightSafety incorporates full, partial or no visuals. To ensure your pilots get the most out of their training, we design FTDs with details such as sound model, visual and tactile controls.

FRASCA also produces Reconfigurable Training Devices (RTDs) supporting lower cost or mobile training alternatives, to maximize efficiency. The RTD is designed to fit through a standard doorway making it easy to integrate into most facilities. It features durable construction that can withstand a high-usage training environment, with minimum downtime. Fewer hassles and more training opportunities.

Whether it is an FFS or other flight-training device, FlightSafety offers unsurpassed service to support our products. Our team trains you to flawlessly operate the equipment, including instruction on hardware, software and the visual system. We stand by the products, after delivery, to troubleshoot problems and solve issues.

FlightSafety training equipment is enhancing safety worldwide, and helping address the growing demand for new airline pilots. Choose the leader in training simulation manufacturing for better prepared pilots. ■

Good times ahead for aviation's lessors

During the pandemic, aircraft and engine lessors trod a tricky path with their loss-making and debt-ridden airline customers. Now the COVID crisis has passed, is the sector set for a golden era in the region? Associate editor and chief correspondent, Tom Ballantyne, reports.

Their forecasts about the direction of aviation leasing may differ, but analysts universally agree on one thing: the only way is up.

Recovery from the pandemic is well underway. Airlines are putting planes back in the air and placing orders for thousands of new jets of which a huge percentage of them will be leased or acquired under sale and lease back arrangements.

Following are random examples of the positive trend. ResearchAndMarkets.com forecasts the global aircraft leasing market will reach $266.71 billion in 2027, recording annual growth of 7.8%. Statista Research projects the market will be worth $295.2 billion in 2029. A recent market report by Technavio predicts even faster growth, at 8.6% annually, adding $15.5 billion to the value of the market between 2021 and 2026.

Plenty of evidence suggests the expectations of significant growth are accurate. Lessors are reporting healthy profits as their existing customers emerge from the COVID crisis and new customers join the queue to expand their fleets with new technology aircraft.

The world's biggest lessor as a result of its acquisition of GECAS in 2021, Dublin-based AerCap has a portfolio of more than 3,500 aircraft. It reported a net profit of $566 million in the first quarter of the year.

It executed 252 transactions in the three months, including 155 lease agreements, 56 purchases and 41 sales. Majority China-owned Avolon, also headquartered in Dublin, brought in $599 million in lease revenue and a net income of $56 million in the same quarter. It executed 31 lease transactions in the period, made up of new aircraft leases, follow-on leases and lease extensions.

In Asia, BOC Aviation reported a core net profit after tax of $527 million for the 12 months to December 31, 2022, although the result excluded a write-down of aircraft in Russia, which negatively impacted net profit after tax by $507 million.

Nevertheless, 2023 started on a strong note for Hong Kong listed BOC. Managing director and CEO, Robert Martin, has said the first quarter of 2023 was a successful period. "At the end of the quarter, we had placed all new aircraft scheduled for delivery in 2023 and had lease commitments signed for all but one aircraft with leases expiring this year. It reflects the strong demand among the world's airlines for modern technology aircraft. Our collection rate was 103% for the quarter, demonstrating the improving financial health of our airline customers and the speed with which they are recovering from the pandemic."

At AerCap, chief executive Aengus Kelly said strong earnings and robust cash flows for the first quarter of 2023 reflect the ongoing normalization of air travel and a return to business as usual for the aviation leasing industry. "We continue to experience strong demand for our aviation assets. Our confidence in the future is demonstrated by our new $500 million share repurchase program."

Avolon chief executive, Andy Cronin, said the lessor benefitted from rising lease rates in the first quarter of this year as global passenger traffic continued to grow and the reopening of the Chinese market provided an important catalyst for increased travel in the region.

"Demand for aircraft remains strong, with high levels of leasing activity and a continued shortage of aircraft. This is supporting residual values and driving lease extensions from airlines unable to access new deliveries. Our commitment with Boeing for 40 new B737 MAXs reflects our confidence in the long-term outlook for the aviation sector," Cronin said.

"With our low leverage and high levels of liquidity, we are well positioned to take advantage of future opportunities."

There is universal agreement the Asia-Pacific will be at the heart of growth trends. Researchers DataIntelo said the region is expected have the highest annual growth to 2030. "It can be attributed to increasing demand for air travel in emerging economies such as India, China and Japan," the data analyst wrote.

In addition, increasing disposable income, coupled with a rise in consumer preference for luxury travel, is forecast to fuel regional market growth over the forecast period, it said.

ResearchAndMarkets.com agrees the largest share of the market will be captured by the Asia-Pacific, followed by North America, Europe, the Middle East & Africa and Latin America.

Clearly, the leasing market will be underpinned by the large numbers of new aircraft

An engine lessor's perspective on the Asia-Pacific market

Engine utilization and demand are quickly recovering in the Asia-Pacific, especially in India, WLFC senior vice president and chief commercial officer Americas and Asia, Craig W. Welsh, told Orient Aviation last month.

"Because China still drives a significant segment of travel demand in the balance of Asia-Pacific, those regions for the most part only picked up markedly after China's COVID polices shifted," he said.

"But significant challenges remain for lessors in the region.

"It is no secret that the OEM/MRO challenges are ultimately driven by supply chain constraints caused by material and personnel shortages".

"There are mixed messages about how long it will take for OEM/MRO networks to resolve these shortages.

"Our repair shops have been impacted by these disruptions as well, causing delays in lease returns and our ability to remarket equipment.

"On the positive side, this situation has buoyed lease engine demand to some extent, but the challenge is trying to forecast how long this situation will last.

"Interest rates to lessors are like the price of jet fuel for airlines," Welsh said. "As rates increase, margins become strained until and unless rents increase commensurately.

"While a recession may help on the interest rate side of the equation, its potentially a negative effect on air travel demand and equipment utilization may offset the benefits of lower costs.

"Thus far, demand for air travel has been remarkably resilient in most regions, even in the face of higher ticket prices and the predictions of a recession."

being ordered, particularly by Asia-Pacific airlines. Boeing's Commercial Market Outlook (CMO) forecasts a market value of $7.2 trillion for new airplane deliveries worldwide, with the global fleet increasing by 80% to 2041 compared with 2019 pre-pandemic levels.

Approximately 50% of passenger jet deliveries will replace today's models, improving the global fleet's fuel efficiency and sustainability, the Boeing CMO said. Continuing their strong growth story, Asian markets account for roughly 40% of long-term global demand for new airplanes, the CMO predicted. About 17,080 new planes will be delivered to customers in the region and 8,485 of them will be to China.

With more than half the global fleet leased or operating under sale and leaseback arrangements, a more than healthy financial future appears to be ahead. There may be, however, some short-term challenges for lessors.

In a March webinar organized by Cirium, its Senior Valuations Consultant, Thomas Kaplan, when presenting his assessment of the values and lease rates landscape, highlighted that lease rates are comparatively lagging behind values, particularly for single-aisle aircraft.

"Lessor competition is very intense in the single-aisle fleet sector, driving prices down. We have not been able to see the interest rate and inflation filter through to get those lease rates up," he said.

"There is still an overhang of aircraft from lessor fleets idle during the pandemic when demand was very low. So with that supply still higher than regular levels, it increases competition and keeps the lease rates down. But we may see continued improvement and the trend is for improvement."

The global economic situation, with rising interest rates and inflation, also was a subject for discussion during the webinar. Deucalion Aviation senior vice president & head of lessor origination, pricing & structuring, Sarah Conway, told participants inflation is certainly having an impact on the leasing sector.

She pointed to a readjustment among lessors from a financing perspective. "Over the last few weeks, we have seen rates move again. That volatility is what all of us are trying to get our heads around when we are looking at buying and selling aircraft today and understanding if it works from a financing perspective, " she said.

Why haven't aircraft lease rates risen with interest rates? "The industry is a bit like a drug addict that's been addicted to low interest rates for 20 years or more and now is going a bit cold turkey" said Cirium's Head of Valuations, George Dimitroff. "I think the industry can adjust to the new interest rate environment. It just takes a bit of time to pass some of that onto customers and to adjust."

Conway pointed to demand among airlines to extend their leases on aircraft due to be parted-out, that is the process of retiring an aircraft and selling their parts. "Obviously, that is an easy decision as a servicer in many cases, especially if you are looking at a 20-year-old asset to extend for one more summer," she said.

"The cycle will change. It is just nobody would have modelled an extension at that 20-year

point when that deal was being considered. In the last six to 12 months, that has become an opportunity, but I believe it is a short window."

Despite big numbers of aircraft in storage, retirements have remained low during COVID with the annual total failing to reach 2019 levels every year since the pandemic's outbreak. The result has been a weak part-out market.

"The owners of aircraft have choices: permanently retire their aircraft, tear it down or let it sit. They would rather not tear down during a weak economic environment where they will get less money for the engines and airframes and there is less demand for spare parts," Kaplan said.

Another area yet to reach pre-pandemic levels of activity is lessor trading, swaps of aircraft between lessors with a lease attached. Trades have halved from more than 600 in 2019 to 300 in 2020 and have remained stubbornly below 400 every year since then. Conway indicated the longer time frames now required to close deals are inhibiting trades, with more opportunities for deals to fall through.

However, she has noted increased talk of deals at recent industry events and the return of wide-bodies as tradable assets as the key changes in recent months.

"It's a higher interest rate environment where financing has allowed for break gains and potentially a positive impact, given where book values have been sitting and how valuations have been effected in the last few years" she said.

"Wide-bodies were the trickier asset class to consider, especially standalone assets not packaged with a portfolio of narrow-bodies, so the wide-body trading side should continue to increase as we go through the year."

Dimitroff added many leases restructured in 2020 have been paid back with lease contract volatility decreasing. "You have a bit more predictability about your revenue streams, cost of borrowing and cost of funds, although it is volatile on a day-to-day basis. Some of the key dynamics you need to trade aircraft with leases attached are starting to stabilize and that should open the door for more trading," he said. ■

Global top 10 aviation lessors

1. **Aercap:** 1,800+ aircraft
2. **GECAS:** 1,500 aircraft
3. **SMBC Aviation Capital:** 896 aircraft
4. **Avolon:** 833 aircraft
5. **ICBC Leasing:** 668 aircraft
6. **BOC Aviation:** 612 aircraft
7. **BBAM:** 519 aircraft
8. **Nordic Aviation Capital:** 500 aircraft
9. **Air Lease Corporation:** 481+ aircraft
10. **Aviation Capital Group:** 480 aircraft

Asia's emerging middle class driving airline growth

Avolon's World Fleet Forecast, Return to Growth, has forecast the world's commercial passenger aviation fleet will almost double (94%) from 24,180 aircraft in 2022 to 44,300 in 2042.

The lessor estimates more than US$4 trillion will be required to finance these new commercial passenger aircraft.

Passenger demand will continue to rise by 3.5% per year from a 2019 base, the forecast said, but the pace of expansion will be lower than the 5%-6% of the previous 20 years, due to reduced potential for deregulation to drive growth and higher fares from aircraft supply shortages and increasing sustainability levies, Avolon said.

The biggest growth driver will be new middle class consumers, particularly in India, Southeast Asia and Latin America.

Regions to record the largest increases in air travel to 2042 will be India (4.4%), China (3.7%), Asia (5%) and Latin America (4.9%). Mature markets such as North America (2%) and Europe (3.1%) will continue to grow, although at a more moderate rate.

About 21,600 aircraft will exit the passenger fleet through decommissioning at the end of their economic life or freighter conversion. An estimated 95% of the global fleet will have transitioned to new technology fuel efficient aircraft by the end of the forecast period, Avolon forecasts.

	2022 Inservice Fleet	2023-2042 Deliveries	2023-2042 Removals	2042 Inservice Fleet	2023-2042 CAGR	2023-2042 Growth	Value of Deliveries (USD Billions)
Global Passenger Fleet	24,180	44,300	(21,600)	46,880	3.4%	94%	$4,040
Widebody	3,800	7,240	(3,560)	7,480	3.4%	97%	$1,600
Narrowbody	16,220	32,180	(14,080)	34,320	3.9%	112%	$2,300
Regional Jets	2,320	2,380	(2,120)	2,580	0.5%	11%	$70
Turboprops	1,840	2,500	(1,840)	2,500	1.5%	36%	$70

Avolon CEO, Andy Cronin, said: "Emerging markets and their growing middle class underpin our forecast of continued expansion of the global fleet. Near-term production constraints will remain a feature and will reward those who have secured their order book pipeline."

Avolon chief risk officer and co-author of the report, Jim Morrison, predicted "the pace of growth in demand for travel will moderate, but increasing GDP per capita will drive the global fleet to nearly double by 2042. Delivering on sustainability commitments is an imperative to secure aviation's continued growth. Fleet renewal, scaling sustainable aviation fuel production and the development of transformational new aircraft designs will be capital intensive." ■

Orient aviation

30 YEARS