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"SCOOTING" INTO THE POST-PANDEMIC WORLD

Only the best will cut it at Scoot says CEO Leslie Thng

Orient aviation 30 YEARS

Orient Aviation 2023 year in review:
from crisis to recovery at Indo-Asia Pacific airlines

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COVER STORY

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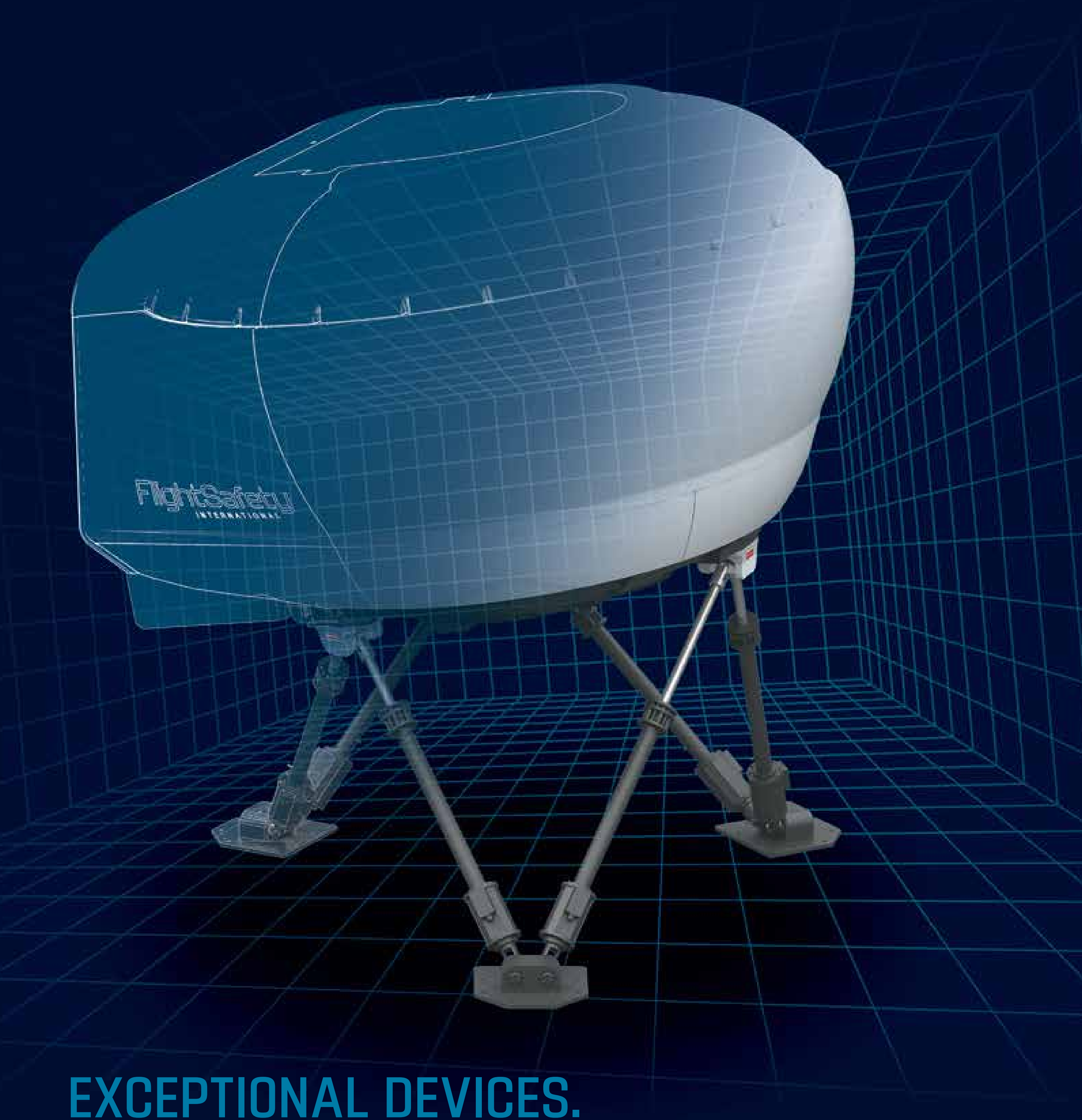
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INTERNATIONAL

Time for the oil majors to invest in SAF production

The decision by the 14 members of the Association of Asia Pacific Airlines (AAPA) to have 5% of their fuel needs met by sustainable aviation fuel (SAF) by 2030 is certainly brave.

But many observers and analysts consider it is a pipedream, given the target is only six years away and current worldwide SAF availability is a mere 1% of airline requirements. AAPA director general, Subhas Menon, concedes it is a collective "aspirational target" and the reason it has been set is to "wake the oil majors from their slumber".

They will be key players in SAF production. But they say they can't start producing SAF unless demand is there, a puzzling position when airlines are buying every single litre of SAF being produced, despite it costing five to seven times the price of normal jet fuel.

But the seeds of SAF production have been planted in Asia. Neste, the world's largest producer of renewable diesel and sustainable aviation fuels, has its Asian hub in Singapore and is producing 2.6 million tons of SAF a year. Other projects are in the pipeline. Numerous collaborations have been announced between airlines, regional governments and investors.

The U.S. government, via the Department of Transportation (DoT) and the Federal Aviation Administration (FAA), is partnering with Boeing to support APEC (Asia-Pacific Economic Cooperation) efforts to develop SAF supply, including analyzing new pathways to optimize SAF production.

Additionally, China is predicted to be a major supplier of SAF if its government puts its weight behind its production infrastructure. The Civil Aviation Administration of China has recently mandated the use of 50,000 tons of SAF in China by 2025. But it is only approximately equivalent to 0.1% of the total jet fuel used in the country in 2019 - or the fuel consumption of a thousand flights between London Heathrow and Shanghai Pudong.

At present, this is a small step. However, more ambitious targets are likely to be established in the Chinese market. The problem is it takes years to set up a SAF refinery. For AAPA airlines aiming to reduce their emissions, the SAF supply they need to meet their 2030 target is entirely dependent on sufficient SAF being produced – and that is out of their control. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

Average airline profit per passenger seat is US$5.45 – the cost of a Starbucks latte

The latest profit projections for the world's airlines appear promising, but as ever the devil is in the detail. The truth is most carriers struggle to achieve reasonable returns for their businesses, reports associate editor and chief correspondent, Tom Ballantyne, from Geneva.

The International Air Transport Association (IATA) may have announced strengthened profit projections for airlines in 2023 and an expectation of improved income in 2024, but it also pointed out earlier this month the industry's global net profitability is predicted to be well below the cost of capital in both years.

In hard figures, airlines are forecast to report a $23.3 billion net profit for 2023, a mere 2.6% net profit margin. In 2024, collective net profits for the world's air carriers are predicted to reach $25.7 billion, an increase in net profit to 2.7%. IATA director general, Willie Walsh, said: "Although it sounds like a big figure on an aggregate basis, in margin terms we are still significantly below where we need to be and significantly below where we were pre-pandemic," he said.

Speaking at the airline association's Global Media Day in Geneva in early December, Walsh said considering the major losses of recent years, the $25.7 billion net profit expected in 2024 is a tribute to aviation's resilience. "The speed of the recovery has been extraordinary; yet it also appears that the pandemic has cost aviation about four years of growth," he said.

"Of course, many airlines are doing better than that but many are struggling. On average, airlines will retain US$5.45 for every passenger carried - enough to buy a basic 'grande latte' at a London Starbucks." The Starbucks profit margin was 11.5%, he added.

"This is far too little to build a future resilient to shocks for a critical global industry on which 3.5% of GDP depends and from which 3.05 million people directly earn their livelihoods. Airlines will always compete ferociously for their customers, but they remain far too burdened by onerous regulation, fragmentation, high infrastructure costs and a supply chain populated with oligopolies," Walsh said.

He continued: "I think it's wrong for people to talk about super profits. Yes, there are some airlines doing well, but in the main this industry is not recovering its cost of capital.

"We have done a lot of work on this. In all markets we examined air fares either have risen in line with general inflation or have lagged slightly behind general inflation. We have access to hundreds of millions of tickets sold and we have analyzed all of them."

Consumers can expect airfares to continue to track rising costs, particularly oil, IATA predicts, but its data shows competition continues to drive price benefits for consumers. The average real return air fare in 2023 will be around $254, 20% lower than the average fare of $315 in 2019.

In the main, Walsh considered 2023 to be a good year for airlines, but added its members are frustrated by the lack of progress in resolving air traffic control issues in the U.S. and to a lesser degree in Europe and supply chain disruption that is limiting capacity expansion. "So the traffic growth during the year saw demand slightly outstripping capacity," he said.

Global economic developments, easing inflation, low unemployment rates and strong travel demand are positive developments, Walsh said. Nonetheless, economic strains could arise, he warned. In China, slowing growth, high youth unemployment and disarray in property markets if not managed properly, could impact global business cycles. Similarly, should tolerance of high interest rates weaken, and unemployment rises significantly, the strong consumer demand that has supported the recovery could weaken, he said.

Walsh said there had been no progress on the airport charges front. "Airports still struggle to appreciate the need to act in a commercial fashion. If they are in most cases regulators, monopolies or quasi-monopolies with little incentive to perform in an efficient manner, we will have to continue to focus on this. Many airports aim to significantly increase charges in 2024 way beyond any inflationary issues we have faced in 2023," he said.

IATA is predicting global cargo revenue to fall to $111 billion in 2024. "It is down sharply from an extraordinary peak of $210 billion in 2021, but it is above 2019 revenues of $101 billion. Yields are being negatively impacted

by belly capacity and stagnating international trade, it said.

Whatever challenges airlines face, there is little doubt they will have no difficulty filling their planes with passengers. IATA's November 2023 passenger polling data revealed more than a third of travelers are traveling more often than they did pre-pandemic. Around 49% of respondents said their travel habits now match their pre-pandemic patterns and only 18% said they were traveling less. Approximately 44% of those surveyed intended to travel more in the next 12 months than in the previous 12 months. ■

Another casualty of war

Spoofing or jamming of vital commercial aircraft navigation systems have been increasing, largely exacerbated by global conflicts, International Air Transport Association (IATA) Senior Vice President Operations, Safety and Security, Nick Careen, said at the association's Global Media gathering in early December.

"Spoofing or jamming of GNSS (Global Navigation Satellite System) and GPS (Global Positioning System) signals impacts aircraft systems and results in the unavailability of navigation and/or surveillance information." GPS is a specific satellite-based navigation system developed by the U.S., while GNSS encompasses multiple global navigation systems, including GPS, GLONASS, Galileo, BeiDou, and others. GNSS technology is used in conjunction with existing GPS systems to determine precise location positioning anywhere on the planet and works on a larger scale.

The incidents are impacting the operations of many airlines and outages are becoming longer, he said. A map of incidents produced by IATA shows a large number of events occurring over Eastern Europe, the region where the Russia-Ukraine war is being fought.

"Spoofing is when an erroneous signal is sent to the aircraft which potentially could have the aircraft doing something it should not be doing," explained Careen. "Jamming is jamming

the signal and forcing the pilots to use alternative procedures because their GPS results are not accurate. Neither is good, but procedures are in place to manage them."

Careen commercial aircraft are not targeted. "It's done to protect an asset on the ground. It could be the Americans have a facility that they don't to be visible so if commercial air traffic happens to be flying overhead at a particular spot it is impacted by it. It is a byproduct of war games really. Spoofing is another version of interference that makes the GPS not work properly."

IATA has January meetings are planned with Airbus and Boeing, some regulators and manufacturers of the aviation equipment to see if the issue can be operationalized with better procedures to avoid jamming. "We are not expecting to eliminate it, but we are definitely expecting to mitigate it," Careen said. ■

JANUARY

Entering the fourth year of the COVID-19 pandemic, the focus for Indo-Asia-Pacific airlines was how quickly they could add back capacity and resume flying to suspended destinations across their domestic and international networks.

One indication of the rebound was the winding down of all-cargo operations aboard passenger aircraft. Several airlines had removed seats on passenger aircraft to accommodate air freight demand. **Asiana Airlines** was one of the first airlines to return the converted aircraft to passenger services.

The China market was a key plank in the region's airline recovery. By the end of 2022, some local restrictions had been eased following protests in several Mainland cities. More easing of travel restrictions followed on January 8 when the country reopened its international border and quarantine requirements were removed.

Cathay Pacific was one of many carriers in the region to welcome the Mainland's reopening with an announcement its flight schedule in the important Hong Kong-China market would be quickly increased albeit off a low base.

In addition to relaxed pandemic restrictions, China's airlines benefitted from the timing of the Lunar New Year holiday this year. Official government figures showed the country's airlines flew 9 million passengers in the Spring Festival holiday, which runs annually from Lunar New Year's Eve until the sixth day of the New Year. In 2023 the holiday period was January 21 to January 27. The businesses of airlines jumped 79.8% compared with the Lunar holiday week in 2022.

The first month of 2023 also delivered good news to **Boeing** when **China Southern Airlines** resumed flying its 737 MAX fleet after a four-year hiatus.

Boeing's optimism about the 737 MAX, and indeed its confidence in the commercial aviation sector's ability to return to pre-pandemic levels, was reflected in the manufacturer's decision to open a fourth 737 MAX Final Assembly by 2024. In other 737 MAX news in the month, Japan's **Skymark** ordered four of the type, with options for two more, and South Korea's **T'way** inaugurated 737 MAX services.

Bonza, a new entrant in the Australian domestic market and another 737 MAX operator, commenced commercial flying on January 31, when VH-UIK operated the LCC's inaugural flight from the Sunshine Coast to the Whitsunday Coast. The privately held airline, controlled by 777 Partners, is the first Australian operator of the MAX.

The aviation community grieved for the loss of 72 lives on board **Yeti Airlines**, flight YT691 and operated by an ATR 72-500 9N-ANC, after it crashed on approach to Pokhara Airport in Nepal on January 15. There were no survivors among the 68 passengers and four crew members on board. A preliminary report indicated the aircraft stalled before crashing. A final report has yet to be issued. ■

FEBRUARY

As the recovery from the pandemic gained momentum, **All Nippon Airways (ANA)** lifted its full-year net profit and operating revenue estimates in February, stating passenger demand was rapidly recovering after an easing of travel restrictions on domestic flights and the removal of entry restrictions for international flights in many countries.

India's **IndiGo** reported a more than 10 times increase in quarterly profit, which CEO, Pieter Elbers, described as a strong result, both operationally and financially, amid robust demand. Forward bookings were encouraging, he added.

Singapore Airlines Group (SIA) announced another recording breaking profit for the three months to December 31, 2022. It was seven times higher than the previous corresponding period and revenue more than doubled year-on-year. Forward sales were strong for business and leisure across all markets and in all classes, it said.

Qantas Group reported a return to profitability in the second half of calendar 2022, with the strength of pent up demand driving the strong results.

In contrast, **Japan Airlines (JAL)** adopted a more conservative outlook, despite a return to profit and a doubling in revenue. The oneworld alliance member reduced its net profit and revenue guidance for its full-year to "reflect the recent trend in air transport demand".

The scale of **Air India's** transformation under the ownership of Tata Group was unveiled this month when the carrier announced it will rebuild its fleet with 140 A320neo, 70 A321neo, 34 A350-1000s and six A350-900s and 190 737 MAX family airplanes, 20 787-9s and 10 777-9s. The Boeing order included options for 50 more 737 MAXs and 20 787-9s.

Embraer secured a new customer during the month when SIA LCC, Scoot, signed a Letter of Intent with lessor Azorra for nine E195-E2s, configured with 112 seats in a single-class layout, with deliveries in 2024 and 2025.

The development of the Greater Bay Area as an integrated logistics hub took a step forward this month when **Cathay Cargo** and the **Cathay Pacific Cargo Terminal**, operated by Cathay Pacific Services Ltd (CPSL), became the first airline and cargo terminal operator to accept cargo in southern China's Dongguan for shipment out of Hong Kong International Airport.

The much-delayed SpaceJet commercial aircraft program was formally cancelled this month after Mitsubishi Heavy Industries liquidated its Mitsubishi Aircraft Corporation subsidiary. The shutdown followed years of delays and billions of dollars in development costs. Launched in 2007, the SpaceJet, then known as the Mitsubishi Regional Jet, had targeted certification for 2012.

A full house gathered at Boeing's Everett facility in Washington State this month to say farewell as the curtain fell on the 747 program.The special event for the delivery of a 747-8F freighter to cargo operator **Atlas Air** ended 54 years of production of 1,574 "Queen of the Skies" aircraft. ■

MARCH

The **Cathay Group** financial results, published this month, highlighted the change in market conditions over the course of 2022. Although the company reported a full-year net loss for last year, it disclosed a profitable second half of the calendar year, prompting general manager for finance and performance, Christopher Buckley, to declare the Hong Kong flag carrier was increasingly confident about the prospects for the business in the immediate and longer-term horizon.

Korean Air's (KAL) proposed takeover of **Asiana Airlines** received a boost this month, when the UK Competition and Markets Authority cleared the transaction after accepting KAL's commitment to facilitate the entry of Virgin Atlantic on the London Heathrow-Seoul Incheon route. The proposed merger still requires the green light from several regulators.

There was consolidation activity in Japan with **ANA HOLDINGS INC. (ANAHD)** announcing its intention to acquire **Nippon Cargo Airlines** from Yusen Kaisha (NYK). The purchase added NCA's eight 747-8Fs and five 747-400Fs freighters to ANA's cargo fleet.

Air India confirmed the **Vistara** brand will be retired when the merger of the two Tata Group airlines is complete.

The reopening of China's international border remained front-and-centre this month as the country resumed issuing visas for foreign visitors to enter the mainland and reopened destinations, including Hainan, to visa-free travel.

For China's citizens, countries Mainland tour groups could visit was increased to around 40. At the same time, the U.S. eliminated the rule that required air travellers from China, Hong Kong and Macau to provide proof of a negative PCR test for COVID-19 to enter the country.

The ongoing impact of Russia's invasion of Ukraine continued to be felt by the aviation sector. This included lessors with aircraft unable to be repatriated from Russia. As a result lessors including Asia's **BOC Aviation** posted a 96% decline in net profit after booking a half a billion U.S. dollar write down on the carrying value of its aircraft stranded in Russia.

Western Sydney International (Nancy-Bird Walton) Airport is not expected to be operational until 2026, but this month, the International Air Transport Association (IATA) confirmed its airport code will be WSI after the associatin receiving a request for an early designation.

New **Thai Airways International (THAI)** CEO, Chai Eamsiri, told an aviation conference this month the Thailand flag carrier was in revival

mode but there would be no rush to return to pre-pandemic capacity levels. THAI prefers to focus on the quality rather than the quantity of its revenue as it rebuilds the balance sheet and shores up its financial position, he said.

In other Thailand news, former Nok Air CEO, Patee Sarasin, unveiled plans for Really Cool Airlines, to be positioned in the market mid-point between full service airlines and LCCs. It plans to start flying in 2024. ■

APRIL

China's big three airline groups – **Air China, China Eastern Airlines** and **China Southern Airlines** – this month reported combined losses of 107.8 billion yuan (US$15.2 billion) for calendar 2022, a time when the country was cut off from the rest of the international community and its domestic market was subject to quickly imposed lockdowns to stem local outbreaks of COVID-19.

Despite the eye watering loss, the experiences of 2022 were well and truly in the rear view mirror when Air China said China's civil aviation industry was at a turning point in recovery in 2023 and China Eastern Airlines talked up the strong demand trend and significant recovery.

Elsewhere in the region, U.S. carrier, **United Airlines**, said its Asia-Pacific capacity, – excluding China and Hong Kong, in the northern hemisphere summer season represented 115% of pre-pandemic operations amid "unprecedented demand for travel overseas", senior vice president global network planning and alliances, Patrick Quayle, said.

In India, **SpiceJet** completed the transition of its cargo and logistics units to a new entity, **SpiceXpress** and **Logistics Private Limited**. The transaction strengthened SpiceJet's balance sheet and offered SpiceXpress the possibility of raising capital to accelerate its grown, SpiceJet chair and managing director, Ajay Singh, said.

Malaysia Aviation Group (MAG) group CEO, Captain Izham Ismail, said the Firefly, Malaysia Airlines and MASwings parent company was on track to break even in 2023 after reducing its annual loss to 344 million ringgit (US$78 million) in 2022, from 1.65 billion ringgit in 2021.

ANA HOLDINGS INC.

reported its first full year profit since the start of the COVID-19 pandemic, with the result underpinned by the robust recovery in domestic and international travel demand, sustained cost management initiatives and lower fuel prices.

As part of efforts to increase production of its A320 aircraft to 75 a month by 2026, Airbus announced plans to open a second A320 Final Assembly Line at its Tianjin facility during a state visit to China by French president, Emmanuel Macron.

The news was not as positive from Boeing, which announced this month supplier, Spirit Aerosystems had identified a "quality issue" with the aft fuselage section on some 737 MAXs. While there was no impact on the safe operation of 737 MAXs currently in service, Boeing said some 737 MAX deliveries may be delayed as it worked to develop inspections and repairs for impacted fuselages.

The International Air Transport Association (IATA) welcomed its newest member this month when **Myanmar National Airlines** joined the airline lobby group.

The aviation community paid tribute to Australian aviation legend, Charles Maxwell (Max) Hazelton, who died in Orange Australia on April 9 aged 95. Max and his brother Jim founded Hazelton Airlines in 1953. The airline, after several sales and restructurings, and has owned by a Singaporean consortium as **Regional Express**. ■

MAY

Singapore Airlines Group (SIA) reported its highest annual net profit in its 76-year history this month, storming back to profitability on the back of "proactive strategic initiatives, pre-emptive preparation when borders remained closed and the hard work, dedication and sacrifices of its employees".

SIA said forward sales are healthy across all cabin classes and demand robust.

It was a similar message from several other airlines reporting their latest financial results this month such as **Japan Airlines (JAL)**. It cited a steady recovery of air passenger demand as the "shift towards balancing pandemic prevention and socio-economic activities gained momentum" after reporting a return to profitability in its 2023 fiscal year. The company's outlook showed an increasing confidence, with net profit forecast to grow by close to 60% in the current year.

Adding to the positive outlook, the country's aviation sector, and travel and tourism businesses more generally, were boosted by the Japanese government's removal of COVID-19 testing and vaccination requirements for international travellers this month.

In Australia, **Qantas Group** announced chief financial officer, Vanessa Hudson, as the successor to Alan Joyce, who intended to step down in November after 15 years in the role. However, events subsequent to the announcement resulted in a change to the original timeline. (See August).

The airline group named former **American Airlines** CEO, Doug Parker, as a non-executive director.

India's aviation market faced disruptions this month when financially troubled **Go First** abruptly suspended all flights due to what it described at the time were issues with the Pratt & Whitney engines on its A320 fleet. While the cash-strapped LCC stated the suspension was only for a short period, at press time flights had yet to be restored as parent company, Wadia Group, worked through an insolvency process and lessors sought the return of their aircraft.

Philippine Airlines took a major step forward in the renewal of its fleet by signing a Memorandum of Understanding with Airbus for nine A350-1000s to be delivered in the 2025-2027 timeframe, along with purchase rights for a further three of

the type, to be used on North American and, potentially, European routes.

Thai Airways International (THAI) announced plans to consolidate its regional wing, Thai Smile, with the parent airline and have the two carriers flying under a single air operator certificate.

After receiving good news from U.K. regulators recently, **Korean Air's (KAL)** proposed takeover of Asiana Airlines suffered a setback this month when the European Commission (EC) said the tie-up may reduce competition on passenger flights from South Korea to France, Germany, Italy and Spain and on all cargo flights between Europe and South Korea. ■

JUNE

When the aviation community gathered in Istanbul this month for the **International Air Transport Association (IATA)** annual general meeting, they were greeted with the positive news that the lobby group had more than doubled its calendar 2023 profit forecast for the airline industry, albeit on a still slender 1.2% profit margin.

IATA director-general, Willie Walsh, told delegates the return to profitability after years of losses during the pandemic was a story of resilience and added there were many good reasons for optimism in 2024.

That optimism was on display at the Paris Airshow later in the month, when India's largest carrier, **IndiGo**, announced its intention to acquire 500 A320 family aircraft. It was the biggest single aircraft purchase agreement in the history of commercial aviation and was on top of IndiGo's existing order of 480 A320 and A321s. In other Paris Airshow news, **China Airlines** exercised options for eight 787-9s from Boeing.

In mid-year updates, Airbus and Boeing lifted their annual 20-year forecasts for commercial aircraft deliveries by 3.4% and 3.5%, respectively, compared with last year. For the record, the Boeing 2023-2042 Commercial Market Outlook expects 42,595 new commercial aircraft deliveries and the Airbus Global Market Forecast predicts 40,850 aircraft orders.

Boeing reported another manufacturing issue had arisen to potentially impact deliveries this month, this time for its 787 program. The manufacturer said a non-conforming condition related to a fitting on a horizontal stabiliser had been discovered and aircraft with this condition must go through a rework before they could be delivered to customers. The air framer already is working

to correct an issue with its 737 MAX program.

Qantas Airways boosted its North American network with the resumption of flights to New York JFK for the first time in three years, restarting the Sydney-Auckland-New York service, flown with 787-9s, three times a week. The Australian carrier competes with **Air New Zealand** on Auckland-New York.

In news from Malaysia, the Sarawak government reached an in-principle agreement with Malaysia Aviation Group to take over the company's regional carrier, **MASWings**.

An interesting cargo partnership also was announced in the month by Etihad Cargo and SF Airlines. They signed a Memorandum of Understanding to boost freight capacity between the United Arab Emirates and China, including the start of Abu Dhabi-Wuhan cargo services.

The final month of the 2022-2023 financial year began with a milestone for the A380, when **Emirates Airline** flight EK368 touched down in Bali-Denpasar a little after 1620 local time on June 1. The flight, operated by an Emirates A380 registration A6-EUR, was the first commercial flight by the double decker to Indonesia since the type entered service in October 2007.

The **International Civil Aviation Organisation (ICAO)** bolstered its presence in the South Pacific this month when it opened a liaison office for Pacific Small Island Developing States (PSIDS) in Fiji. The office aims to foster collaboration, provide technical assistance and address the unique aviation challenges faced by countries in the region. ■

JULY

Through much of the second half of 2023, a very public debate took place between U.S. carriers about the allocation of highly sought after take-off and landing slots at Tokyo Haneda airport.

This debate reached a significant milestone this month when the U.S. Department of Transport rejected a **Delta Air Lines** request to utilise up to two of its U.S.-Tokyo Haneda slot pairs to serve the downtown airport from any U.S. gateway of the airline's choosing, rather than on routes for which those slot pairs were granted. Delta's bid was backed by **American Airlines** and **Hawaiian Airlines** and opposed by **United Airlines**. It was far from the end of public claims and counterclaims about the best use of scarce Haneda slots.

Airbus boosted its A320 production capacity with the opening of a Final Assembly Line (FAL) in the building formerly occupied by the aerospace giant's A380 program. The Toulouse facility, alongside FALs in Hamburg, Mobile and Tianjin, is critical to Airbus plans to increase A320 production to 75 aircraft a month by 2026.

As the grounding of India's **Go First** entered its third month, the airline opened an Expression of Interest process in a search for new investors or buyers of the failing LCC.

Still in India, **SpiceJet** managing director, Ajay Singh, provided the LCC with a 5 billion rupee (US$61 million) capital injection to "accelerate its expansion, capture new opportunities in the market and increase revenue and profits".

Korean Air said its Available Seat Kilometres, had reached 82% of pre-pandemic capacity in the month.

Virgin Australia announced plans to upgrade the cabins of its existing 737 fleet to approximate the amenities on the carrier's 737 MAXs as part of a two-year refurbishment program. The refurbished aircraft will be fitted with in-seat power, a tablet/personal electronic device holder and the return of WiFi on board.

Still in Australia, new LCC, **Bonza**, revealed growing pains in the month when it removed five domestic routes from its network to improve operational reliability and address a passenger demand shortfall.

Capital A logistics company, **Teleport**, celebrated the arrival of its first A321F freighter, adding extra capacity to its network.

There were troubling times at **Bamboo Airlines**, which lost its CEO this month when Nguyen Minh Hai left the company less than two months after taking on the role. A host of directors also quit their board seats and its chairman was detained by investigators.

The aviation MRO sector appeared to be well on the road to recovery following **SIA Engineering Company's** first quarterly profit since the outbreak of the pandemic.

Market consolidation also was on the cards during the month, after **Safran** bid to acquire **Collins Aerospace** actuation and flight control division in a deal valued at US$1.8 billion. ■

AUGUST

The month was dominated by financial results from airlines across the region and they announced plenty of positive news. **Air New Zealand** and **Qantas Group** reported their first annual net profits since the start of the pandemic, **IndiGo** posted its highest ever quarterly revenue results and Cathay Pacific surged back to the black for its half-year.

But some of the commentary pointed to challenges ahead. **Cebu Pacific Air** noted declines in short-haul demand and supply chain concerns. **Korean Air** achieved, in its own words, a "moderate operating profit", due to rising operating costs and airport fees. The "Big Three" Mainland airline groups – **Air China, China Eastern Airlines and China Southern Airlines** – posted combined interim losses of 12.5 billion yuan (US$1.7 billion), albeit the results improved over the previous year.

Not content with signing orders for hundreds of Airbus and Boeing aircraft, **Air India** also found the time to unveil a new livery featuring red engine housings, the airline's name in an all-capitals typeface and the addition of a window frame pattern on the tail the airline said symbolised a "window of possibilities".

Lion Air Group carrier, **Batik Air Malaysia**, commenced an intriguing route during the month; operating six flights a week from Kuala Lumpur to Auckland via Perth. The airline, formerly named Malindo Air, hopes to establish Perth as its next hub after Kuala Lumpur. **AirAsia X** and **Malaysia Airlines** fly Perth-Kuala Lumpur and **Air New Zealand** operates nonstop Auckland-Perth.

Significant orders in the month included **Cathay Pacific** signing with Airbus for up to 32 A320neo family aircraft, with deliveries from 2029. The aircraft will be flown by Cathay Pacific and its 100%-owned LCC, HK Express. The commitment was in addition to the group's order for 32 A320neo family aircraft of which 13 of the single aisles have been delivered.

Airbus received another boost to its order book after Papua New Guinea's flag carrier, **Air Niugini**, put pen to paper for 11 A220s with deliveries from 2025. The aircraft will replace the airline's Fokker 100s and Fokker 70s.

There was good news for China's citizens during the month when their government removed bans on outbound group travel to around 70 countries. Separately, the U.S. and China approved an increase in flights between the U.S. and China. Until this decision was implemented, frequencies had been severely restricted as both countries took a tit-for-tat approach to access during the pandemic.

ANA HOLDINGS INC. chose the peak summer month of August to announce its new airline, **AirJapan**, will take flight next February. Tokyo Narita-Bangkok Suvarnabhumi will be its inaugural route.

On the last day of the month and a week after **Qantas** unveiled a bumper annual profit, the **Australian Competition and Consumer Commission** commenced legal action against the Australian airline alleging false, misleading or deceptive conduct for advertising tickets for more than 8,000 flights it had cancelled but had not removed from sale. ■

SEPTEMBER

This year's long farewell for Alan Joyce ahead of his resignation as Qantas Group CEO in November was abruptly cut short this month. The veteran CEO stepped down two months earlier than previously announced following tumultuous criticism of the airline group's handling of travel credits as well as declining service levels and lobbying efforts against an application by **Qatar Airways** to increase flights to Australian destinations.

Then, not long after Vanessa Hudson took the reins as CEO on September 6, Australia's highest court upheld a previous judgement that Qantas illegally outsourced 1,700 ground handling jobs in 2020.

Airlines with 737 MAX orders heard disappointing news from Boeing this month when chief financial officer, Brian West, told an industry conference deliveries of the type were expected to be at the low end of its previous guidance of 400 to 450 deliveries for several reasons including a problem with aft pressure bulkheads on the MAX identified by Boeing supplier Spirit Aerosytems.

There were concerns too from operators of the **Pratt & Whitney** PW1100G-JM geared turbofan (GTF) engine after parent company, **RTX**, announced additional inspections would be required for 600 to 700 GTF engines to correct a rare condition in the powder metal used to manufacture certain parts of the power plant.

In response, **Cebu Pacific Air**

flagged fewer aircraft deliveries and slower growth in 2024. **Air New Zealand** forecast its domestic, trans-Tasman and Pacific Island services are expected to be impacted from the start of 2024 by the GTF issue and that more service disruptions may follow.

Two aircraft orders of note were announced in the month. **China Eastern Airlines** signed a purchase agreement for 100 C919s from the Commercial Aircraft Corporation of China, with deliveries from 2024 to 2031 and **Vietnam Airlines**, an A320 operator, said it will acquire up to 50 737 MAXs from Boeing.

The aviation community said farewell to veteran executive, Man Swee Was this month, who retired as Singapore Airlines (SIA) executive vice president and chief operations officer after a 40-year career with the airline group. SIA has appointed executive vice president for finance and strategy and chief financial officer, Tan Kai Ping, as Mak's successor.

There also were executive changes at **Airbus**,including the appointment of chief commercial officer and head of international, Christian Scherer, as CEO of the company's Commercial Aircraft business. ■

OCTOBER

Severe financial pressure forced **MYAirline** to suspend all operations this month. The Malaysian start-up cited an inability to secure new funding for its grounding. At press time, the LCC had not resumed flying, its air operator certificate remained suspended and the bulk of its A320 fleet was in the hands of lessors.

In more positive news, **Virgin Australia (VA)** reported its first annual profit in 11 years, auguring well for a potential 2024 listing of the company on the Australian stock exchange. At the start of the pandemic, VA entered voluntary administration and was acquired by private equity group, Bain Capital.

Profitability also was restored at **Air China, China Eastern Airlines** and **China Southern Airlines**. The "Big Three" Mainland carriers posted a combined quarterly net profit of 12 billion yuan (US$1.7 million), underpinned by a recovery in domestic travel.

At **ANA HOLDINGS INC.**, parent of **All Nippon Airways**, interim net profit was more than five times bigger than in first-half 2022. The financial accounts also detailed the substantial financial impact of inspections required for ANA's Pratt & Whitney engines.

ANA calculates it will cancel 10 to 30 flights a day from January to March next year to complete inspections of GTF engines in its fleet, resulting in an 8 billion yen (US$55 million) hit to revenue.

JAL Group, parent of **Japan Airlines**, said in its interim accounts COVID-19 was "finally coming to an end" given international border restrictions had ended, domestic restrictions had been lifted and passenger demand had exceeded expectations.

Across the Korea Strait, there was good news from **Korean Air (KAL)**. During the month, the Korea Credit Rating agency raised KAL's credit rating from BBB+ to A-, the first time the airline has held an "A" level credit rating in eight years.

Still with KAL, the SkyTeam alliance member signed a top up order for 20 A321neos in the month, lifting its planned acquisition to 50 of the type. At press time, KAL was flying nine A321neo.

The largest airline in the Philippines, **Cebu Pacific**, demonstrated its commitment to staying top of the country's airline league when it announced it is in the market for 100-140 single aisles and plans Request for Proposals with Airbus and Boeing.

Bamboo Airways admitted this month it had withdrawn all of its 787s from operations and ended flying to Australia and Europe in efforts to turn around its poor financial performance.

Fallout from a disastrous 2023 continued at **Qantas Group** this month when the group's chair and two directors announced they were heading for the exit. Chair Richard Goyder will resign before the group's 2024 shareholders meeting and Jacqueline Hey and Maxine Brenner will step down next February. ■

NOVEMBER

It was this month in 2020 when the South Korea government proposed merging the country's two largest airline groups, with **Korean Air** to take over **Asiana Airlines**. Three years later, the deal has yet to get across the line as the two airlines continue to seek approval for the merger from regulators in several key international markets.

Efforts include an Asiana Airlines offer to divest its cargo business to alleviate competition concerns raised by the European Commission. Market watchers are not sure the offer will be enough to sway the EC regulator Asiana and KAL's way.

As the year drew to a close, several of the region's carriers detailed the impact on their operations from mandatory engine maintenance for the Pratt & Whitney geared turbofan engines. **Cebu Pacific** expects to have up to 20 A320neo family aircraft grounded in 2024. India's **IndiGo** said its count is in the mid-thirties. **Air New Zealand** said schedule changes will be significant and could impact services for two years. Despite this setback, the airlines expressed confidence in meeting their targets for capacity growth.

After posting its highest annual profit in its history earlier in the year, **Singapore Airlines Group (SIA)** continued that momentum with another strong result and a positive outlook. SIA reported a record interim profit and Singapore Airlines and Scoot, its operating carriers, are forecast to exceed pre-COVID-19 capacity in fiscal 2024-2025.

Malaysia Airlines joined the list of 737 MAX operators this month when a 737 MAX 8, registration 9M-MVA, commenced commercial flying, with Kuala Lumpur-Kota Kinabalu its inaugural route.

The Association of Asia Pacific Airlines (AAPA) announced this month, after the conclusion of its annual Assembly of Presidents, that **Vietnam Airlines** had rejoined the airline lobby group as its 15th member.

While competitors in the air, **All Nippon Airways** and **Japan Airlines** said this month they are working together to standardise ground handling operations and share systems, terminals and facilities at several Japanese airports to ensure there were enough workers to support the growth of the industry impacted by an ageing workforce. Cooperation includes mutual recognition of each other's ground handling qualifications, adding flexibility to the workforce.

Vietjet rounded out its rapid expansion into Australia with the additions of Perth and Adelaide as its fourth and fifth destinations, respectively, into the country. The LCC began flying to Australia

last April, serving Melbourne and Sydney, before inaugurating Brisbane in June. It commenced flights to Perth this month and then rejigged the route to Ho Chi Minh City-Perth-Adelaide.

The Dubai Airshow, held this month, was headlined by a top up order from **Emirates Airline** for 90 777-Xs.

Akbar Al Baker stepped down, very abruptly, as **Qatar Airways** group CEO this month after 27 years in the role. The entertaining, often acerbic and controversial Al Baker was replaced by Engr. Badr Mohammed Al-Meer, chief operating officer of Doha Hamad Airport. ■

DECEMBER

International Air Transport Association (IATA) director-general, Willie Walsh, said at the lobby group's global media day in Geneva early this month the outlook was for "more normal growth patterns" in 2024. IATA forecast net profit next year could reach US$25.7 billion from an expected US$23.3 billion this year. The Asia-Pacific is on track to book a small 2023 loss followed by a return to profit next year.

A key factor shaping the extent of the recovery will be the Mainland market, particularly international travel into and out of the country. To stimulate inbound travel, China has increased the number of countries eligible for visa free travel and reduced visa fees for citizens from several nations. China said this month the measures were having an impact.

Similarly, countries in the region are laying out the welcome mat for China visitors. This month Singapore and China agreed to introduce mutual 30-day visa free travel between the two countries in 2024 while Malaysia and Thailand are visa free for tourists from China.

Some noteworthy trends emerged in 2023; more airlines are offering free internet connectivity whether to passengers in all classes, members of their frequent flyer programs or other subsets of passengers.

In the Asia-Pacific, **Malaysia Airlines, Singapore Airlines (SIA)** and **Vistara** are going the complimentry WiFi way. Will more airlines follow suit in 2024? Time will tell.

Another trend was the growing importance of partnerships with SIA setting the pace. Last February, it signed a Memorandum of Understanding with **Vietnam Airlines** to strengthen their commercial collaboration. In May, it proposed a joint venture with **Garuda Indonesia** and in November it announced a codeshare agreement with **Philippine Airlines**.

This is on top of SIA's previously announced strategic partnership with **Thai Airways International** in December 2022 and its existing partnerships with **Virgin Australia, Malaysia Airlines** and further afield, **United Airlines**.

The impact of these agreements on competition, passenger flows and the bottom line of Indo-Asia-Pacific airlines will be closely watched in 2024.

North American airline access to Tokyo Haneda is another issue expected to feature prominently in 2024 after Delta Air Lines abandoned plans to launch Tokyo Haneda–Portland Oregon and surrendered a pair of slots. **American Airlines** and **United Airlines** have applied for the slots to operate to Haneda from New York JFK and Houston Intercontinental.

As 2023 draws to a close, so too does the 25-year tenure of Robert Martin as BOC Aviation CEO. As chair, Liu Jin, noted in November's announcement of Martin's retirement, the veteran banking executive led the company to "unbroken profitability through both good times and more challenging times". Martin's last day as CEO is December 31. He will remain on the board as a non-executive director. ■


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ADDRESSING SUPPLY SHORTFALL FUNDAMENTAL TO SAF SUCCESS

Sustainability was the theme of the Association of Asia Pacific Airlines (AAPA) 67th Assembly of Presidents held in Singapore in early November. Its 14 member airlines agreed an ambitious target for the use of sustainable aviation fuel (SAF). Not everyone is convinced it is achievable, but it shows, despite pandemic recovery challenges, that carriers are striving to reach their goal of net zero emissions by 2050. Associate editor and chief correspondent, Tom Ballantyne, reports from Singapore.

If there was one surprise at the Association of Asia Pacific Airlines Assembly of Presidents in November, undoubtedly it was the agreement of the association's 14 member carriers to target use of 5% sustainable aviation fuel (SAF) by 2030 - just six years away.

Considering supply of SAF globally is less than 1% of airline fuel requirements worldwide, it is a tall order, particularly since SAF production in Asia is lagging behind other regions in the world.

It is, said AAPA director general, Subhas Menon, a collective "aspirational target" with some airlines using a higher mix of sustainable jet fuel than others. Hong Kong's Cathay Pacific has set its own target for SAF of 10% of its fuel consumption by 2030. Japan aims to have airlines replace 10% of the fuel they use at Japanese airports with eco-friendly alternatives by 2030.

Singapore Airlines (SIA), the host airline of this year's Assembly of Presidents, is more cautious. CEO Goh Choon Phong told delegates a 20-month trial involving SIA and its budget arm, Scoot, showed Singapore is operationally ready to switch to SAF but to meet the percentage of (SAF) to which the association has committed, supply must be there. "We would like to see how supply can be encouraged, but we are not making any decision on how we are going to facilitate that. I think it's premature," he said.

Menon said the AAPA is setting the 5% target to "wake the oil majors from their slumber… they are telling us if they do not have an indication of demand, (they) can't start producing sustainable aviation fuel. So we are putting it out there." He added the AAPA has not had direct contact with the oil majors, but it intended to do so.

Aspirational as it may be, there are serious doubts about the 5% target being reachable. Endau Analytics founder, Shukor Yusof, told Orient Aviation "there's not a snowball's chance in Hades these airlines can come anywhere near that".

There were three main reasons for this, he said. "One, the time frame is too short and there is no incentive (in terms of cost savings, for example) in achieving it other than to brag about it. Two, the issue of SAF (and sustainability) is limited mainly to practitioners, that is the airlines, with passengers - at least those in Asia - uninterested and unwilling to participate. Three, more people have become disillusioned with climate change. Many will concede they know it is happening but don't think governments are doing enough. Our problem is there's only one David Attenborough – and he is too old - and one Greta Thunberg - and she is too young and inexperienced."

Menon takes a different approach. Sustainability is critical to the success of international air transport, he said. Already, the temperature increase in 2023 is close to the red flags raised by the Inter-Governmental Panel on Climate Change, he pointed out.

"Until adequate supplies of SAF are available, ICAO's (International Civil Aviation Organization) Corsia scheme is a necessary measure for airlines to mitigate their CO_2 emissions." he said. "Regulations must be harmonized globally to make the world sustainable.

"Legislation that incentivizes SAF demand and supply, within borders, misses the critical point. If SAF is only available halfway on a return journey, airlines cannot be sustainable. It's like building a bridge to somewhere only to stop when you are halfway there."

Singapore's acting transport minister Chee Hong Tat, when addressing the Assembly, said the use of SAF will lead to higher costs for airlines and passengers. He called on the industry and the Asia-Pacific to instead support new paths to production of greener jet fuel.

Chee said Singapore cannot single handedly pursue environmental sustainability within the aviation sector without considering the significant cost impact this will have on the industry.

"It is untenable for airlines to continue as usual without looking for greener ways of operating," he added, outlining the trade-offs the Singapore government is weighing before it announces a strategy on increasing the use of eco-friendly jet fuels.

The strategy could include making greener fuels, which cost three to five times the price of regular jet fuel, mandatory for flights departing Singapore. Other options being considered are providing incentives for using greener fuel or a

'A harmonized global framework that enables the cost-effective supply of SAF is crucial for aviation to attain its net zero emissions goal by 2050. By highlighting their collective ambition on SAF usage, AAPA airlines are indicating the level of SAF demand as an impetus for governments to consider the necessary support initiatives for SAF supply, and for fuel producers to plan SAF production capacity, to meet the needs of the industry. At the same time, a globally agreed accounting framework for airlines to account for their emission reductions, based on a chain of custody approach, should be in place. This will ensure that the relevant carbon abatement credits are properly attributed in the SAF supply chain from feedstock to production and use'

Subhas Menon
AAPA director general

combination of mandates and incentives, he said.

International Air Transport Association (IATA) deputy director general, Conrad Clifford, said "the region will need to move rapidly towards the use of SAF because it will play the largest role in reaching our goal of net-zero CO_2 by 2050". "IATA has been actively providing support to airlines in the region to help them ready for the transition to SAF," he said.

"But ramping up SAF use goes far beyond the efforts of airlines alone. It requires close cooperation among different industry sectors, from agencies overseeing energy production and transition, fuel producers and suppliers, to the airlines."

Most importantly, Clifford said, governments in the region must take the lead by introducing policies to ensure sufficient SAF supply and enable the uptake by airlines. "Many countries are just starting to consider SAF production and adoption, so government support - for example in the form of incentives - will be crucial to reduce risk and accelerate the energy transition at this early stage," he said.

"Governments should set up comprehensive consultation processes that involve all stakeholders to discuss how the industry can transition to SAF. And a transition from consultation to action, in the form of a task force or working group, for example, will be vital."

AAPA's Menon said airlines are calling on governments, fuel producers, airports and other industry organizations to come together globally, to accelerate the transition to renewable energy and fuel the industry's journey towards carbon neutrality.

As they continue to tussle with environmental challenges, airline chiefs said they still face headwinds from rising fuel prices and high inflation. Air travel in the region recovered to 69% of 2019 levels for the year to September 30 trailing all other regions and impacted mainly by China's slow reopening of its border post-pandemic.

"Industry recovery has been slowed by inflation, the tight job market, supply chain constraints and fuel prices, which are still higher than in 2019," said Menon. "Non-oil costs are escalating in areas like ground handling and taxation, squeezing profit margins for airlines," he said, emphasizing supply chain issues continue to impact deliveries of new aircraft and spare parts for maintenance.

The industry is banking on Chinese travellers returning in full force to kick start a fresh wave of growth, which Menon predicts will happen in the first half of 2024. China was the largest air travel market pre-Covid-19, accounting for a fifth of international travel within the Asia-Pacific and 6% globally. At press time, the numbers were 10% and 2%, respectively.

Mainland recovery mainly has been focused on domestic travel. Also, the slow lifting of restrictions on group tours to popular overseas destinations has limited international travel.

Nevertheless, Menon remains optimistic about the industry's prospects, saying air travel is now truly open. "Most economies have reached or exceeded pre-pandemic levels of connectivity. Domestic air travel has surpassed 2019 levels. International air travel will reach 2019 levels by year-end," he told delegates.

"As the region's borders reopened after the rest of the world, Asia Pacific air travel recovery at 69%, trails other regions. Still growth is dramatic. Asia-Pacific passenger traffic increased 171% over the same nine months in 2022 but capacity growth was a slower 130%."

The Assembly of Presidents also passed a resolution on aviation safety, pledging to work with ICAO and relevant national regulators to actively generate initiatives in the Asia-Pacific to enhance safety culture in various areas, especially in regions with inherent terrain, visibility and situational weather challenges. They include training, education, reporting and investigation, knowledge-sharing programs and the deployment of advanced technologies.

A third resolution was passed at the Assembly calling on governments to avoid imposing unilateral measures on airlines that have disproportionate impacts on operations, affect overall connectivity and schedule reliability.

"Governments need to consider the overall economic effects of introducing regulations that will increase the operational and cost burden on airlines, particularly in circumstances beyond the control of airlines. Overly strict enforcement of passenger and slot-related regulations during and in the immediate aftermath of periods of mass disruption to transportation systems may not serve the best interests of the travelling public if they are not practical, cost-effective, efficient, and sustainable," the resolution said. ■

Charting Sustainable Aviation Fuel uptake in the Asia-Pacific

A report just released by financial services firm, KPMG, said the increasingly favorable local policy environment in the Asia-Pacific is prompting a number of players to consider opportunities for SAF development in the region. "As a result, airlines, airports, investors and fuel producers are increasingly making public commitments to promoting the growth of local SAF supply and demand. However, with inherent feedstock limitations and challenges in scaling up more advanced SAF production pathways, the development of a SAF industry in the Asia-Pacific has the potential to both accelerate and hinder SAF progress," it said.

KPMG reports developments underway are:

- **India** has a SAF roadmap under development and some airlines have tested SAF blends. Vistara recently operated its first long-haul SAF flight from the country.
- **Last September, Thai Airways International** announced it will gradually increase SAF use from 2% by 2025 to 60% by 2050. Bangkok is building a new facility, to be completed by the end of 2024, to convert used cooking oil into SAF.
- **In 2022, Singapore Airlines** partnered with the government in a pilot SAF credits scheme. Neste started SAF production in Singapore in May 2023. In the same month, Jet Aviation announced a partnership with FlyORO, a fuel blending services provider, to offer SAF blends in Singapore.
- **Japan** established a SAF roadmap in 2021 and in May this year the government confirmed that by 2030 10% of aviation fuel used for international flights at Japanese airports will have to be SAF. This follows industry progress in April, when locally blended SAF was produced in Japan for the first time. It was purchased by **All Nippon Airways** and **Japan Airlines** as part of a demonstration project sponsored by the government.
- **In June**, following a one-year program run by **Air New Zealand**, the carrier and the government committed multi-million dollars to investigate SAF production in New Zealand. The next phase of this program will assess the technical, economic, environmental and logistical impacts of two SAF facilities proposed by LanzaJet and Fulcrum BioEnergy.
- A SAF roadmap is being developed by the **Australian government**, Boeing and Australia's National Science Agency. In 2023 LanzaJet announced a feasibility study for an Alcohol-to-Jet facility in Queensland. It has received support from Queensland's state government, **Qantas Group** and Airbus for the multi-million dollar joint program.

KPMG says SAF activity may boom in China in particular. Until early 2023, the only notable SAF production in the country was Sinopec's facility outside Shanghai, which delivers fuel to the Airbus Delivery Centre in Tianjin. In April, **Cathay Pacific** committed to developing four power-to-liquid production facilities in China alongside the State Power Investment Corporation.

- **China's track record** in rolling out wind and solar energy, as well as transport infrastructure more widely, has demonstrated the country's ability to move quickly once it decides to adopt a technology solution, KPMG said. If the four facilities, backed by the Mainland government are delivered from 2024 to 2026 as planned, commercial SAF production in China could kick-start earlier than Europe where approaches to SAF incentives are still being refined, such as the UK.
- **Boeing and the U.S.** have launched an initiative to catalyze the development and use of SAF among Asia-Pacific Economic Cooperation (APEC) member countries. Aiming to support APEC economies efforts to develop SAF supply, the U.S. Department of Transportation and the Federal Aviation Administration (FAA), are partnering with Boeing to sponsor the project. It aims to identify the availability of sustainable feedstocks for SAF, analyze new pathways to optimize SAF production, leverage existing industries and infrastructure for SAF production and enable the development of SAF-specific policies for production and use. ■

Looking good for 2024

When it comes to the serious supply chain problems facing airlines most of the focus has been on big ticket items such as aircraft and engine deliveries and spare parts for MRIO shops. Not so, Thai Airways International (THAI) CEO, Chai Eamsiri, told delegates attending the 67th Asia Pacific Airlines Association Assembly of Presidents last month. The problem is affecting everything, right down to water taps in aircraft toilets.

"They are electronic, automatically turning on water when hands are placed under the tap and if something goes wrong you can't get spare parts. The old style manual tap was easier to maintain." Another example is when the refrigerator, the chiller, in the aircraft galley, breaks down, he said. "We can't get a spare and are having to load dry ice on the aircraft instead."

It was a problem shared by all members of the Association of Asia Pacific Airlines Assembly of Presidents CEO panel. Having just reported a third quarter net profit of $44.6 million, which Eamsiri said was better than expected, THAI still faced a lot of challenges, particularly supply chain disruption.

Sustainability, the theme of the Assembly, also was a topic of the panel discussion. Cathay Pacific CEO, Ronald Lam, said passengers had higher expectations about sustainability than in the past. One focus for his airline is reducing single-use plastics. At THAI, Eamsiri said that from December crew uniforms will be made from fabric that is 70% recycled plastic and 30% Thai silk. About 80% of the items in the airline's new amenity kits are biodegradable.

Air India CEO, Campbell Wilson, said the vast majority of its customers don't really have sustainability as their highest priority. "Many of them are first time travellers or relatively infrequent travellers. What they want from us is actually the travel experience. Reliability. Punctuality. Reasonable service," he said.

"Their expectations in respect of the service and product have dramatically improved so our challenge is not so much to satisfy their expectations on sustainability, important though it is, but to satisfy their expectations of the travel experience."

"Not every country can afford the actions that, for example, Singapore has taken. It is wonderful Singapore is providing a beacon and an example for the rest of us to follow, but we need to keep that context of where we are in our stage of development."

On a positive note, it appears none of the CEOs is seeing post-pandemic changes in traveller attitudes, in both the leisure and business sectors. "So far this year we have not seen any major structural change in travel behaviour when it comes to leisure and business," said Cathay Pacific's Lam. "There was a lot of talk during COVID that tele-conferencing, zoom technology, would result in people travelling less for business. So far, we are not seeing that. Talking to corporate clients I don't see a fundamental shift in the way they travel."

Philippine Airlines (PAL) CEO, Captain Stanley Ng, agreed. It is clear business people still wanted to have face to face contact with clients and were prepared to travel to do that, he said. He added PAL had emerged from Chapter 11 bankruptcy in late 2021 as a more efficient airline with a stronger balance sheet. "We were surprised at the pace of opening up and how passenger demand recovered so quickly. 2022 was the best year we have ever had. We used that financial success to invest in people and products."

Lam reminded everyone Cathay Pacific was one of the hardest hit airlines during the pandemic. "We had the toughest restrictions for our passengers as well as our crew. The last three years, for most of the time, we had less than 5% of our passenger capacity operating. Against that background, although we started late, we started low, this year we have been catching up very fast."

This year and going into next year the airline would be busy on a number of things, he said. "The first is to rebuild from the pandemic. We need to rebuild our capacity, our services, our morale. I am glad to say despite all the challenges we have been making good progress." he said.

"We have built to 70% of our passenger capacity and 85% of our cargo capacity. The other parallel track we are doing is catching up on our investment. There's a lot of catch up we need to do in terms of our fleet end product, our services because in Hong Kong, at end of next year, we are going to have a three-runway system.

"Lastly, Hong Kong is in a very unique position because we can connect China with the world. With international capacity building up quite slowly between China and the rest of the world Hong Kong will play a key role in connecting China with the world and in that part we have been building our flights into the Mainland and connecting people there via Hong Kong."

Air India's Wilson – the airline has ordered 470 new aircraft – disclosed the carrier will be receiving a new aircraft every six days for the next two years. Now the third largest air travel market in the world and growing at 8% annually, Wilson said "we have new aircraft. We are recruiting many, many new crew and staff, improving the training regime. There is more work to do and we are making good progress."

Wilson said the vast majority of Air India customers want reliability and punctuality, and the challenge is to satisfy customers' requirements. He expressed confidence in competing with other airlines and increasing traffic for Air India. ■

Vietnam Airlines returns to AAPA fold

On November 14, the Association of Asia Pacific Airlines announced Vietnam Airlines had rejoined the regional airline lobby association, bringing its membership in 2023 to 15 carriers. Established in 1995, Vietnam's flag carrier operates a dense regional network encompassing Southeast Asia, North Asia and Australia and intends to fly Hanoi-London with 787-900s. It joined the SkyTeam alliance in 2010 and is now riding the wave of a robust home country economy post pandemic.

After the 2022 AAPA Assembly of Presidents in Bangkok, Air India, which is undergoing a massive transformation, announced it had joined the AAPA, the association's first member carrier from India.

No need to fear the impact of Artificial Intelligence

Artificial Intelligence (AI) is increasing a key enabler in bringing new efficiencies and cost savings to the aviation industry. Are there risks involved in its use? Associate editor and chief correspondent, Tom Ballantyne, hears one interpretation of its value to aviation.

Ask Jitendra Sindhwani, president of Washington, DC-based global travel software company, ibssoftware, if AI could become a danger to humanity and the companies that use it and he can't help but laugh. "I think the doomsday scenario is not going to happen," he told Orient Aviation. "Leave that to the Hollywood script writers," he said.

The risk, he added, is not in AI but in security. "The pay a lot of attention to security, i.e. can your data be hacked or misused. Cyber security is a bigger area in doing damage to you than AI."

On the other hand, he pointed out, AI can help with security. "AI can play a big role in areas like fraud and security. In real time, your ability to predict some incident is happening, that is where AI can play a very big role," he said. There always are markers the system can pick up, that human eyes cannot."

IBS is a multi-national technology company providing Next Gen solutions. It manages mission critical operations for more than 200 customers including some of the best airlines, busiest airports, leading cruise lines, top oil and gas companies, travel distributors and hotel groups in the world.

Its airline customers in the Asia-Pacific include Malaysia

Airlines, Philippine Airlines, China Airlines, Japan Airlines, All Nippon Airways, Korean Air and China Eastern Airlines. Its software platform iCargo went live earlier this year with Singapore Airlines, running its entire freight operation.

At Qantas Group, IBS software is used for cargo, the loyalty program and crew and flight operations. With the iFlight platform an airline's entire operational spectrum can be planned, managed, optimized, automated and monitored through a single screen. According to the company, it's AI and machine learning capabilities, along with smart optimizers, continuously improve operational dependability, efficiency, and robustness.

Sindhwani believes AI will play a big role in the airline business. "One will be customer experience. The personalization part is going to be one big bucket. It's not yet fully AI because it is lot more rules driven rather than AI driven," he said.

"But it can start to optimize it for individuals by knowing this person loves to do these activities and this person likes to fly to the U.S., make their experiences a lot better. The system will start to recommend you like this type of red wine from France and all that. That's a small example but it goes a long way in terms of service and personalizing the whole travel experience.

"The second area is pricing. "It is going to become a lot more dynamic. Most of the airlines rely on the older ways of revenue management and pricing. With AI that will become a lot more dynamic.

"The third area, which usually has been ignored, is operations. It is definitely ripe for AI. It is where a lot of those capabilities are built into it. Take disruption. It should be pretty much zero human touch. The system should be able to recommend how you can kick start post any disruption.

"It is optimizing real time because when your operations are disrupted you need to know how to restart them by minimizing the impact on your passengers and utilizing the resources available to you, both for crew and the aircraft. How quickly can you do it so the disruption does not carry forward? The more time that elapses, the greater the cost and the challenges.

"It is a problem that keeps multiplying, so how do you minimize the time element of it? It becomes very complex because you have a lot manual processing to do with the limited manual capability that you have.

"A very powerful AI system can optimize this by looking at how many passengers are being impacted, where they are stuck, where are your crew and various aircraft and kick starting solutions in the most efficient manner."

Even without disruption, areas like flight and crew operations are extremely complex. Sindhwani said many airlines have realized they needed to be more efficient. "It has a huge cost impact as well. We can give you an efficient platform which helps you optimize your crew as well as your flights.

"Our platform has the capability to give you more features to make the process a lot easier. These AI concepts are becoming very relevant. We are investing heavily in making this process a lot more AI driven rather than human driven.

"Take crew operations, which is a huge cost locked in at any point in time. If you are moving to a next gen system, which is built on AI, then you are seeing a multiple difference in cost." ■

ONLY THE BEST PERFORMANCE CUTS IT AT SCOOT

Singapore Airlines (SIA) low-cost subsidiary, Scoot, is definitely back in business with a bang, making money and doing more flying than pre-pandemic times. CEO, Leslie Thng, is full of optimism about the airline's future and readying for the arrival of a new aircraft type into the Scoot fleet that will service more regional destinations. Associate editor and chief correspondent, Tom Ballantyne, reports from Singapore.

Scoot CEO Leslie Thng has no hesitation in defining the airline's ambition. "We are committed to making sure we continue to lead the game," he said. "We don't want to be the biggest LCC, we want to be the best LCC. "In terms of sustainable growth. In terms of financial performance. In terms of customer service standards and being reliable and safe. From the low-cost perspective, we are not comparing ourselves to the likes of SIA, but definitely we want to make sure we set the industry standard for low-cost carriers."

In financial terms, the carrier is profitable despite the woes of the pandemic. With its parent, SIA, recently reporting a record US$1.1 billion net profit for the half-year to end-September, Scoot itself booked a record operating profit of $110 million, a $446 million improvement from a year earlier. "That gives us confidence in terms of how we think 2024 will pan out," Thng said.

Being part of the SIA group means Scoot has a lot of competitive advantage. "The financial strength of SIA. You will have heard my colleagues talking many times about how much cash they have," he said.

"The impact of this is it gives us a lot of confidence internally - for the staff - as well as externally to all the OEMS (original equipment manufacturers), the lessors and partners with which we work. We have the financial ability to pay. We have the financial ability to invest. We are here for the long term."

Speaking during the Association of Asia Pacific Airlines (AAPA) Assembly of Presidents in Singapore in November, Thng said it was all about being

first off the block in the wake of the pandemic, and 'Scooting' into the new world.

"We have been very progressive in returning capacity to the network. We are operating to 66 destinations in Asia, Europe, the Middle East and Australia. Indeed, Scoot is doing 3% to 4% more capacity than pre- COVID in 2019," he said.

"Mainly because we actually have more aircraft compared to pre-pandemic. We ended March 2020 with 49 aircraft. Now we are operating around 51 to 52 aircraft. Secondly, certain destinations we serviced pre-COVID, for example Malaysia, we were operating 80 times a week to eight cities. Now we are operating 10% more frequency on these routes. In Indonesia, we flew to four destinations, at around 55 to 57 weekly services. Now we are operating to 74 to 75 flights a week to nine cities in Indonesia. "

One country still lagging the post-pandemic recovery is China, an important market for Scoot. "Pre-COVID was about 25% of our capacity. Right now, we are operating about 80 times a week compared with 100 times a week to 17 destinations [2019]. So, there will still be ample opportunity for us to continue to grow within Asia," Thng said.

Integral to Scoot's growth will be the arrival of a new aircraft type, the Embraer E190-E2. Scoot has nine on order. Five will be delivered in 2024, starting from next March. They will join a fleet of 21 B787 Dreamliners and a mix of A320-200s, A320neo and A321neo. The E2 order deal was done in the belief, as well as confidence, that demand will continue to grow.

"All of us at Scoot are super excited about this aircraft because it does give us a lot of opportunities to expand the destinations we can serve within this region. The E2 will seat 112 passengers compared to the A320neo that has 186 seats for its LCC business model. We think the reduction in seats by more than 70 is a good fit for us to expand on to many thinner routes within the region. And again, it will help us increase destinations we are building," he said.

Like several airlines in the region, there have been issues with some A320s equipped with Pratt & Whitney engines. In July, Pratt & Whitney parent RTX said a rare powder metal defect could lead to the cracking of some engine components and called for accelerated inspections. The checks are expected to ground 600-700 Airbus jets from 2023 to 2026. About 66% of the engine removals are scheduled this year and in early 2024. Scoot is considering extending the lease of some A320s due to these problems, Thng said. "We have some flexibility. We are exploring the extension of some leases to mitigate the impact," he said. Scoot has 20 A320s Four affected engines have resulted in two aircraft being grounded.

Apart from its regional network, Scoot also operates long-haul to Berlin and Athens in Europe, Jeddah in the Middle East and Sydney, Melbourne, Perth and Queensland's Gold Coast in Australia. Asked about the possibility of more long-haul flights, Thng said any potential opportunities to identify long-haul routes is not being ruled out.

"Just now our focus is on restoring some of the destinations that we do not yet fly post-COVID, but at the same time using the E2 to increase the flights we can offer in this region."

At 48, Thng has a 24-year career with the SIA group. He was chief executive of SIA's regional carrier, Silk Air, from August 2012 to May 2016, chief commercial officer of Scoot from May 2016 to October 2017, and CEO of Vistara, SIA's Indian joint venture with Tata Sons, between October 2017 and December 2021. Until his appointment as Scoot CEO in June last year he was senior vice president sales and marketing at SIA.

Something he has done differently compared with pre-COVID is to build up origin-destination (OD) traffic. Thng aims to attract traffic flying to Singapore from one of its many destinations but also air travellers flying to Singapore who want to fly on to somewhere else. "The content of this OD traffic we carry has increased quite a bit compared with pre-COVID," Thng said.

"We look at our schedule to determine how to facilitate connectivity for passengers to fly Scoot and find it convenient to fly Scoot to their final destinations. It may not be Singapore. It may be Singapore plus another city beyond. This is where we see the opportunity for us," he said.

"The revenue part is important, he told a media briefing last month. "As I mentioned, we are trying to build up the OD traffic so we have actually invested and cut over to a new revenue management system to allow us to price as well as to sell thousands of ODs we can offer our customers. We are trying to use technology such as machine learning to optimize the auxiliary revenue part related to seat selection and when passengers need to purchase excess baggage for their travel. Internally it is important when you look at how we can enhance productivity as well as efficiency."

Like his counterpart at SIA, Goh Choon Phong, Thng believes it is imperative the airline continues to leverage on technology to make sure the customer experience can be improved. "We can find opportunities to generate more revenue, but at the same time use technology to improve or enhance productivity and efficiency," he said.

On the customer front, Scoot has been pushing boundaries. Its B787 Dreamliners have a Scoot Plus product and Scoot in Silence cabin space where children are not allowed. There are stretched seats available were customers can pay for better seat pitch. There is Wi-Fi onboard.

"At the airport, we try to be as friendly as possible by offering check-in, mobile check-in and mobile boarding passes. We are in the process of revamping our website to ensure it is more customer-friendly. We have launched M.A.R.V.I.E., a chatbot to answer simple questions from customers who may not want to go through quite a bit of waiting time to connect to the call centre."

Scoot's connection with SIA extends to cross-selling within the group. SIA passengers can choose Scoot destinations as their final destinations, especially customers not based in Singapore. "KrisFlyer is the loyalty program for SIA, but we continue to leverage on that loyalty program as it allows customers to accrue as well as to burn miles when you fly on Scoot. You can use loyalty miles plus some cash to buy a Scoot ticket. We are looking at making sure you can use all your KrisFlyer Miles to redeem a Scoot ticket without paying any cash," Thng said.

Scoot continues to strive for operational excellence. "We continue to look at initiatives internally to see where we can improve on-time performance, notwithstanding the challenges that we face related to resources, related to infrastructure. We have maintained our aircraft according to the specs given by OEMs. We do regular checks. We invest in refreshing our leather seats in Scoot Plus so they have a new look post COVID. We continue to invest in cabin refresh programs. Some of the defects because of COVID, because of wear and tear we continue to invest."

He said "we all know the price of fuel makes up the majority of operating costs". "So it is important for us to invest in a system that could do better in terms of route planning that will save in fuel expenditure for us. We look at systems within Scoot to make sure we take an agile approach in whatever we do when it comes to system enhancement. We want to reduce the time it takes to bring the product to the market. We want to make sure we do it in phases, not in a big bang cut over for example, so that we learn along the way. The are things that COVID as well as post-COVID that have made Scoot more resilient, more agile as well as more innovative."

And, as it is for most LCCs, staff is a key asset. "You can invest in hardware. You can invest in technology but without the staff you can't deliver," says Thng. "We want a dynamic and inclusive workforce. A dynamic workforce is one that will always look at process improvement. Will always challenge the status quo, not be happy with the status quo and want to improve continuously," he said. Scoot's office at Singapore's Changi airport is open plan with everyone in a single space including Thng.

"The other part is the opportunity for staff to have a growth mindset. Scootitude. What does it mean? It means the passion for travel. It means connections with people as well as culture. And again, to continuously improve the processes and seek opportunities to do the best for the organization," he said.

"Our cabin crew is called Scooties. We don't have inflight entertainment. We don't have the backseat screens. We believe our Scooties, our cabin crew are more engaging. They will find opportunities to engage with the customers. They will look into activities to make sure our customers are engaged during the flight with us."

Scoot is facing challenges that are affecting the industry wide, including supply chain issues. "Unfortunately, it is not a situation where you can order today and receive it tomorrow. We make the order and then wait for the OEMs to send us the spare," he said.

"The engagement with the different OEMs will be a continuous process. We will be engaging with them to understand their constraints and challenges. We are quite open in sharing our plans to jointly come to a landing where we could, despite the challenges, be able to receive some of what we want in 2024. It requires a lot of planning, a lot of negotiation and discussion."

Overall, Thng said, Scoot must holistically decide the investments it must make to improve. ■

'We are a budget airline, but there is a standard we would want to benchmark. Operational excellence is important for Scoot. Being a fully owned subsidiary of SIA we can learn from SIA. SIA has been around for many years. They have fine-tuned and improved many internal processes and procedures in terms to be one of the best airlines for operational excellence from engineering to flight ops.

'As well as internal processes we must be cost effective and efficient. We continue to learn from one another so we have the best within the group'

Leslie Thng
Scoot CEO

Risky but lucrative business

After 35 years in banking and the aircraft leasing business, managing director and chief executive of BOC Aviation, Robert Martin, is stepping down at the end of the year. As he prepares to hand over the baton to Steven Townend, he talked to associate editor and chief correspondent, Tom Ballantyne, about his assessment of the future Indo-Asia Pacific airline leasing market.

Airlines across the world may be ordering hundreds of new aircraft as pandemic recovery continues but they are not ordering for today because they can get deliveries, said departing BOC Aviation CEO, Robert Martin. "They are ordering for the future."

So, with all these aircraft being purchased is it a boom time for the aircraft leasing business? "It depends on which part of the leasing business you are in," is Martin's response. "I can tell you for a finance lease business it is very good at the moment. But that is because we fund ourselves with unsecured money and we have the lowest cost to funds in the industry. On the sale and leaseback side people are still taking very low returns, which we just don't understand. There's a surplus of funds going into that market."

The last time BOC did a straightforward sale-leaseback on an aircraft was February 2021, he said. "(That is) because our own market has been so competitive with people putting transactions out there with very low returns. We just can't do that. We have our own shareholders to care about. So, we started thinking: "OK, we need to prepare for the upturn and develop a product for the upturn. That is what we did. We rolled it out in June this year. We are doing finance leases as opposed to operating leases

for a number of our customers," he said.

"Why now? Because this year in the U.S. they can take a 100% tax writing down allowance on the aircraft they buy and put it on the balance sheet. It is the same in the UK. We have done close to 70 aircraft in less than six months, which is pretty huge for us. It is normally a year's worth of deliveries."

For BOC, business is good. Its latest financials, for interim 2023, show a US$262 million profit, a turnaround from a $313 million deficit in the same months in 2022.

One aspect of the business that has exploded is the number of lease extensions that are being done, up from 30% to 90%. "It is not only because the market is tightening but because of the impact engine problems involving both Pratt & Whitney and Rolls-Royce engines are having on carriers," Martin said.

"The engine issues have delivered a big stimulus to us because people have realized they can have aircraft on the ground. If you talk to IndiGo for example, I think they are going to have 40 aircraft on the ground by the end of the year which won't operate. Air New Zealand also has a number of them.

"So, what people have been saying is we can't get additional aircraft. We can't get additional spare engines which is really the way they should solve this problem. They are looking for serviceable used aircraft, the previous generation of Boeing 737NG and A320CEO. There is no problem with either of these types, particularly if they are CFM-powered. It's really the Pratt & Whitney and the Rolls engines on their A330s and B787s that are affected. It has tightened the leasing market quite significantly."

Already, BOC has flag carriers in Asia with leases expiring in 2026 approaching it to discuss lease extensions because they are worried about losing that capacity and not being able to replace it. The company recently extended leases on eight B737s with China Airlines and 12 A321s with EVA Airways. .

Another issue is higher interest rates, which have increased from 1% to 5% in 12 months. Client cost for leasing transactions has more than doubled and in some cases tripled in a year.

"And so, people can't hold the same lease rates they were doing last year and for these leases they did agree last year they are losing money every day they fund them. It is phenomenal when you think about it. This should not be happening," Martin said.

As far as the region is concerned, BOC does not consider Asia as one market, but as five distinct markets: Korea and Japan, Greater China and in particular China outbound because it is driven by policy in China, the Indian subcontinent, ASEAN (Southeast Asia), and Australia, New Zealand and the Pacific islands. There are interesting things happening in some of these markets, Martin said.

"The problem in North Asia is the weakness of the Japanese yen, which is deterring Japanese passengers from flying to a lot of tourist destinations worldwide," Martin said. We are hearing this from all of our customers in Asia. In Korea, of course, it is all about what happens with the Korean-Asiana merger. Which bits are spun off."

In China, despite the country's emergence from the pandemic and designating many countries as places where tourists can visit, there is huge pressure on State employees, meaning people who are employed by State-owned banks, State-owned corporates, the government itself, to not holiday outside China, Martin said. "We are hearing from all of our customers – Southeast Asia, Japan and Korea – that China outbound is one of the weakest markets," he said.

ASEAN countries are being hit hard because Chinese traffic has not come back. "But one development is that if you fly to China yields are phenomenal, Meaning very expensive. Let me tell you, my travel budget feels it. To me, that is the biggest issue that has to be resolved because a lot of planning on the size of airline fleets is dependent on China traffic coming back," Martin said.

In India, whose airlines have placed massive orders for new planes, Martin agrees there is no reason it can't grow to the same level as China in terms of passenger demand. "The big difference between the two is China has a very strong banking system, India does not. India's banks are, relatively, quite weak. This could constrain growth at some point. Not yet. But it could constrain growth in the future," he said.

His view on those massive aircraft orders? "The first thing is, India is starting from a very low base. The second thing is the strong airlines in India, those who can attract financing, will be fine. The others are going to struggle because of this weak banking system in India. I think we will see a bifurcated market where the bigger Tata, Air India, Vistara group with India Express in there as well and IndiGo being the other, and the rest will have to fight for what is left in the market. A lot of them have been playing the game where they take gains from sale lease-backs. If there was a manufacturer slowdown of deliveries – or worse a stoppage of deliveries – those weaker airlines could be hit very hard," he said.

Martin said airlines dealing with the impact of the Ukraine conflict have settled into a situation where carriers that can overfly Russia, particularly from China and India, do and those who can't use more fuel and aircraft that can fly more hours to their destinations.

"Then let's go to the Middle East and what's going on in Israel and Palestine. Well, Palestine does not have aircraft. Israel is affected and not just the airlines. Remember there is a big freighter conversion facility, IAI (Israel Aerospace Industries), in Israel," he said.

"There's a lot of MRO capacity there. I thought we had no exposure to Israel until I realized we have an engine in one of the shops there. This normally is not the type of thing you check, but when things happen you tend to be more careful.

"The insurance market has pulled back from Israel. We had a couple of near misses (from Hamas rockets) three weekends ago - on a British Airways plane going to Tel Aviv and then a Dutch MRTT (Multi Role Tanker Transport), the A330 in the military. If they had hit one of those Europe could not have ignored it. On top of that, we cannot underestimate the risk of terrorism in the rest of the world."

Half of BOC's leasing business is with airlines in Asia and the Middle East. The remaining 50% casts a wide global net. The lessor has a fleet of 681 aircraft owned, managed and on order. Its owned and managed fleet is leased to 93 airlines in 44 countries and regions worldwide. It has an order book of 213 aircraft scheduled for deliveries to close of 2029.

Founded as Singapore Aircraft Leasing Enterprise (SALE) in 1993, the Bank of China bought the lessor in 2007 and renamed it BOC Aviation. Martin, now 58, joined the company in January 1998 and was appointed as a director and the managing director in July 1998. He has doubled BOC's business, on average, every seven years. He has more than 35 years of experience in the aircraft and leasing business, having previously worked at Bank of America, the Long-Term Credit Bank of Japan and HSBC Investment Bank (Asia) Ltd. He graduated from Cambridge University with a Master of Arts degree in Economics. ■

BOC Aviation heir apparent Steven Townend

For Steven Townend, the new managing director and CEO of BOC the task ahead of him is to steer the lessor's Vision 2030 to fruition. "We want to be one of the top five leasing companies in the world," he told Orient Aviation. "Why do you want that scale? You want to be able to buy the right aircraft at the right time at the right price from Airbus and Boeing," he said.

"You have to be one of the biggest guys to do that. Funding costs for any lessor are hugely important. You need that scale to maintain investment grade credit ratings. It also enables you to do the bigger deals with the bigger airlines. It does not matter if it's American Airlines or Air China. They do not want to do deals for one or two aircraft. They want to do deals for 10 or 20."

Townend said BOC has $23 billion in assets and is in the top five of the world's lessors. "We look forward to the end of the decade to be certain of staying in the top five. We probably need to take that from about $23 billion to $40 billion," he said.

Townend, at present BOC Aviation's deputy managing director and chief financial officer, will succeed Robert Martin as the lessor's CEO on January 1. Aged 54, he has accumulated more than 31 years of banking and leasing experience after graduating from Loughborough University in the UK with a Bachelor of Science (Honours) in Banking and Finance. He started his career in aviation banking in 1991 when he joined Natwest. He moved to BOC and then to Singapore in 2004 as global chief commercial officer. He was appointed CFO of the lessor in October 2020.

Orient aviation

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