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DOING IT RIGHT
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Lessons learnt from MH 370 tragedy
China and Taiwan aviation draws closer across the Strait
AirAsia India declares fare wars
SPECIAL REPORT
Cockpit and technical training trends in the Asia-Pacific

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COVER STORY

"Cathay Pacific's 13 Boeing 747-8 Freighters provide the premier Transpacific service; high reliability, the best payload and great fuel efficiency."
—James Woodrow, Cathay Pacific Airways, Director Cargo
CATHAY PACIFIC CARGO
WE COULDN'T SAY IT ANY BETTER.
THE NEW 747-8 FREIGHTER
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BOEING

China and Taiwan move closer to normalisation of aviation ties

Recent talks between Beijing and Taipei that indicate China might agree to making Taiwan a transit point for Chinese travelers destined for third countries will be the biggest step forward in Cross Strait aviation relations since scheduled flights were introduced in 2008.

Such a move would not only benefit Taiwan and its planned $16.5 billion Taoyuan International Airport Aerotropolis, but also mainland carriers. Airlines from Mainland China and Taiwan, already operating in a fast-growing market, believe freedom for travelers from any country to reach their final destination through any intermediate international port should be an integral part of Greater China's skies.

Discussions between the two sides are expected to start in May, although a positive outcome is not guaranteed. China wants Taiwan to drop its insistence that flights can't operate directly across the Strait, but must detour by way of the South China Sea, or East China Sea for security reasons.

The current policy costs airlines millions of dollars annually in extra fuel and other operating costs. While there are obvious and long standing political differences between the two sides, it is difficult to understand how a commercial air service flying in a straight line between Mainland China and Taiwan could be a security threat, or that this perceived threat can be alleviated by forcing the airline to add hundreds of kilometres to its journey.

However, if logic and recognition of market demand win out over politics and a transit point agreement is reached, it is estimated cross strait traffic could quickly increase by a third.

But there will be losers too. Hong Kong, Korea and Japan benefit from the no-transit rule as they are transit airports for millions of Chinese from secondary Chinese cities travelling on to the U.S., Europe, Australia and elsewhere.

If the transit ban was lifted, many of these travelers would fly via Taiwan, where they would be transiting through a country offering the familiarity of their own language – Putongha (Mandarin).

Political differences aside, it would be welcome news if China and Taiwan negotiators allow aviation commonsense to prevail and remove the transit ban. It is important not only for Taiwan and China, but for the entire region that cross strait air services are fully normalized. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

Exasperation at EU's latest ETS decision

In another setback to finding a solution to the contentious **Emissions Trading Scheme (ETS)** for the global airline industry, the European Parliament's environment committee has voted to reject a deal that could "Stop the Clock" on the ETS for non-European airlines until 2016.

The tied decision of a European Parliament committee, threatens the 'Trilogue" agreement worked out by the European Parliament, the European Union and the European Commission earlier in March, which would only apply the ETS to flights operated in European Economic Area up to 2016.

The general uncertainty caused by the tied 29-29 vote of the **European Parliament's Environmental, Public Health and Food Safety Committee** can now linger on until April 30, the final date for adoption, or not, of the Trilogue compromise by the full European Parliament.

The EU stopped the clock on its scheme for non-European airlines flying to and from the continent a year ago, but only for twelve months, to allow the **International Civil Aviation Organization (ICAO)** time to develop a global scheme for emissions reduction for the airline industry. The options for a market based measure, to apply by 2020, are planned for submission to the next ICAO meeting in 2016.

At its two week triennial Assembly in October last year, ICAO reached agreement to introduce a global scheme by 2020. But without an EU Parliament vote in favour of an extension, the clock will restart automatically on the ETS in its original format later this month. This would require all airlines that fly into EU airspace to pay for their emissions from the point of origin, even if the departure city is outside the EU zone.

If that happens, it is likely there will be some retaliatory action from opponents to the ETS, which include China, the U.S., India and Russia. China has banned its airlines from participating in the scheme. The country could impose financial penalties on the EU and also ban Chinese airlines from flying into Europe.

Major European countries, including Britain, Germany and France wanted the extension to ease threats of a trade war from important EU trading partners. The vote of the cross-party body is a preliminary indication of support for the Trilogue solution which will be put to the vote before the full 766-strong EU Parliament this month. ■

Abacus wins IATA BSP approval in China

*The **International Air Transport Association (IATA)** has given **Billing and Settlement Plan (BSP)** certification for China to Global Distribution System (GDS), Singapore –based **Abacus International**. The decision, announced last month, makes Abacus the first foreign GDS on the Mainland permitted to sell, report and remit fares and travel product payments of IATA accredited passenger sales agents. Earlier this year, China fragmented the monopoly of Mainland GDS, Travelsky, when it announced selected foreign GDS would be allowed to offer services to the more than 90 foreign carriers flying into China. The GDS also would be permitted to market services through a designated group of Mainland based tour operators and travel agencies. Abacus is owned by U.S. based Sabre and a consortium of Asia-Pacific airlines including All Nippon Airways, Cathay Pacific Airways, China Airlines, EVA Airways, Philippine Airlines and Singapore Airlines.*

At the UATP Airline Distribution conference in Singapore last month, several GDS reported that low-cost carriers are developing interest in GDS product offerings, a new component in LCC strategy that was not part of the original budget carrier business model. ■

China and Airbus deepen commitment

Airbus and China have agreed the **Airbus Tianjin Final Assembly Line** for A320s will be extended for 10 years from 2016, that corporation to develop Air Traffic Management systems in China will be enhanced with Airbus' support, and assistance in improving China's aviation sustainability through biofuel development and associated initiatives to reduce China's aviation emissions will intensify between the manufacturer and China. At a ceremony in late March between **Airbus President and CEO, Fabrice Bregier** and Chinese aviation representatives, the Toulouse-based aircraft manufacturer and the **China Aviation Supplies Holding Company (CAS)** signed off a General Terms of Agreement to purchase 70 Airbus airliners: 43 A320 familly airplanes and 27 A330s. ■

Cathay Pacific triples profits

Conservative fuel hedging and strengthening passenger traffic were the keys to a triple plus profit improvement for **Cathay Pacific Airways** in 2013. "We are definitely back in profit," said **chief executive, John Slosar**, at his last Cathay Pacific results announcement before he moved to parent, Swire Pacific, as chairman this month. The Hong Kong-based carrier reported a net profit of US$337.5 million for the 12 months to December 31, 2013, compared with a profit of $111 million in the previous year.

Cathay said fuel was "a significant cost", at 39% for the year, yet fuel savings were a large contributor to its improved results. The carrier said its kerosene bill declined by 3% for the 12 months because fuel hedges were favourable and a capacity cut reduced the airline's demand for fuel.

"The business outlook for 2014 looks to be improved when compared with 2013," said the airline's chairman, **Christopher Pratt**,

who retired as chairman of Swire Pacific on March 31 after 35 years with the company. Cathay's passenger yields improved by 1.8% due to an increase in premium cabin passengers and business class travelers, especially on long-haul routes.

Cargo dragged down earnings. Slosar told media "cargo was a drag" on the bottom line, but that the opening of the $760 million Cathay Pacific cargo terminal and the disposal of four cargo aircraft would begin to pay off this year. He said the company would not have chosen to open the cargo terminal when it did if it had known the airfreight business would contract as it has. However, he added the cargo business might improve and that it would be interesting to see if how things change "now we have more efficient aircraft". Cargo revenue declined by 3.6% for the year and yields 4.1%.

The airline reduced capacity by 1.8% last year, but will increase it by 7% this year, largely on its European and American networks. Cathay will add 16 aircraft to its fleet – largely A330s and B777-300ERs – in 2014. ■

IPO for Emirates Airline?

*A leading government figure in Dubai, the largest city in the United Arab Emirates, said **Emirates Airline**, headquartered in the city, could be listed by the end of the decade, along with other Government Related Entities (GREs) such as Dubai Airport and the sheikdom's aluminium smelting company. Dubai's **finance minister, Mohammed Al-Shaibani**, told Britain's* Sunday Telegraph*: "We are dead serious. I cannot list it [Emirates] now because there is still value to be created there. We don't want to give away value just like that. Ideally, we would like to list here (Dubai), but we also have the option of a secondary listing on the London Stock Exchange, which is very strategic for us because we are the largest shareholders." Emirates Airline forecasts it will double the number of passengers it flies to 70 million a year by 2020, using a fleet of 250 airplanes servicing two of the world's busiest airports.* ■

Myanmar rush for gold is a crowded race

Andrew Herdman, the **director general of the Association of Asia-Pacific Airlines**, aptly summarized the state of Myamar civil aviation when he spoke at the recent inaugural **Myanmar Civil Aviation Development conference.** "Myanmar", he said, "is an interesting version of a new market, where you have more players than seats." Both delegates and the several CEOs from Myanmar's airlines agreed. **U Si Thu, the managing director** of privately owned **Myanmar Airways International (MAI)**, told delegates "only the fittest will survive in this environment" and added that airlines should be listed as 'an endangered species" because of the competition newly liberalized Myanmar carriers must mount to build market share. He said the "unstoppable expansion' of the region's low-cost carriers into the country as well as the influx of better capitalized full service airlines were daunting. Twenty seven foreign airlines, including eight LCCs, have added Myanmar's capital, Yangon, to their networks since the national government opened up the country of almost 65 million people to the world in 2012. As a result, the only locally owned Myanmar airline among the top ten carriers operating in the impoverished but mineral rich nation is MAI, with a 10% of market share. Other issues that must be addressed if Myanmar's civil aviation industry is to expand, conference speakers said, are recruitment and training of cockpit and technical staff, investment in ATC and airport infrastructure and a reduction in local taxes on the already high price of aviation kerosene. ■

PEOPLE

Airbus expands presence in India

Airbus has appointed **Dr. Srinivasan Dwarakanath (Dwaraka)** as **CEO** of its new subsidiary, **Airbus India**.

Dwaraka, who will bring all the country's businesses owned by the Toulouse-based aerospace company under one parent company, set up the Airbus Engineering Centre India (AECI) and Airbus Training India in Bangalore. **Charles Champion**, the **executive vice president Airbus Engineering** and a member of the **Airbus Executive Committee**, will be **chairman** of the Indian subsidiary. Airbus India will enlarge its two customer service offices, include AECI in the company and draw together of all strategy, customer services and procurement teams across India under the parent umbrella. An MRO centre will be established as part of the company. **Ajay Mehra** will continue to run the **Delhi Airbus liaison** office. Airbus said more than 5,000 people contribute to Airbus India aircraft programs and that 30 local suppliers work on Airbus programs, manufacturing parts for every Airbus aircraft type. ■

Bangkok Airways boss buys digital TV company

*When it comes to inflight entertainment, **Bangkok Airways** founder and owner, **Dr. Prasert Prasaarttong-Osoth**, has decided to buy a television company. The Thai tycoon, who made his first fortune from private hospitals in Thailand, has paid 3.46 billion baht (US$108.2 million) for high definition digital television channel, PPTV. He will fold the digital television acquisition into his newly established media company, Bangkok Media and Broadcasting Co. Dr. Prasert said the Bangkok Media and Broadcasting Co. will spend two billion baht on high quality content that will be broadcast throughout the Prasert family's private hospital chain and streamed aboard its Bangkok Airways' domestic and regional flight network.* ■

And briefly …

Mark Meehan is the new **Asia-Pacific managing director for GDS, Travelport**. Meehan, formerly the company's director for Africa, has also been appointed head of Travelport's global commercial operations. He will be based in Singapore. ■

*Indonesian low-cost carrier, **Lion Air**, has announced that **Rudy Lumingkewas**, until now the airline's **general manager for sales and marketing**, will replace the Lion Group founder, **Rusdi Kirana**, as **CEO** at the carrier. The appointment, said Lion Air, would allow Rusdi to devote his time to the entire Lion Group.* ■

SHORTTAKES

AIRLINES: Planned new carrier, **SaudiGulf**, has signed on for four A320ceo, fitted with sharklets, in preparation for commencement of services from Damman in Saudi Arabia in early 2015.
AIR TRAFFIC MANAGEMENT: **Airbus ProSky**, the aerospace group's Air Traffic Management (ATM) subsidiary, is establishing an office in Singapore to assist ATM upgrades and expansion in the Asia-Pacific, the world's fastest growing region for air travel.
ALLIANCES: **SriLankan Airlines** will join **oneworld** on May 1, the first airline on the Indian sub-continent to join a global alliance. It was sponsored by Cathay Pacific Airways. **Garuda Indonesia** has joined **SkyTeam**, the fifth airline in the Asia-Pacific to join the alliance.
CODESHARES: **Japan Airlines** and **S7 Airlines** will expand their codeshare with the addition of 12 Russian cities to the partnership including, St Petersburg, Russia's second largest city. **Virgin Australia** will replace Qantas Airways as South African Airways' code share partner on the Sydney-Johannesburg route from May 31.
ENVIRONMENT: **Boeing** and the **Roundtable of Sustainable Biomaterials (RSB)** with the backing of South African Airways and other partners, are supporting South African farmers with small landholdings to produce and market crops suitable for sustainable biomaterials and biofuels.
FLEET: Indian budget carrier, **SpiceJet**, has confirmed an order for 42 B737 MAX 8s, valued at list prices of US$4.4 billion. **CFMI LEAP -1B engines** will power the new planes. After **Garuda Indonesia** was unable to secure its preferred slots at **London's Gatwick Airport** for its planned resumption of flights to London, the carrier has decided to postpone the re-launch until September. In the meantime, it will operate London as an extension of its Jakarta-Amsterdam service. Singapore headquartered low-cost carrier, **Tigerair**, and **Airbus** has signed a Memorandum of Understanding (MoU) for 50 A320neos, made up of 37 firm orders and 13 options for the aircraft type, powered by **Pratt &Whitney** 1100 engines. The carrier has cancelled its order for nine A320ceo.
INFLIGHT: **Korean Airlines'** budget subsidiary, **Jin Air**, has allowed passengers on all domestic and long-haul routes to use portable electronic devices (PEDs), but the carrier will not allow them to make calls on their mobile phones inflight. **Lufthansa**, Europe's largest full-service carrier, said passengers on some medium-haul flights will be able to stream movies, television programs, games and music from onboard servers on Lufthansa aircraft to their own portable devices or smartphones from mid-year.
ROUTES: **Korean Air (KAL)** will add a second daily service, using A380s, between Seoul and New York's JFK International airport from next month. KAL also has decided to increase its four times a week flights from Seoul to the U.S.'s Houston, to daily, also commencing from May. Hong Kong's **Dragonair** has commenced a twice a week A330-300 service to Indonesia's premier leisure destination, the island of Bali, marking its entry into the Indonesian market. Sister airline, **Cathay Pacific Airways** operates a daily service between Hong Kong and **Bali's Denpasar International Airport**. ■

Lessons learnt from MH 370 tragedy

Tom Ballanttyne reports

As Orient Aviation went to press, the multi-nation search for a missing Malaysia Airlines B777-200, Flight MH 370, had dramatically shifted 1,100 kilometress north from its previously targetted location in the southern Indian Ocean. With no hope of finding the 239 passengers and crew onboard alive, rescue teams are concentrating on finding the lost aircraft and its "Black Box".

On March 29, the Australian investigative agency, the Australian Transport Safety Bureau, said it had "new information based on continuing analysis of radar data between the South China Sea and the Strait of Malacca before radar contact was lost with the MH 370".

Until the Australian announcement of a search redirection, rescue efforts had been focused on one of the most remote areas of seas in the world, the southern Indian Ocean. For several days, rescue aircraft and ships from 26 nations had been combing the wind and storm ravaged seas where debris thought to belong to the missing airliner recently had been spotted, both visually and via satellite.

Several of the nations participating in the search are giving neighboring nations unprecedented access to their territorial waters as the urgency to locate the cockpit voice recorder and flight data recorder intensifies.

The astonishing story of MH 370 and its sudden disappearance from the world's aviation radar network began at 1.19am on Saturday, March 8. As the Malaysia Airlines B777-200 was being handed over by Malaysian air traffic controllers to Vietnamese airspace on its way to Beijing, 27-year-old first officer, Fariq Abdul Hamid, calmly responded with "All right, good night". It was the find communication between air traffic control and the flight deck of the MAS B777-200. The big Boeing jet literally vanished.

The last signal from the airline's Aircraft Communications Addressing and Reporting System (ACARS) was received 12 minutes before the co-pilot's final words, explained Malaysia Airlines chief executive, Ahmad Jauhari Yahya. The next ACARS signal should have been automatically broadcast 30 minutes later, but it never arrived. Someone in the cockpit not only turned off ACARS, but also disconnected two crucial communications systems and the aircraft's Transponder.

It is now known the aircraft, which departed Kuala Lumpur with Captain Zaharie Ahmad Shah in the left hand seat, turned westward and soon afterwards headed south over the Indian Ocean.

"I think what's clear is someone was in command of the plane who knew how to fly a 777," said Association of Asia Pacific Airlines (AAPA) director general, Andrew Herdman. "Whether it was the pilots acting on their own, or under duress from of a third person or a third party, is unclear."

Herdman's assessment was correct. "If the aircraft had landed or crashed on land in those areas, we should have seen some sign of it or heard some evidence of it. If it took the other route and headed into the Indian Ocean, Herdman said, "this is a vast expanse of sea and it would be much more difficult to discover what had happened to the aircraft."

The MH 370 vanishing act has raised a number of questions about aviation safety and security. Examples included the fact that two passengers boarded the flight with stolen passports. It was later revealed they were Iranian refugees heading for Europe via Beijing and planned to seek asylum. The stolen passports were registered on Interpol lists, but malaysian border security did not pick up the two men.

Some experts have said cockpit equipment should be reviewed. Then question the practice of pilots having the authority to turn off vital communications equipment or de-activate an aircraft's transponder.

More importantly, several industry experts said an update of "black boxes" is urgently required to remove lengthy and extremely expensive searches after accidents, particularly if the aircraft ends up in an ocean. It is technically possible to transmit black box data, either live from the airliner or at intervals from the aircraft to the ground while in flight.

This operational change is being researched by technical experts from International Civil Aviation Organization (ICAO). However, beaming information from thousands of aircraft flying daily would involve immense amounts of data.

When it took two years to locate the data recorders of a 2009 Air France aircraft lost over the southern Atlantic Ocean, a study by French aviation safety authorities found it would be feasible to create a system for sending some data from a plane wirelessly and before a crash, when triggers occurred such as a sudden loss of altitude.

The MH 370 mystery is a body blow Malaysia Airlines, which is going through tough times. In its last fiscal year, its net loss soared 171%, to $359.12 million, ■

AirAsia India declares war on fares

Tom Ballantyne reports

AirAsia group chief Tony Fernandes latest venture, AirAsia India, is pushing ahead with plans to launch from next month despite the woeful state of the local industry's profitability and a rising tide of objections from the country's airlines.

The Federation of Indian Airlines (FIA), a lobby group for domestic carriers, last month wrote to Indian Prime Minister, Manmohan Singh, in a renewed attempt to block approval of an air operator's certificate (OAC) for the newcomer. The FIA's earlier objections to the planned budget airline were rejected by India's Directorate General of Civil Aviation (DGCA).

India's airlines, which are losing hundreds of millions of dollars annually, fear the arrival of AirAsia India, to be based in Chennai, will spark more price-cutting in their struggling market, adding red ink to their collective bottom line.

AirAsia India's chief executive, Mittu Chandilya, is unperturbed by the campaign and told local media he will undercut his rival's fares by 25% to 30%, and still make money. The budget airline, a US$30 million joint venture between Malaysia's AirAsia and two Indian groups, the Tata Group and Telestra Tradeplace, received Foreign Investment Promotion Board approval a year ago. It was issued with a no-objection certificate from the civil aviation ministry last September. The carrier is expected to receive it's AOC this month, in time to launch services in May.

The FIA's objections to AirAsia's joint venture are based on the ownership structure of AirAsia India. In its letter to the Indian prime minister, sent on March 6, the local airline body complained the issue of substantial ownership and effective control was not examined by the DGCA and Foreign Investment Promotion Board when they approved the new airline. The FIA said the conclusions made by the Indian government and the DGCA were "flawed" and "are substantially, if not totally, incorrect".

Signed by Ujjwal Dey,

AirAsia India joint venture owner, AirAsia, the region's largest LCC

associate director of the FIA, the letter said the rationale for allowing investment by foreign airlines in India was to bring investment into existing but struggling airlines. "We submit it did not contemplate the introduction of new international airlines with new Indian joint venture partners. By allowing new entrants to invest with new joint venture partners, it defeats the very purpose of the policy itself," said the FIA.

"The members of the FIA humbly submit that serious questions relating to the ownership structure and effective control of a foreign airline (AirAsia) in an Indian airline are involved, which will have a grave impact on national security." The FIA has asked the Delhi High Court to stop AirAsia India from starting operations.

The struggling economic climate at India's airlines has not deterred AirAsia India. "Other airlines will have to drop fares, and this will benefit passengers. They could match my reduced fares, but whether they can manage costs in the long-term has to be seen. But we can do it," said Chandilya.

"The industry has been dynamic, and the best time to venture into something is when things are very bad. I firmly believe when you hit rock bottom, the only way is up." ■

> They [Indian carriers] could match my reduced fares, but whether they can manage costs in the long-term has to be seen. But we can do it

Mittu Chandilya
Chief executive AirAsia India

The A340 can be considered an efficient long-haul solution in today's market.

A340 Providing efficient lift for the long-haul

Could the A340 be a solution for airlines looking to make headway in an expanding market?

When it first entered service, the A340 opened true long-haul operations, expanding the Airbus wide-body family. The A330 and A340 have since become the best-selling wide-body family of all time.

In an ever-changing world some flag carriers like to keep their fleet age very low, it's natural that a proportion of their aircraft will move to the used aircraft market, the A340 is no exception.

The A340 Family of three variants, the A340-300, -500 and -600, is now available at very competitive lease rates which makes them economically affordable prospects for carriers looking at long-haul opportunities, especially as they await delivery of new-generation aircraft, such as the A350 XWB.

A340 appeal

The A340 appeal is based on its availability, commonality with other Airbus types, its performance as well as its excellent payload accommodation.

Now that older B747-400s are well into their retirement phase, the availability of significantly younger A340-600s equipped with modern avionics, make them the smart interim upgrade.

The four-engined A340 is not subject to "Extended-range Twin-engine Operations" (ETOPS). Operators can fly the most direct routes and operate efficiently from 'hot and high' airports, potentially off-limits to other aircraft. Furthermore, the A340 fits seamlessly alongside other Airbus aircraft, especially the twin-engined A330, with which it shares the same modern technology, such as the cockpit, fly-by-wire architecture and systems.

The A340 cabin can comfortably accommodate from 280 to 440 passengers depending on the model. Most A340s available in the market today are fitted with full Audio-Video-On-Demand (AVOD) IFE system in all classes, which is today's standard. Moreover, when it comes to making the most of cargo revenue opportunities, the A340 can carry as much cargo as direct competitors if not more, with 18 to 25 tonnes of revenue earning cargo capacity.

The bottom line

So, has the A340 performed as intended by its designers? The answer is definitely 'yes' because today's A340 is a mature product delivering high reliability.

With its very competitive ownership costs, its passenger and cargo revenues, its availability and its comfortable cabin, the A340 can be considered an efficient long-haul solution in today's market.

More information on www.airbus.com

Unions say no to Qantas job cuts

By Tom Ballantyne

Qantas Airways CEO, Alan Joyce, is dealing with intensifying union opposition to his goal of eliminating 5,000 jobs from the group as part of a A$2 billion re-structuring of the struggling Australian airline group.

The massive jobs cull, announced after the airline lost $252 million for the six months to December 31, will be implemented alongside a cost cutting plan that will include fleet reduction and a continuing management pay freeze.

Representatives of 14 unions told a national government Senate hearing last month they also opposed Joyce's campaign to revise the Qantas Sale Act. The legislation, which applies solely to Qantas, limits foreign investment in the carrier to 49%. The unions told the Senate hearing that if the limits to foreign ownership of the Flying Kangaroo were removed it would result in the break up of the carrier and the loss of even more jobs.

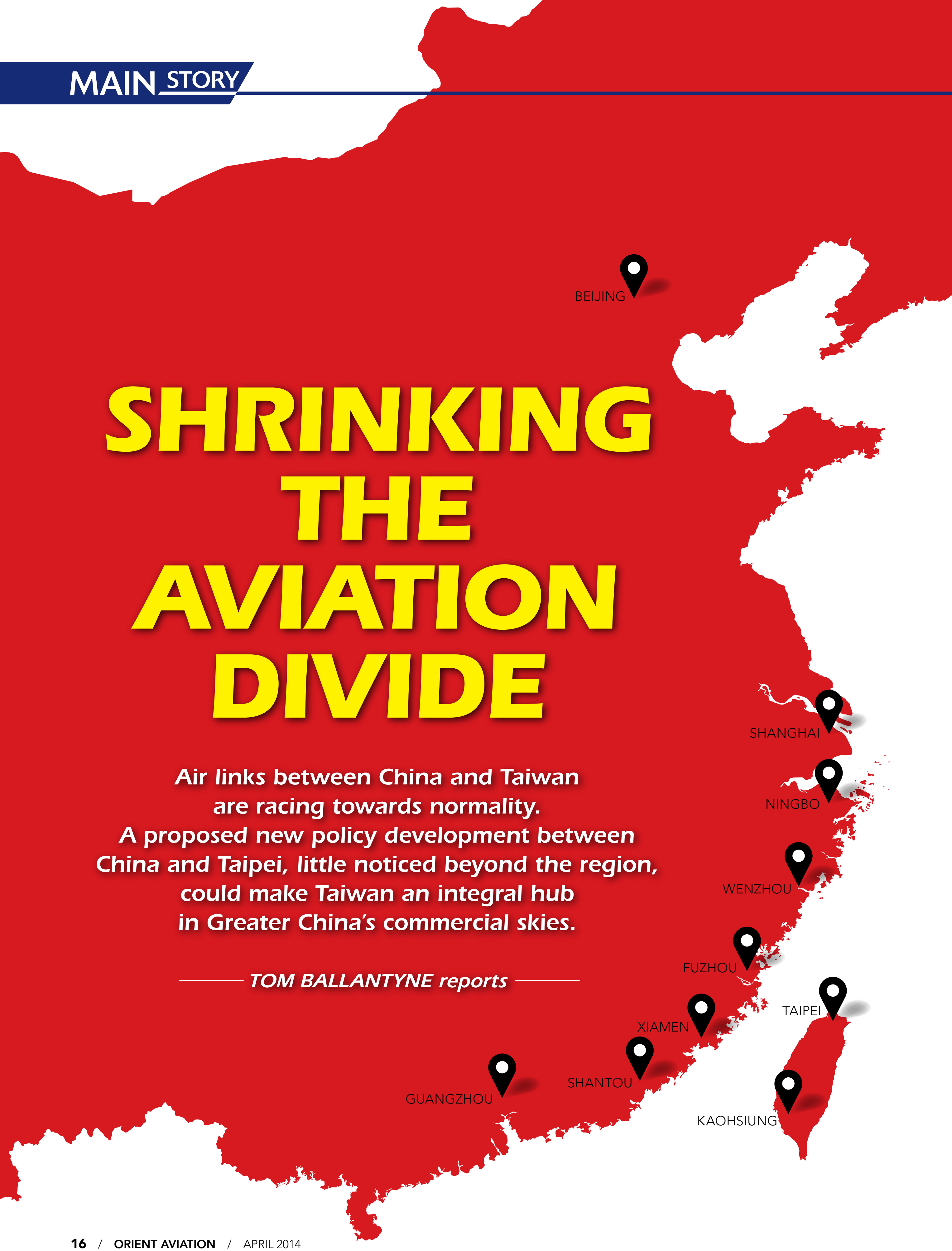
Representatives of the Australian Licensed Aircraft Maintenance Engineers Association (ALAMEA) released a dossier that alleged a lengthy list of errors on Qantas aircraft following maintenance in Singapore, Hong Kong and Kuala Lumpur.

Joyce dismissed the ALAMEA claims as "blatant fear mongering" and said the union was "playing the safety card as a tool of industrial relations". He said "as always in aviation, there are multiple fail-safes to account for error. Suggesting any mistake is a potential catastrophe is alarmist and deeply irresponsible", Joyce said.

The Qantas CEO has faced two separate Senate committee inquiries, one on the proposed changes to the Sale Act and another on the future of Qantas, since he announced his survival strategy for the airline group in February.

He continues to place same of the blame for Qantas's situation on the majority foreign ownership of Virgin Australia by Etihad Airways, Singapore Airlines and Air New Zealand. His rival is not bound by a foreign ownership cap, Joyce said, and this creates an uneven playing field in Australian aviation.

Under pressure from unions to explain how he reached the figure of 5,000 job losses, Joyce told the Senate hearing they represented 25% of the total $2 billion cost reduction program. He said he had outlined to unions the details of 2,500 jobs losses to the unions, including some 1500 staff, working mostly in back office roles, and 300 workers from the aircraft maintenance division. The remaining reductions would be the result of "fuel, fleet simplification and efficiencies", he said. ■



SHRINKING THE AVIATION DIVIDE

Air links between China and Taiwan are racing towards normality. A proposed new policy development between China and Taipei, little noticed beyond the region, could make Taiwan an integral hub in Greater China's commercial skies.

TOM BALLANTYNE reports

In late February, Chang Hsien-yao, vice chairman of Taiwan's semi-official Straits Exchange Foundation (SEF) returned to Taipei after attending high-level talks between the organization and the Beijing-based Association of Relations Across the Taiwan Straits (ARATS) with good news. He told Taiwan's premier, Jiang Yi-huah, and senior officials, that Beijing was prepared to discuss altering Taiwan's status to a transit point for Mainland Chinese air travelers.

Until the February meeting, with its breakthrough discussions, Beijing had refused to entertain such an idea. No agreement has been reached to date, but Chang believes serious discussions on the policy shift could begin as early as next month.

If the transit rule is revised, the new policy will be a massive boost to Cross Strait air travel and to Taiwan's major hub, Taipei's Taoyuan International Airport, now being upgraded to a US$16.5 billion aerotropolis that includes an expanded airport and a free trade zone encompassing an industrial park.

At present, Taiwanese travelers can transit in China on their way to third countries, but China does not allow its nationals to follow the same policy through Taiwan. The rule disadvantages Taiwan's airlines and boosts traffic for several of their competitors.

China enforces the ban by refusing to grant exit visas to Mainland travelers if a transit stop in Taiwan is part of their travel itineraries. As a result, the fast increasing numbers of Mainland travelers travel via other cities in China or several Asian countries, including Japan and South Korea, to the Asia-Pacific and The Americas.

Tawainese airlines estimate cancellation of the transit ban would increase passenger numbers stopping in Taipei by 20% to 30%. They said the Taiwan transit option would be very attractive both to Chinese citizens and the nearly one million Taiwanese China-based expatriates.

Austin Cheng, president of Taiwan's EVA Airways, told *Orient Aviation* last month: "There are potentially 49 Cross Strait routes to destinations in China. EVA Air and China Airlines (CAL) both operate convenient global networks. For passengers traveling to Europe, North America and Southeast Asia from China's second tier cities, Taiwan is a better transport hub.

> For Mainland Chinese passengers travelling from second tier Mainland cities to Europe, North America and Southeast Asia, Taiwan is a better transit hub
>
> **Austin Cheng**
> President of EVA Airways

"If they fly directly to Taiwan, travelers can avoid the crowded hubs of Beijing and Shanghai and enjoy the advantages of a gateway where people speak the same language, unlike airports in Japan or Korea."

EVA operates 116 flights a week to 26 Mainland cities. Cheng said the carrier provides onward connections on 45 flights to six major cities in North America. "Since 2010, we have promoted Taiwan as the ideal transit hub for passengers traveling from North America to China," Cheng said.

China Airlines' (CAL) vice president of corporate communications, Jeffrey Kuo, said the Taiwanese flag carrier airline operates 113 flights a week to 28 destinations between Taiwan and China. Under the recent allocation of new services, CAL will begin flying to Changchun, Yaitai, Heifei and Suzhou, which will increase the number of CAL's cross strait flights 135 each week. Kuo said if the transit clearance is approved, advantageous markets through Taiwan would include passengers from second and third tier southern Chinese cities destined for North America via Taiwan and passengers from eastern and northern second and third tier cities flying onto New

> If they fly directly to Taiwan, travelers can avoid the crowded hubs of Beijing and Shanghai and enjoy the advantages of a gateway where people speak the same language, unlike airports in Japan or Korea

Zealand and Australia via Taiwan.

"Actual circumstances will depend on the profitability of the destinations," he said. "If Taiwan can operate as a regional hub for passengers of second and third cities in China, there will be greater operational stability. And, if China says yes to Mainland Chinese transiting through Taiwan to a third destination, CAL's revenue will clearly increase."

"Our strategy has proven to be very effective with North American travel agencies. The high levels of service, convenience and comfort we offer can surely extend to more passengers from China if a Cross-Strait transit policy is adopted." Potential travelers include those bound not only for the U.S., but to Australia and regional leisure destinations.

Spokesperson for Taiwan's TransAsia Airway, vice president of corporate affairs, Alison Kao, told *Orient Aviation* the country was sitting in a "great location" in the Asia-Pacific. "Whether you are travelling to North or South Asia, it only would take two to four hours for onward travelers to use Taiwan. The superior location gives Taiwan a strong claim to be major transit center for people from China."

TransAsia plans to expand its network to the U.S. or Europe in the near future, she said. "If this transit agreement happens, it will bring us more passengers as well as revenue. We are looking forward with optimism to an agreement," Kao said.

Taiwan's airlines believe the country's planned aerotropolis could match Hong Kong, Singapore and Seoul as an aviation hub when the project is completed in 2020. Clearance to act as a transit point is so critical that Taiwan's transportation minister, Yeh Kuang-shih, recently told a local radio station that Taiwan has poured nearly all of its resources into its aerotropolis development and the country "will be through" if it does not succeed.

"The project will be the nation's most important one in the next four or five decades. If we fail, I am afraid we are going to have to say: 'Bye bye, Taiwan'," he said. More than 40,000 people have been relocated to develop the facility, which is planned to cater for 60 million passengers and 4.5 million tonnes of cargo by 2030.

While airlines are excited about the potential breakthrough, nothing

> **We want to fly to more cities on the island [Taiwan] besides Taipei and Kaohsiung, but we can't due to current limits**
>
> **Spring Airlines**
> Shanghai-based low-cost carrier

comes for free when it involves negotiations between China and Taiwan. The quid pro quo of any transit agreement would likely hinge on agreement by Taipei to abandon another pivotal rule governing cross strait flights.

At present, carriers flying between Mainland China and Taiwan are not permitted to fly directly across the Strait via a median line. Each flight must either detour over the South China Sea or the East China Sea, routes that Taiwan has insisted on maintaining for "security reasons". China wants that rule dropped. The rule change is supported by airlines who will save millions on operating costs, particularly fuel, if the rule is eliminated.

However, industry insiders have said that if Beijing insists on this rule change in exchange for a deal on transit passengers, it could derail negotiations. Chang Hsien-yao, deputy chairman of the Straits Exchange Foundation (SEF), Taiwan's agency for cross strait negotiations, said in March there was "no room for negotiations" on the median line rule. "The two issues are separate. They will not be bundled together in negotiations," he said.

If the breakthrough is approved, its impact on passenger demand will be spectacular, even in a market that already is booming. A record nine million visitors traveled across the Taiwan Strait in 2013, a million more than in 2012.

Mainland Chinese visiting Taiwan reached 2.85 million last year, an increase of 10% over 2012. Chinese travelers outnumbered Japanese visitors to Taiwan in 2013 by almost two to one.

The numbers will rise again this year. Weekly flights allowed between the Chinese Mainland and Taiwan, which

Working together

Last year, the four Greater China SkyTeam member carriers - China Airlines, China Eastern Airlines, China Southern Airlines and Xiamen Airlines – announced the Greater China Connection program, which is aimed at enhancing and streamlining cross strait travel.

The airlines are working more closely together to offer passengers return shuttle services across the Strait, enabling one-day commutes for business travellers. CAL chairman, Sun Huang-Hsiang, said his airline operates 108 destinations in 29 countries, but SkyTeam's network is 1,024 destinations in 178 countries.

"Under the Greater China Connection program, more than 460,000 Elite and Elite Plus [frequent flyer] members are entitled to program benefits. The scope of the Greater China Connection program extends across more than 41 airports and more than 270 cross strait flights each week. In other words, one in every two China-Taiwan flights is a member airline of the Greater China Connection." Sun said.

SkyTeam traffic in the cross strait market has grown more than 8% in a year. Star Alliance said that the addition of EVA to its membership in 2013 strengthened its presence in the booming market.

increased from 616 to 670 a week in 2013, will jump to 828 this year. Between them, Mainland and Taiwanese carriers connect to 10 airports in Taiwan and 54 airports in China. During the last Lunar New Year holiday period (from January 17 to February 14) restrictions on flight numbers were removed, except at congested airports including Taipei International (Songshan) Airport and Shanghai Hongqiao International Airport. Apart from scheduled services, 30 charter flights operate across the Strait each month.

Another development that may influence Mainland China on the transit rule change is a government policy to encourage establishment of more Mainland low-cost carriers. Several budget airlines are on the drawing board and will soon be ready to join the handful of LLCs already flying.

Most of the budget startups will have their sights on Taiwan. Last October, Shanghai-based Spring Airlines became the first Mainland budget airline to fly directly to Taiwan. "We want to fly to more cities on the island [Taiwan] besides Taipei and Kaohsiung, but we can't due to the current limits. We also want to invest and set up a company in Taiwan," said Spring Airlines spokesman, Zhang Wuan.

The surge in demand on Taiwan-China routes is a consequence of expanding economic co-operation between the Beijing and Taipei. Recent statistics show the trade volume between the China and Taiwan reached $197.2 billion last year, a 16.7% jump year-on-year. Beijing approved 1,804 Taiwan sourced projects for investment on the Mainland, which amounts to a $1.89 billion investment.

In 2013, 50 Mainland companies invested $117 million in Taiwan. Since 2009, when Mainland enterprises were first allowed to invest in Taiwan, they spent $1.03 billion on 193 projects.

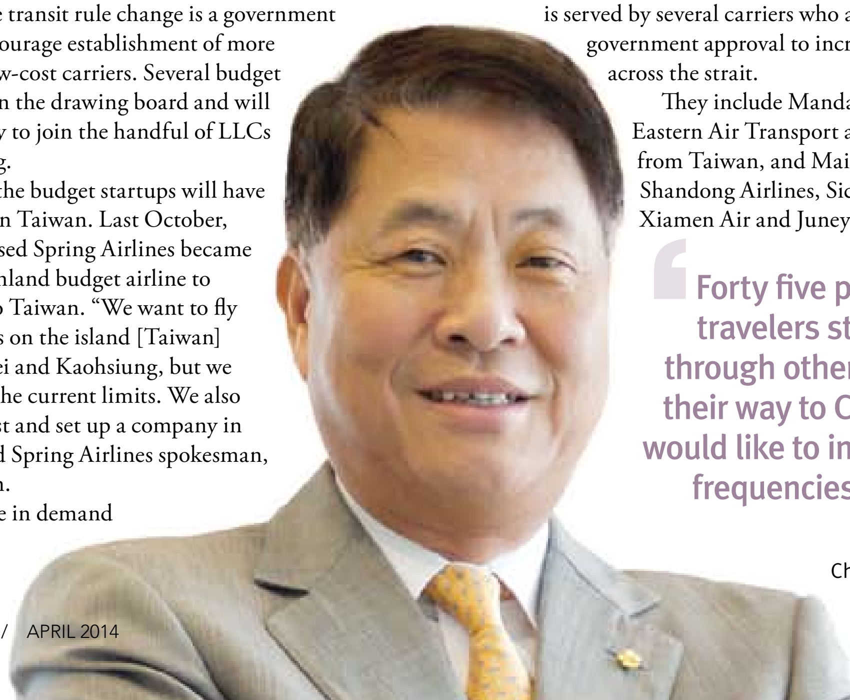
This trend further focused the attention of airlines on the healthy demand created by Cross Strait investment.

Sun said CAL has more than 110 weekly flights covering 25 destinations on the Mainland.

"There is large growth potential in this area. According to our analysis, the number of passengers taking cross strait flights accounts for about 55% of total cross strait travelers. This means 45% of travelers still transit through other regions on their way to China. So, we would like to increase flight frequencies to China," Sun said.

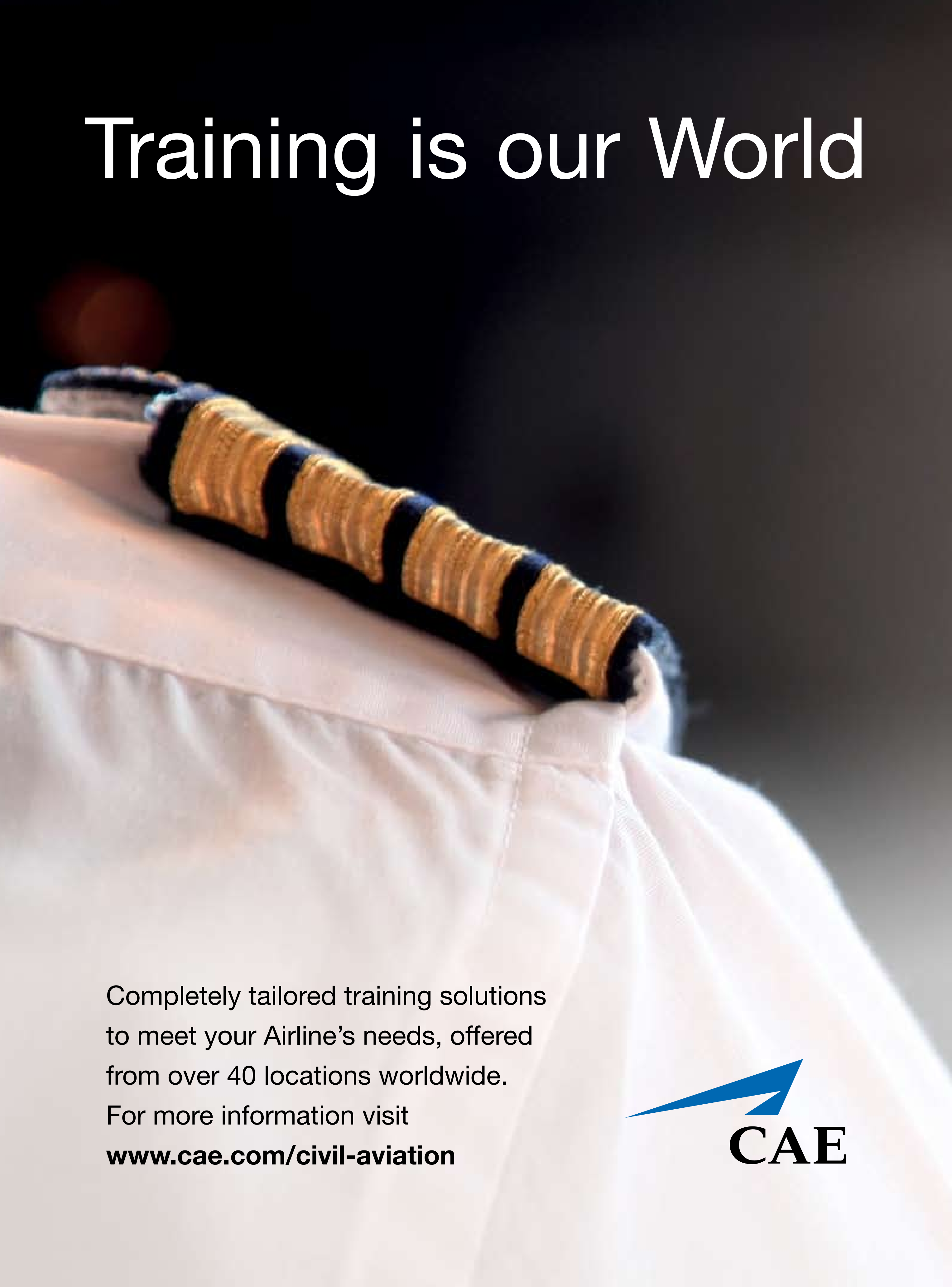
Apart from Taiwan's major carriers, EVA, CAL and TransAsia Airlines, and the three big Chinese operators Air China, China Eastern and China Southern, the market is served by several carriers who are waiting for government approval to increase their capacity across the strait.

They include Mandarin Airlines, Far Eastern Air Transport and Uni Airways from Taiwan, and Mainland carriers Shandong Airlines, Sichuan Airlines, Xiamen Air and Juneyao Airlines. ■



"Forty five per cent of travelers still transit through other regions on their way to China. So we would like to increase flight frequencies to China"

Sun Huang-hsiang
Chairman China Airlines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DOING IT RIGHT

Until he joined Air New Zealand in mid-2011, Christchurch-born Christopher Luxon had spent his entire working life with Unilever, a global company that based its fortune on understanding and profiting from the fast-changing tastes of consumers. Trained to win in a tough multi-national school, the Air New Zealand CEO told Orient Aviation's chief correspondent, Tom Ballantyne, he "is putting growth back at the heart" of the airline.

Fourteen months into his job as CEO of Air New Zealand (Air NZ), Christopher Luxon, 54, could be forgiven for feeling a little smug. Across the Tasman Sea, the airline industry is in tumult. Bottom lines have being ravaged by a capacity war, big losses and a divisive political and public debate over the Australia's competing carriers.

But in Auckland, Luxon, and the "11,000 Air New Zealanders" he oversees, could not be in a better place. They, and he, are continuing not only to do it differently, but do it right. In February, Air NZ reported an interim after tax profit of US$119.4 million - up 40% on the same period a year ago.

Luxon, who mastered the business of building brands at the consumer coal faces of supermarkets and convenience stores, is bent on further improving the innovative airline. That developed the radical and best- selling Skycouch, turning three economy seats into a bed for two with the pressing of a few buttons. But that is not say he is ignoring the Australian aviation scene. As the largest shareholder in loss-making Virgin Australia, he will soon be a board member of the airline. He wants a return to commonsense in Australian aviation and, most particularly, for the Virgin Australia balance sheet to pass into profit.

While the dramas in Australia have been capturing most of the headlines, Luxon's main game is pushing ahead with his "Go Beyond" plan. The record profit came on six-month revenues of $1.96 billion and a 3% reduction in unit costs. With nearly $1 billion in the bank, the carrier is on the verge of a new phase of development as a fleet expansion begins. Twenty two new jets, valued at $2 billion, will be delivered to the airline in the next three years.

From July, two B777-300s will join the fleet, adding to the present five of the aircraft type. By mid-year, the first of 10 B787-9 Dreamliners – Air NZ is the launch customer – will begin touching down in Auckland. These aircraft, along with eight B777-200s that are being refurbished, are destined for destinations around the Pacific Rim and in Asia and North America. "We have made very good fleet decisions," said Luxon. "We'll end up with 25 wide body aircraft, all of one type rating from a pilot point of view. It means we can be a lot more flexible with scheduling and rostering."

As the new jets arrive, the carrier's last two B747s will be retired by year end, with its B767s leaving the fleet by 2016. "It's a genuinely hard fleet simplification versus just mucking around with a configurations of different fleets. We will have a level of simplicity, which will give us a run for five to seven years of advantage, potentially, over other airlines," he said.

All of Air NZ's B737s will be removed from service on domestic and regional short haul routes in 2015, leaving the airline with an all A320 single-aisle fleet.

Fleet development is only part of the Air NZ story. Luxon said there are four legs to the carrier's stool: domestic New Zealand, Trans-Tasman, the international business and its investment in Virgin Australia.

"All those cylinders are starting to fire. We are diversifying the markets and the assets that we are deploying. We will put growth back at the heart of the company. After a period of not growing we are ready for accelerated levels of growth.

"We will build our revenue in a high margin way and in a profitable way."

As a result, unit costs are being lowered. "This is creating these record profits. It enables us to manage our cash and we have an awful lot of cash. We have a very healthy gearing ratio, have very good credit ratings and pay a very good level of shareholder returns."

The carrier is investing in market development, building

The Qantas question

Luxon says it's all about sustainable profitable growth and not rigid capacity goals. "I don't spend time thinking about market share. I think a lot about how I can improve the sustainable profit growth of the business. That's what I'm fixated on as the chief executive of Air New Zealand. Market share is essentially important, but it's an outcome rather than an input."

He points out that traditionally the Australian market place has had enough domestic demand and a strong profit pool. "So we know it can work. Rather than worrying about what Qantas is doing we need to focus on making sure that Virgin Australia, after a period of investments and growth, does what it needs to consolidate and be profitable. I think everybody is really fixated on this strategy," he said.

If Luxon's record after a year in charge in Auckland – the former senior Unilever executive joined the carrier in May 2011 and became chief executive early in 2013 - is anything to go by he will bring a lot to the table when he joins Virgin Australia's other major shareholders, Etihad Airways' James Hogan, and Singapore Airlines chief, Goh Choon Phong, as a board director. Ongoing reports that the three carriers have been at odds and fighting for control of Virgin Australia are incorrect, he said.

"I understand it might be discussed in the media, but to be brutally honest I have a great relationship with James and Choon Phong and there are very little perceived conflicts. The one thing that bonds us is supporting Virgin Australia to become profitable as quickly as possible. This goal very much unites all the shareholders.

"Particularly in Australia, they like to talk about the drama and the soap opera, but that is not our reality. It is going to be very positive. We are working with Virgin Australia, all the airline shareholders, to make sure we've got really good protocols in place. We want to make sure that we can work together very effectively."

the profile of New Zealand and Air New Zealand in offshore markets. It has beefed up its sales teams in China and Japan and put a lot of effort into streamlining sales and distribution channels everywhere.

"There's a big opportunity in the Pacific Rim. There are a lot of markets we want but we want to find intelligent ways to build businesses in them," Luxon said.

"It's a virtuous circle of quality revenue, good cost control, expanding profits and reinvesting behind the "Go Beyond" plan thrusts."

With his sights set firmly on the Pacific Rim, Luxon dismissed the view that New Zealand is a lonely island at the end of the world. "We think we are bang smack in the middle of things. That may be an odd thing to say when you live in New Zealand. The New Zealand narrative historically has been that we are sitting at the end of the world, we're an end-of-the-line carrier and it's all very difficult," he said.

"It's lots of excuses really. We see the Pacific Rim as an opportunity. We are 12 hours from anywhere in Asia, the Americas and Australasia. The whole region is a massive catchment area for us."

Luxon is focused on three main questions: Is the commercial engine of the business right? Has it faced up to the tough calls? Is it making the most of the revenue and cost levers that are there?

"We are building our city-pair presence. It's been very important to diversify our markets and assets across the Pacific Rim region," he said. Part of that adjustment included terminating its Hong Kong-London service, pulling out of Beijing and adding more capacity to Shanghai.

Three years ago, Air New Zealand, like Qantas Airways, was losing money on its international operations. How was that turned around?

"A lot of it has been going through the mechanics of the business and clarifying strategy. We had to get the revenues right and make sure we have sales and marketing teams on the ground in the foreign markets. That's a mixture of local and expatriate staff, but predominantly becoming more local. So we have leaders of the business who understand the customer, the markets, the government, the trade in these cities. That's been working very well for us," Luxon said.

"The second factor has been facing up to loss-making routes. Routes are very similar to product lines. If you are not making money on a product line, you face up to revenues versus cost and make a call. We tried to make our routes as profitable as they could be. We ended up saying some of them just cannot be profitable. This is why you saw us come out of Beijing and Hong Kong-London.

"We go through a very simple market development wheel: have we got the product right, do we have the pricing right, do we have the place and the distribution correct, do we have the promotion and marketing right, do we have the partnerships in place and finally do we have the right people? We call it the six P model. We go round the wheel to say, even on a domestic NZ route or an international route, have we got the offering and the service perfected.

"The third piece has been the alliance structure. At the end of the day we have been very innovative in our commercial constructs. The joint venture revenue share models that we have built, particularly with Cathay Pacific Airways to service Southern China, with Virgin Australia for Australasia and Singapore Airlines will be transformative for us."

Regulatory clearance for the deal with SIA is expected by mid-year, with Air NZ planning to return to Singapore with its own aircraft by December. Said Luxon: "It opens up 58 new destinations across Southeast Asia, continental Europe, India and South Africa. We will have seamless connectivity. The two airlines have different brands, but very comparable product. Both of us are constantly listed in the top three of the Star Alliance ratings on customer experience. Both of us are upgrading our product between New Zealand and Singapore."

As well as the Cathay Pacific partnership to Hong Kong, Air NZ has strong partnerships with Air China and All Nippon Airways, United Airlines and Air Canada. South America is the only gap in its network because the merged carriers, LAN and TAM, are oneworld alliance members. Luxon said South America is a medium-term issue and not a pressing item on its route planning agenda.

Luxon made one other surprising management change. It has become common for airlines to set up their different divisions as profit centres. The AirNZ chief executive thinks it is the wrong way to go.

"The customer is dealing with Air New Zealand. That's the brand. They want one seamless journey from a small New Zealand provincial town to London whether they're on a turboprop, a domestic jet or a long-haul flight. We want one common standard in their flying experience from the airport experience to how the cabin crew is managed. We want one common thought about how we commercialize the entire journey," he said.

"We have moved from a business unit structure that was made up of separate short-haul, international and regional airline businesses into a functional structure. We single out points of accountability. For example, one person is responsible for sales across the whole of the Air NZ group, from China to Invercargill. Our chief operating officer runs

operations worldwide for us.

"We are not duplicating costs that exist when you are a business unit structure so we are able to leverage the scale and the synergies of the airline. It's important for a business like us to maximize the scale benefits we have within the business."

Air NZ's biggest shareholder is the New Zealand Government, which bailed out the carrier in 2001 when it faced bankruptcy. A 73% government holding in the carrier was reduced to 53% last year after the airline sold off a shareholding for US$324 million.

Luxon said this financial relationship has no influence on the airline. "We have been rather disingenuously presented in Australia as a predatory state-run airline with endless cash that we are deliberately tipping into Australia to hurt Qantas. That's unfair.

"The headline is that it has been a very positive experience. "I can tell you it is an independent company with independent directors and an independent chairman. I don't talk to the government. They are just one shareholder. There is no intervention from the government. In fact, the shareholding minister, when I first met him said: 'you won't be seeing much of me or hearing much from me'. This has been important because Air NZ is a commercially run enterprise."

As for the state of the airline industry and and its problems Luxon said "everybody will blame high fuel costs, foreign exchange, natural disasters or competition. This is our [airline] reality. You need to learn to deal with them.

"A lot of poor performance is blamed on these variables, a factor which is peculiar to the industry. It would not be acceptable in other businesses or other sectors. Yes, fuel is high, but we have been achieving record profits with elevated price levels for fuel. Yes, foreign exchange bounces around depending on different markets. We have dealt with that issue, but we still expect a return.

"Competition will be what competition will be. Natural disasters sadly come and go. We have good risk mitigation on fuel and foreign exchange to buy time to adapt to changed circumstances.

"But most importantly, our company culture and our speed mean we adapt much quicker than our competitors because it is happening to all of the airlines at the same time.

"So if the Japanese Yen devalues, within two weeks we can make a change to capacity, to pricing, to scheduling. They are all levers and choices. I think the airline industry, at times, is quite fatalistic. It seems to use things outside its control as excuses for poor performance." And that, Luxon said, is something Air New Zealand will never do. ■

From supermarkets to Skycouches

Youthful Christopher Luxon, (54), has the business of understanding the modern consumer in his blood. The eldest of three boys, Luxon was born in Christchurch, New Zealand, where his father worked for world-wide consumer product group, Johnson and Johnson, and his mother was a psycho-therapist and counsellor. When Luxon was seven, the family moved to Auckland. At 15, he returned to Christchurch to finish high school and undergraduate studies before completing a Master of Commerce at the city's University of Canterbury.

In his final year at university he won a highly competitive management traineeship with global consumer goods supplier, Unilever. It turned into an 18-year career with the company. As he rotated through different areas of the company, Luxon earned a reputation as a very capable "Young Turk". He became brand manager of Unilever's detergent branch in Auckland, followed by five years in Sydney in several sales and marketing roles, positions that were extended to leadership of Unilever's Asian Innovation Centres in his final three years in Sydney.

He rapidly progressed through the ranks in London and then Chicago, where he became one of the youngest vice presidents in the company. From 2008, he was president and CEO of Unilever Canada and a member of the company's North American Leadership Team, along with holding responsibility for Unilever's US$4 billion personal care business in the U.S. Then a call came from home. At the time, Luxon and his family were about to move from Toronto to the U.S. It turned out Air New Zealand's timing was percipient.

Luxon recalled in interviews following his elevation to CEO at the airline: "We were about to move permanently to New York when the opportunity to come home [to New Zealand] came along. While the move was a huge decision, with much to consider for our young family, the opportunity to be involved in the leadership of such an iconic and significant New Zealand company was one I simply could not pass up."

"On a personal level, I was keen for the opportunity to bring both my internationally born and raised children home to their roots and to make my contribution to New Zealand."

Luxon started work as Group General Manager International Airline at New Zealand's Auckland head office, under then CEO, Rob Fyfe, in May 2011. At the start of 2012, Fyfe announced his plans to leave the airline in the followiong December. After the company conducted a world-wide search to replace the outstanding Fyfe, the board found the man it wanted down the hall.

Luxon was named CEO-designate in June 2012, which gave him six months to transition into the top job. He officially took over in January 2013.

Industry in upward profit cycle says IATA

Tom Ballantyne reports

Politics and fuel, the usual suspects when there is a sudden shift in the bottom line of the global airline industry, have resulted in a US$1 billion profit downgrade, to US$18.7 billion, for the coming year, said the International Air Transport Association (IATA), but its not all bad news.

The world's airlines remain on track to report a profit this year, but there are number of risks threatening the industry's ability to make money in the months ahead.

The good news said IATA director general and CEO, Tony Tyler, in March, is that airlines are expect to report a global profit of $18.7 billion this year, marginally down from the $19.7 billion forecast last December, with Asia-Pacific airlines to realize a profit of $3.7 billion in 2014.

The bad news is that it is not good enough, IATA said. For an industry that generates $745 billion in revenues, this profit level represents an average net margin of 2.5%," said Tyler. "Put another way, the average fare is about $200 (including ancillaries) and airlines will make about $5.65 for every departing passenger. So, running an airline remains a very tough business. It is closely tied to the economic cycle and vulnerable to many risks."

Among those risks, the IATA boss said, is political instability in the Ukraine that is pushing up oil prices. This was the main negative driver of the downward revision of profits. "I have also spoken about the negative impact on traffic of growth led by markets. Many countries—including Turkey, India, Indonesia and South Africa—have tightened monetary policy in order to protect exchange rates—slowing economic growth. And we see this trend continuing," he said.

The upside of the revised forecast, Tyler explained, was that the numbers in an industry forecast can give a false impression. "Firstly, while this is a $1 billion downgrade, it comes on revenues of some $745 billion. On such a large revenue base, a $1 billion shift is equal to less than a seventh of one percent," he said.

"So, rather than being a substantial downgrade, it is probably better characterized as a tweak and the overall forecast is still very aligned to our December thinking. Basically, the fuel bill will be about $3 billion higher than we expected in December. And this will be partially offset by an increase in revenues of $2 billion, primarily due to stronger cargo markets.

"Secondly, even though this is a forecast downgrade, the overall story for the industry is positive. In 2012 airlines made $6.1 billion. Last year ended with a $12.9 billion profit. And this year will continue that improving trend. Third, in absolute terms, an overall profit of $18.7 billion is a significant amount of money—even for a tech company or social media start-up. And considering that, on balance, the industry has endured more annual losses than annual profits since 2000, staying in the black is in itself an achievement that reflects the major restructuring that has taken place."

Cargo remains a concern, but there are signs the sector is improving. "The cargo side of the business is difficult, but doing better than we expected a few months ago. Since 2010, revenues have hovered around the $60 billion level while volumes sat at the 50 million tonne mark. There are pressures from 'on shoring' of supply chains and protectionist measures that are slowing the growth in world trade and holding back the cargo side of the business," Tyler said.

"Nonetheless, we are seeing a cyclical upswing in demand. As a result of this, we increased our revenue outlook to $63 billion. That is $2 billion better than 2013 and $3 billion better than we forecast in December."

The best performing region in terms of income is expected to be North America, where airlines are forecast to post combined profits of $8.6 billion.

Projected Asia-Pacific profits of $3.7 billion are better than the global average, but still lean in business terms. IATA said the position of airlines in the region has been helped by the slightly better outlook for cargo markets.

"Airlines in the Asia-Pacific have the largest share of the international air cargo market," said Tyler. "However, the turmoil in foreign exchange markets earlier this year adversely affected growth prospects for large economies in the region like India and Indonesia. Even China has slowed, albeit to a much lesser extent. The resulting adverse impact on passenger revenues more than offsets the improvement in cargo. Our forecast for the profits of airlines in this region in 2014 is $400 million less than the previous projection," Tyler said.

"Fuel costs, currently accounting for some 30% of costs, continue to be the major driver of the industry forecasts. IATA said recent political tensions have sparked an upward trend with oil prices expected to average $108/barrel (Brent), $3.50 higher than the previous forecast. Jet fuel prices are expected to be higher at $124.6 per barrel, which is a $1.7 per barrel increase from previously forecast (and unchanged from 2013). Overall, fuel costs are expected to rise by some $3 billion to $213 billion compared to the December forecast." ■

Tony Tyler, director general and CEO, International Air Transport Association: "We are seeing a cyclical uplift in demand"

Governments can act to ease crew shortages

More flight training academies are only part of the solution to meet demand for pilots in the Asia-Pacific, *reports Tom Ballantyne*.

Building pilot training academies are only part of the solution to the projected shortage of cockpit crew and technical staff at Asia-Pacific airlines, the region's Association of Asia-Pacific Airlines told *Orient Aviation*.

The AAPA does not believe there will be a shortage of pilots and ground support and maintenance staff in the short-term and believes that regulators can help to alleviate the problem in the longer term.

Martin Eran-Tasker, technical director of the Association of Asia Pacific Airlines (AAPA), pointed out that some personnel resources are located in the wrong place. "The current regulatory environment prevents the easy movement of individuals as their qualifications need to be recognized and approved. There are no agreed standards or procedures on how such qualifications can be assessed and transferred.

"If regulators had a harmonized approach about the transfer of qualifications it would facilitate movement and alleviate potential shortages.

"However, responding to the medium and long term problem regulators and industry are taking action. We are seeing increases in training plus training joint ventures," said Martin Eran-Tasker.

In the meantime, several of the region's major airlines are setting up partnerships with training academies or airframe manufacturers to train the additional 192,300 pilots and 215,300 new technicians needed to service Asia-Pacific airlines in the next two decades.

Boeing forecast that in China alone, airlines will take delivery of 5,580 aircraft, which will triple its fleet (taking into account retirements). Bob Bellito, global sales director for Boeing Flight Services, predicted the additions to the Mainland fleet will require another 77,400 pilots and 93,900 engineers by 2032. Bellitto said: "There is a very real and urgent demand for competent aviation personal globally. The Asia-Pacific region is particularly impacted.

All Nippon Airways (ANA) is persuaded by the forcasts. In 2013, it allocated funds from its US$1.7 billion share sell to acquire Miami pilot training company, Pan Am Holdings, for $139.5 million. Some industry observers wondered if the carrier's business sense had gone astray, but for the ANA Group boss, Shinichiro Ito, it was a critical investment.

He is considering using Pan Am Holdings, the last corporate vestige of the once famous and now defunct U.S. international carrier, Pan Am, as a platform for building a pilot-training facility in Thailand that will tap into the region's demand for pilots, particularly in SouthEast Asia. The Pan Am acquisition was signed off at the same time as ANA bought a $25 million (49%) equity in Myanmar's Asia Wings Airways. The training company will allow the Japanese airline group to offer training to airlines in the member countries of Association of South East Asian Nations (Asean), whose skies will be deregulated in 2015.

Speaking at the recent Singapore Air Show, Bony Sharma, vice president of Singapore-based aviation training company, Mil-Com Aerospace Group said: "The airlines say: 'OK, we've just bought a bunch of airplanes and we've put all our funding into the airplane'. Now, where does the funding come from to train the pilots, to train the engineers, to train even the management people, to keep these airplanes operational and safe and flying? That's the biggest challenge that we're facing."

Mil-Com trains crews for a number of Asia-based airlines,

> If regulators had a harmonized approach in the transfer of qualifications it would then facilitate movement and alleviate potential shortages
>
> **Martin Eran-Tasker**
> Technical director
> Association of Asia-Pacific Airlines

All Nippon Airways has invested US$1.7 billion in U.S. flight training academy

including Vietnamese carrier, VietJet Air. In February, the budget airline ordered 63 new A320s, at an estimated value of $6.4 billion. It leased another seven planes and signed up for 30 options.

Sharma said that like many low-cost airlines, VietJet is struggling to recruit personnel because of an "extremely serious" shortage of pilots. "All the airlines in Vietnam are heavily dependent on international pilots. They're competing from the same pool of pilots as the Middle East and with the growth of Singapore and the growth of AirAsia. It's that same pool. It's a big challenge in Vietnam," said Sharma.

Mil-Com has been working with VietJet since it was founded in 2011, training engineers, technicians and cabin crew. In Singapore, the company and its partner, Eagle Flight Training of New Zealand, have signed a Memorandum of Understanding (MoU) with Vietnam's Aerospace Engineering Services JSC (AESC), to open a flight school in Vietnam. "Even if we set up 100 airplane flying schools tomorrow, it still wouldn't be enough, the shortage is that extreme," he said.

The problem is far from being ignored. Boeing, with several partner airlines, runs pilot training schools in Singapore, South Korea, Australia, Japan and China. Airbus has a training school in Beijing and recently announced a joint venture with Singapore Airlines to set up a $64 million facility in Singapore offering full pilot training.

Boeing is expanding its training business in South Korea with the construction of the country's largest aviation training facility in Incheon's Free Economic Zone outside Seoul. When completed in 2015, the facility will be equipped with 12 full-flight simulators and will train pilots to crew the South Korean airline group's fleet expansion.

Part of the region's demand for more cockpit crew will be met by companies beyond the Asia-Pacific. Global training provider, the United Kingdom's CTC, has a flight academy in New Zealand that trains around 2,000 pilots annually. It will expand into Arizona in the U.S., in partnership with with Lufthansa Flight Training (LFT). The joint venture partners' new academy will train up to 200 airline pilots a year and as well as cadet pilots from third party airlines including Asian carriers.

Most of the region's major carriers have their own pilot and technician training schools, joint venture facilities or long-term training agreements with providers. Nearly all the airlines *Orient Aviation* contacted were planning for expansion.

Budget airlines, seen by many as a major cause of the problem because of the hundreds of new jets they have on order, are hardly sitting on their hands. One of the region's fastest growing no-frills airlines, Indonesia's Lion Group, which owns Lion Air, Wings Air, Malindo Air, Batik Air and Thai Lion Air, has more than 700 planes on order. It has 760 pilots with another 120 in training and expects it will require another 200 this year. It is setting up the Angkasa Aviation Academy and has on order 40 Cessna 172s valued at $15 million, as well as five CAE full-flight simulators: three B737s, one ATR and one A320. An airline spokesman said the carrier wants the academy to be sustainable and hopes to attract third-party business.

Malaysia's AirAsia, currently the region's largest LCC, with 475 A320 family jets on order, has partnered with simulator company, CAE, to make Kuala Lumpur its training hub for pilots, cabin crew, maintenance engineers and ground staff. In a five-year deal, CAE is training more than 200 new A320 first officers in a multi-crew pilot license (MPL) program.

China alone will require 77,400 new pilots and 93,900 maintenance engineers in the next two decades

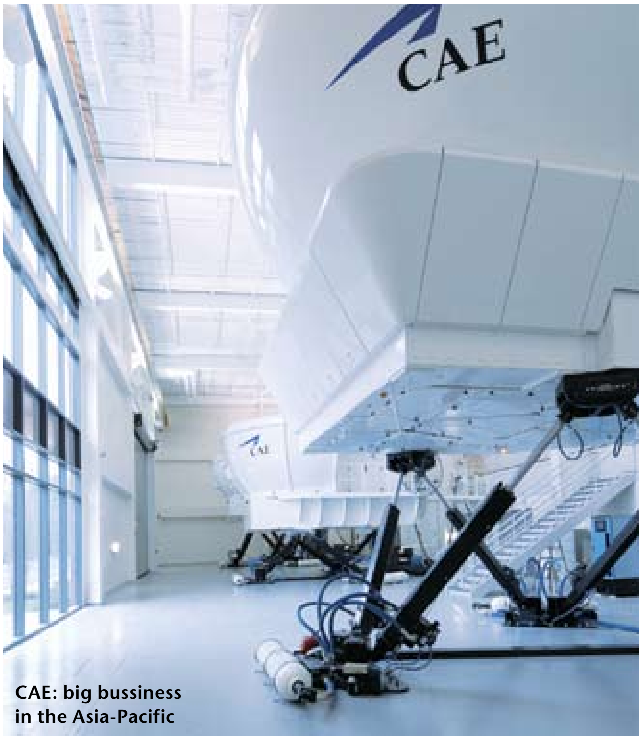
Azran Osman-Rani, chief executive of long-haul LCC, AirAsia X said he is not worried about pilot shortages, despite impending deliveries of several aircraft in 2015. He plans to transfer experienced pilots from parent, the AirAsia Group, to train on wide bodies, with some captains recruited from outside Malaysia.

In the Philippines, successful LCC, Cebu Pacific, has set up the $50 million Philippine Academy for Aviation Training, also with CAE, to man its expanding fleet and capture regional third-party business.

CAE has established a new pilot training operation in partnership with budget airline, IndiGo. The $25 million CAE Simulation Training Centre is based in Greater Noida, in the northern state of Uttar Pradesh in India, and provides A320 recurrent training to crews from IndiGo and another LCC, GoAir. The facility provides "wet" and "dry" type rating, recurrent, conversion and jet indoctrination training.

It operates two CAE Series

COCKPIT AND TECHNICAL TRAINING TRENDS IN THE ASIA-PACIFIC



CAE: big bussiness in the Asia-Pacific

5000 A320 level-D full-flight simulators, has six simulator bays and plans to train more than 5,000 pilots a year by 2017. Marc Parent, president and chief executive of CAE, said the new facility's location meant it was accessible to airlines in neighboring countries such as Nepal, Bhutan, Bangladesh and Myanmar.

Regional jet and turboprop manufacturers are also beefing up the region's training muscle. Brazil's Embraer has set up a Learning Centre with FlightSafety International at Singapore's Seletar Aerospace Park to provide initial training, jet transition, type ratings and recurrent training for its E-jet range. And European turboprop maker, ATR, also has a new flight-training center at Seletar. Approved by the European Aviation Safety Agency (EASA), training programs include flight-crew type rating to recurrent training.

The facility has an ATR-600 series full-flight simulator that enables training for ATR 42-600s and ATR 72-600s variants, maintenance/flight simulation training devices and a brief/debrief station.

The challenges are complex, but they have happened in past times. As Randy Tinseth, Boeing's vice president marketing puts it: "The market's going to double in the next 15 to 20 years, but remember it doubled over the last 15 to 20 years that we've just come through.

"It's something we can manage through, but we have to get out ahead of it. What we can do is partner with governments, partner with training agencies, partner with airlines and focus on a training curriculum that allows the training of those pilots." ■