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ORIENT AVIATION PERSON OF THE YEAR 2014

CHRISTOPHER LUXON

CEO
Air New Zealand

FORGING A PACIFIC DESTINY

Orient aviation 21 YEARS

AAPA Assembly of Presidents: Profits beckon in 2015?

Japan's Skymark courts JAL for codeshares

2014 in Review: Airlines' testing times


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CONTENTS

Volume 21, Issue 10

COVER STORY


Airbus Widebody Family
25% lower fuel costs with no compromise on comfort
The A350 XWB is the only all-new aircraft in the 300-400 seat category. Scheduled to enter commercial service later this year, the A350 XWB will set a new standard of comfort and efficiency in its class, with 25% lower fuel consumption compared to existing aircraft. It will also bring a new level of passenger comfort, with more personal space and 18-inch wide seats in economy. The A350 XWB has the flexibility to embrace growing passenger numbers.
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The bottom line

It was certainly more of the same for most Asia-Pacific airlines in 2014. The passengers kept booking in increasing numbers, but the collective bottom line did not reflect the growth. Andrew Herdman, director general of the Association of Asia-Pacific Airlines (AAPA) put it succinctly last month in his keynote address at the association's annual Assembly of Presidents. "Relentless growth has not turned into profits," he told delegates to the prestigious gathering held this year in Tokyo.

For another year, with a handful of notable exceptions, healthy passenger growth – at 5% for the latest 12 months – was outpaced by a capacity expansion of 1%-2% above that figure. The inevitable happened. Competition forced cheaper fares onto the market, yields shrank and profits thinned to the point of loss for many Asia-Pacific airlines.

Unlike the situation during the 2008 Global Financial Crisis, when low-cost carriers turned in good results and full service operators suffered, this time around the budget sector also is suffering as ever more airlines are launched across the region.

Complicating the picture, said Herdman, was the blurring of the lines between budget airlines and what they offer and the product provided by a full service carrier. An increasing number of LCCs segued into hybrid carriers as they responded to customer demand for booked seating, business class cabins and checked through baggage facilities.

Conversely, full service airlines are filling their back end with tickets that very closely match several fare categories of LCCs.

And it is difficult to see circumstances changing. Unprecedented numbers of new seats will be arriving at Asia-Pacific airlines in the next decade and beyond to 2032, with many of these deliveries scheduled for LCCs who are intending to match some of convenient customer experiences that full-service carriers offer.

Competition will become ever fiercer. Other issues that are costing the airlines millions of dollars a year are an impending infrastructure crisis and insufficient airport capacity and runways to cope with forecast growth and air traffic congestion.

While developments are underway to increase infrastructure capacity, it is generally agreed it is too little, too late. Airlines are constantly aiming to reduce costs and absorb the impact pf events outside their control. Yet they are prone to avoiding the one strategy that makes sense: charge a price for the product that they offer which provides a fair return on their investment.

Everyone else, from airports to service providers and manufacturers to MROs do it, earning profits that are the envy of many an airline management. In such a competitive landscape it is hardly surprising that airlines are reluctant to increase fares for fear of losing customers to competitors. But is it the time to be bold?

No-one is suggesting there should be price collusion between the region's airlines. But why don't airlines individually take the brave step and demand a reasonable price for their tickets? In the medium to longer term, quality will attract passengers prepared to pay a little more for a safe and amenable travel experience. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

***Qantas** took delivery of its 75th B737-800, which was named in honor of the airline's **former CEO James Strong**, who died last year. The aircraft was welcomed by **Qantas CEO, Alan Joyce**, Mrs Jean-Claude Strong, her son, Nicholas, and Qantas staff. Mrs Strong unveiled an addition to livery, a red bow tie, which was a signature element of the late CEO's sartorial style.* ■

China and New Zealand strengthen relationship with strategic alliance

Air China and Air New Zealand (ANZ) have signed a Statement of Intent to form a strategic alliance on services between China and New Zealand that is scheduled to begin in the new year, improving access for the more than half a million Chinese tourists New Zealand expects to visit the country by 2020.

Under the proposed alliance, Air China would launch a daily Beijing – Auckland service to complement ANZ's existing daily Shanghai – Auckland flights. "New Zealand is one of the most important markets for outbound travel from China and Air China is confident about the promising future of this market, particularly considering the airline's close ties with Air New Zealand, an innovative airline full of vitality and dynamism," said **Air China chief executive officer (CEO) Song Zhiyong**. **ANZ CEO Christopher Luxon** elaborated that "China remains a challenging market for us to operate to. Working with a strong, well-respected home market carrier like Air China will give us a huge opportunity to convert this potential growth, while jointly offering the additional capacity to support it."

As Chinese visitor numbers to New Zealand doubled in the past four years, Mainland carriers added frequencies. **China Southern** offers double-daily B777/787 Guangzhou – Auckland services, while **China Eastern Airlines** will start a new seasonal Shanghai – Auckland B777-300ER service this month. The Chinese carriers' market entry has effectively reduced Australia's position as the traditional gateway for New Zealand. Government data shows that in 2006 more than 70% of Mainland China tourists entered the country via Australia. In the first nine months of 2014, Asian hubs dispatched 53% of Chinese visitors to New Zealand and Australian hubs accounted for the remaining 47%. (Forging a Pacific destiny page 20) ■

Indian flag carrier loses money on 97.5% of its daily services

India's government told the nation's parliament that only nine of **Air India's** 370 daily departures are profitable, **The Times of India** has reported.

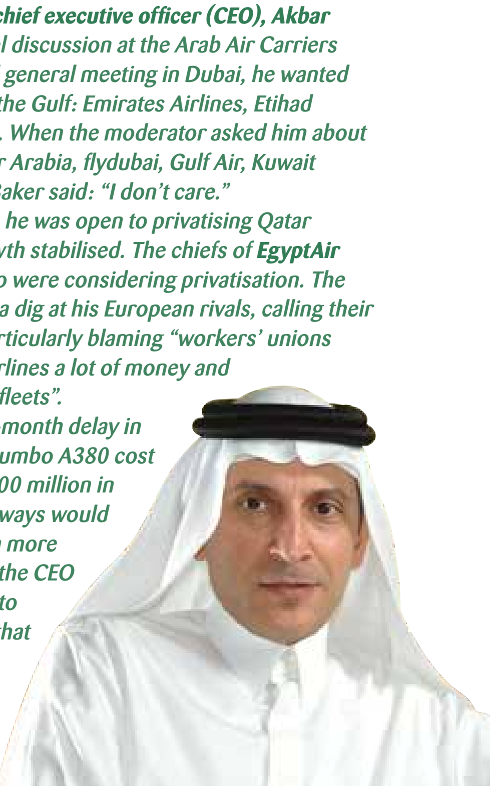
The flag carrier's money-making international flights are Cochin-Kozhikode-Jeddah, Kozhikode-Sharjah and Kolkata-Yangon. The profitable domestic sectors are Delhi-Leh; Delhi-Kolkata; Leh-Jammu; Delhi-Srinagar; Srinagar-Leh and Delhi-Hyderabad-Vijayawada. Air India's finances are in dire shape. **Mahesh Sharma, the country's minister of state for civil aviation**, announced recently in Delhi that the airline lost 75.6 billion rupees (US$1.22 billion) in 2011-12, 54.9 billion rupees in 2012-13 and 53.9 billion rupees in 2013-14. He further disclosed that Air India's loan balance at October 31 this year was 522.4 billion rupees ($8.44 billion), with aircraft loans accounting for 234 billion rupees and the remaining 289 billion rupees listed as working capital.

More than 50 Air India pilots have resigned this year after the airline cut allowances by 15%. The carrier is facing an acute cabin crew shortage and has launched an aggressive advertising campaign to recruit 250 flight attendants. The crew shortages are one of the reasons that 50,773 Air India passengers were affected by flight delays in October, an abnormally number given that 25,000 passengers from all Indian carriers suffer from airline delays each month across all Indian carriers. ■

Qatar boss would consider an IPO

*Outspoken **Qatar Airways chief executive officer (CEO), Akbar Al Baker** said during a panel discussion at the Arab Air Carriers Organisation recent annual general meeting in Dubai, he wanted three "growing airlines" in the Gulf: Emirates Airlines, Etihad Airways and Qatar Airways. When the moderator asked him about other carriers, including Air Arabia, flydubai, Gulf Air, Kuwait Airways and Oman Air, Al Baker said: "I don't care."*

*Al Baker told the forum he was open to privatising Qatar Airways once its rapid growth stabilised. The chiefs of **EgyptAir** and **Oman Air** said they also were considering privatisation. The Qatar CEO could not resist a dig at his European rivals, calling their operations "inefficient", particularly blaming "workers' unions for costing the European airlines a lot of money and frequently grounding their fleets".*



Al Baker said the three-month delay in the arrival of its first superjumbo A380 cost the airline more than US$200 million in revenue. Asked if Qatar Airways would join Emirates in its call for a more fuel-efficient A380 engine, the CEO said "it is premature for us to talk about this", but added that he did not think Airbus was in a position to re-engine the A380 with the number of orders the Toulouse manufacturer has. ■

Jetstar Hong Kong in regulatory limbo

*Stalled **Jetstar Hong Kong**, a proposed Hong Kong budget carrier, said last month that many of its pilots have either resigned or been redeployed because the airline has been waiting nearly three years for the Hong Kong authorities to issue it with an air operator's certificate (OAC). The OAC application has faced fierce opposition from **Cathay Pacific Airways**, which argues that the LCC's true head office is in Australia and therefore the application to base itself in Hong Kong breaches the Basic Law of the territory. **Jetstar's CEO, Edward Lau**, told Reuters his airline had not been "advised of a hearing date as yet." The LCC has sold six of its nine new A320s as the AOC process has lingered on. A source close to the CEO said the joint-venture partners, **Qantas, China Eastern Airlines** and **Hong Kong local investment group Shun Tak**, "are growing increasingly weary."* ■

PEOPLE

Malaysia Airlines confirms Mueller as turnaround CEO

Malaysian sovereign wealth fund, **Khazanah Nasional**, which will soon take full ownership of **Malaysia Airlines (MAS)**, has announced that **Christoph Mueller** will be nominated as **MAS's CEO-designate** and a **non-executive director** from January 1. Khazanah said discussions were underway for Mueller to join MAS "at a date prior to May 1, 2015, but no earlier than March 1, 2015". A German citizen who has worked in the C-suites of Lufthansa, Sabena, Brussels Airlines (formerly Delta Air Transport) and most recently as CEO of Air Lingus, Mueller faces the challenge of running an airline, soon to be de-listed, that has to overcome tremendous morale and financial issues. ■

High hopes for new THAI boss

*One of Thailand's most prominent business leaders, Harvard educated **Charamporn Jotikisthira**, has started work as the **president** of **Thai Airways International (THAI)** following the announcement of his appointment in November. The highly regarded former chairman of the Stock Exchange of Thailand (SET), was chosen unanimously, THAI said, because of his outstanding record at SET, increasing its trading volume three fold during his tenure. The electrical engineer and computer science graduate from the Massachusetts Institute of Technology in the U.S. has his work cut out for him. THAI has reported almost two years of consecutive losses as the airline battled the impact of a long running political conflict that resulted in a military coup d'etat in May, as well as contending with a huge capacity increase into Thailand from both budget and full service carriers from the Middle East, Europe and Australasia.* ■

Former IATA director general joins Alitalia board

Former International Air Transport Association (IATA) CEO and director general, **Giovanni Bisignani**, will serve as a **non-executive director** at Alitalia. Former Ferrari chairman, **Luca Cordero di Montezemolo**, is the **non-executive chairman** of the nine member board. The "new Alitalia" will be re-launched on January 1 after Etihad's 49% equity investment in the Italian carrier received regulatory approval in late November. Alitalia will select five directors and Etihad will choose three with the **carrier's CEO, Silvano Cassano**, jointly appointed. ■

Former Kingfisher boss refused reappointment

*India's Ministry of Corporate Affairs has refused a request from **Vijay Mallya**, the **founder and former managing director of Kingfisher Airlines**, to be re-appointed to the airline's top role. Mallya is being pressured by Kingfisher's creditors to help repay more than US$1 billion in loans that the airline had negotiated before it stopped flying in 2012. Mallya inherited the Indian drinks conglomerate, the UB Group, which controls United Breweries, a successful division of the flambuoyant entrepreneur's business interests. No reasons were given for the ruling.* ■

And briefly …

Describing him as one of the world's outstanding marketeers when he announced the appointment of fellow Australian, **Shane O'Hare** as the **new senior vice president of markewting at Etihad Airways**, Etihad CEO said O'Hare was hired to take the airline's brand "up another level".

In other industry appointments, Dr Karen Reddington, who has been with **FedEx Express** since 1997, will succeed **David Cunningham Jr.** as **president FedEx Express, Asia Pacific** next month. Cunningham will return to the Memphis head office, not far from where he started his career packing and loading packages for the company, to take up the role of chief operating officer.

Former U.S. Navy pilot and the CEO of several leading aerospace companies, Steven Loranger, is the new **senior advisor** to **Flight Safety International president and CEO, Bruce Whitman**. The New York headquartered global flight training company provides training for pilots, engineers and other aviation specialists in 167 countries and operates the world's largest fleet of full flight simulators.

Inmarsat, a leading global satellite company for the industry has appointed former United Airlines and operations manager, **Captain Mary McMillan, as vice president aviation safety and operational services**. Captain McMillan, with more than 12,000 hours of flying B747s, B767s and A320s, will strengthen Inmarsat's position as it rolls out new mobile satellite based aviation connectivity services. ■

Jet Airways eyes Bangkok as mini-hub

Etihad Airways protégé, **Jet Airways** wants to turn Bangkok's Suvarnabhumi Airport into a mini-hub to extend its network to East Asia and take advantage of the fifth and sixth freedom rights already in place between India and Thailand, the Abu Dhabi carrier told **The Bangkok Post**. Jet Airways' new management believes the implementation of the Asean Economic Community Open Skies in 2015 will be a major driver for air passenger growth between India and East Asia. Stationing a fleet of single-aisle B737 aircraft in Bangkok and feeding them with traffic from its multiple daily India-Thailand services is seen by the airline as critical to opening new routes that would otherwise be financially unviable if served directly by the Mumbai-based carrier. "That's the way to go, and we should see something happening in the next two years," said **Wallop Bhukkanasut, newly appointed adviser to Jet Airways' chief executive, Cramer Ball**, and **vice-president for Southeast Asia and Australasia**. "We need to get in before all the flight slots are taken by others," the ex-Thai Airways executive chairman continued.

Reports in India suggest that Jet Airways is shifting away from the domestic market by pulling out of a several local routes and utilizing the aircraft for international destinations served by its part owner, Etihad. In an official statement to **India's Economic Times**, the carrier said it is restructuring its network to "optimise operations in this over-capacitated industry environment" and deploying capacity to markets that have the highest value for the network as a cohesive system. Earlier this year, Jet announced it would connect 23 Indian cities to Etihad's Abu Dhabi home base. It currently serves the UAE capital from Bengalaru, Delhi, Kochi and Mumbai. ■

ICAO reports on tracking

*Upsetting **Sir Tim Clark, president of Emirates Airlines**, and some other industry veterans, was the decision by the taskforce established by the United Nation's **International Civil Aviation Organisation (ICAO)** to explore threats to civil aviation, when it ruled that the existing framework is "fit for purpose" and that individual states should continue to be responsible for the safety of operations in their airspace. Discussions on the findings are expected to be held at ICAO's high-level safety conference next February, where all 192 member states and the ICAO leadership are due to discuss, and potentially rework, a conflict-zone work program for 2015.* ■

BUSINESS ROUND-UP

SpiceJet narrows losses, seeks fresh capital

Indian low-cost carrier (LCC), **SpiceJet**, reported a net loss of 3.1 billion rupees (US$50.4 million) for the second quarter ended September 30, narrowed by 45% from a loss of 5.6 billion rupees in the same period a year earlier. Load factor increased 13.3% to 81.9%. Chennai-based SpiceJet significantly lowered its advance-purchase fares during the July – September quarter, promoting several all-in one-way fares for as low as 1,999 rupees ($33). Subsequent passenger traffic growth and higher loads proved to be a boon. "The incremental revenue from increased loads significantly [exceeded] the impact of [the] decrease in an average fare and [resulted] in higher average revenue per flight," SpiceJet said. Ancillary revenue, "further catalyzed by higher loads", increased 31.1% year-over-year to 1.4 billion rupees, the carrier said. In a regulatory filing last week, SpiceJet said it was in "exploratory and preliminary stage" talks with investors about raising fresh capital. Back in May it said it was in "advanced talks" for capital infusion though no deal materialised. ■

AirAsia X losses quadruple "Down Under"

*Long-haul LCC, **AirAsia X**, a subsidiary of the **AirAsia Group**, has announced it will trim its Australian network in 2015 after losses from its Australian operations increased to 121.4 million ringgit (US$42 million) in its third quarter, to September 30. AirAsia X also announced it will slow its aircraft deliveries and allocate the majority of its new planes to its budget associates in Indonesia and Thailand. Malaysia's **The Edge Financial Daily** reported last month that AirAsia X told its staff in October their wages and allowances would be paid on a staggered basis because of the "late arrival of incoming funds". **AirAsia X CEO, Asran Osman-Rani**, said the airline would announce a new financing plan to put the company on a firmer footing. "We are in a tough position," he told The Malaysian Reserve. "No two ways about it, but we are fixing it. **Tony (Tony Fernandes, AirAsia's group head)** is coming up with a new strategy for the airline. We are not cutting any of the workforce or salaries."* ■

Avolon launches IPO after China deal collapses

Aircraft lessor, Avolon, had a busy few days in the first week of December. After months of negotiations, it was informed by China's aviation conglomerate, **AVIC**, that the Mainland company would drop its bid to buy the Dublin-based lessor. AVIC confirmed to **Reuters** news agency the deal had fallen through after Avolon's board turned down its offer. Avolon had filed for the listing, for 13.6 million existing shares, in June and was then approached by AVIC. Avolon said the sale could bring in up to US$1.86 billion for the sellers, including the Singapore Government and **CVC Capital Partners**. ■

PROFITS BECKON IN 2015?

Delegates at last month's Association of Asia Pacific Airlines (AAPA)'s annual Assembly heard of determined progress in improving aircraft tracking systems – and that cargo was on an upswing. But speakers warned that regional over-capacity, fuel price volatility, new taxes, infrastructure issues and health pandemics were challenges to profitability.

TOM BALLANTYNE reports

Relentless growth has not translated into profits in the last year, the director general of the Association of Asia Pacific Airlines (AAPA), Andrew Herdman, told delegates at the association's 58th annual Assembly of Presidents last month, held this year in Tokyo.

But 2015 is looking better, he cautiously predicted. For many of the region's airlines, Herdman said, a quick return to profitability is being made harder by the economic and political uncertainties prevailing across the world. The way forward for Asia-Pacific aviation "will be a quiet one" with "slight misjudgments" discreetly corrected by individual airlines, he said.

"Maybe less (aircraft) deliveries and maybe [more] retirements. The turnaround could be underway already. The anecdotal evidence is that it has started, but it is not yet evident in terms of yield."

In the meantime, the world's single biggest aviation market is dealing with the fact that a combination of thriving passenger traffic (5% plus) and scores of new aircraft had not produced substantial profits for the region's airlines.

"Large aircraft orders and deliveries in the Asia-Pacific to both full-service carriers and their low-cost rivals have resulted in capacity growth that is 1%-2% ahead of demand. This has forced price reductions, with a knock-on effect on balance sheets. Asia-Pacific carriers are operating close to break even and the LCCs are not much different," Herdman said.

The failure to meet acceptable profit targets – with a few notable exceptions - wasn't the only concern for the industry, the AAPA said. Airlines are frustrated by such issues as varying Passenger Rights legislation as well as the costs and the shortfalls of infrastructure and the public's shifting attitudes to airline safety.

Calling the shooting down of MH17 (on July 18), "a military failure", Herdman said the Assembly's board had passed a resolution that sought improved intelligence sharing for flights travelling over conflict zones. A robust, safe commercial aviation system required the sharing of information of where and when it is safe to fly, he said.

All Nippon Airways (ANA) president and chief executive, Osamu Shinobe, who chaired the Assembly, said in recent years the environment surrounding the sector had changed dramatically. "LCCs have been increasing. Middle Eastern carriers have been demanding more and more air rights. Airlines have been buying stakes in each other and alliances have been expanded," he said.

"Due to the nature of our business, airlines are directly exposed to environmental risks such as wars and disease. But ensuring safety and providing customers with a pleasant flight remain the mission of all airlines."

In this environment, it was critical the 16 member airlines of the AAPA worked together, Shinobe said. "According to forecasts, the market is set to grow. The task we Asia-Pacific airlines face will be immense. Under the umbrella of the AAPA, I hope that we will walk together to develop our airline business."

In his keynote address to the Assembly, the International Air Transport Association (IATA) director general and CEO, Tony Tyler, identified continuous safety enhancement, the availability of cost-efficient infrastructure and environmental responsibility as critical factors to ensure the Asia-Pacific realized the enormous economic and social benefits of air connectivity.

"It is no understatement to say that air connectivity underpins modern economies. Aviation and aviation-enabled tourism accounts for more than 24 million jobs and over $500 billion in economic activity across the Asia-Pacific. And that contribution has tremendous potential to grow," he said.

IATA forecasts some 3.3 billion passengers are expected to board flights this year, with that number predicted to increase to 7.3 billion by 2034. "By 2034, we expect nearly half of all air travel (some 2.9 billion journeys) will touch the Asia-Pacific (up from around 40% today), Tyler said.

"Over the next 20 years, the Asia-Pacific is forecast to account for about two-thirds of global growth. Aviation is an industry with tremendous potential and the Asia-Pacific is leading the industry's growth. But there will be challenges to become ever safer, to provide cost-efficient infrastructure and to ensure environmental responsibility," said Tyler.

Both he and Herdman stressed flying remains very safe. "On very rare occasions, accidents do happen. In 2013, there were 16 fatal accidents among 36.4 million commercial flights. And the two tragic accidents involving Malaysia Airlines this year are a sad reminder that safety is always a constant and ever-evolving challenge," said Tyler.

One development that has brought smiles to the faces of airline executives in recent weeks is the dramatic drop in the price of fuel, down almost 40% since June. However, Herdman said the reduced

"MH17 was a military failure. You are safe because governments enforce codes that say you don't shoot down commercial aircraft"

Andrew Herdman
Director general of the Association of Asia Pacific Airlines

price did not necessarily translate into larger profits. The decline helps airlines, he said. but "we'd actually welcome lower oil prices not so much as a windfall for the industry, but as an overall benefit".

Malaysia Airlines chief executive, Ahmad Jauhari Yahya, said. "Any saving on fuel is greatly welcomed. But Andy is right. We are still subject to market competition and you have to manage fares. For airlines it's all about getting the most efficient operation out of the aircraft you fly. "Fuel is always going to be a cost and it's how you can manage that cost. Some airlines have gone into hedging, some have not. Ultimately, fuel efficiency is something every airline needs to deal with, either through new technology, new aircraft or just the way you fly."

Cathay Pacific Airways chief operating officer, Rupert Hogg, said fuel was 40% of Cathay's operating costs. "We need efficient aircraft. We hedge as insurance because the one scenario we can't have is our operating costs going up. We are quite well hedged," he said.

"We take the view low fuel costs are a good thing, basically because they put more disposable income in peoples' pockets. It's less of a tax on the economy and that means there is more inclination for people to fly."

"AAPA carriers operate in a highly competitive environment and are experiencing pressure on profitability," said Herdman. "Still, a lot could be done to improve the regulatory framework for the industry.

"Unfortunately, some governments still have little regard for the burdens that poorly-conceived policies place on the air transport industry. Unjustified taxes and regulations negatively impact the travelling public by making air travel less affordable. Excessive regulation is also

Governments must share information on safe flying

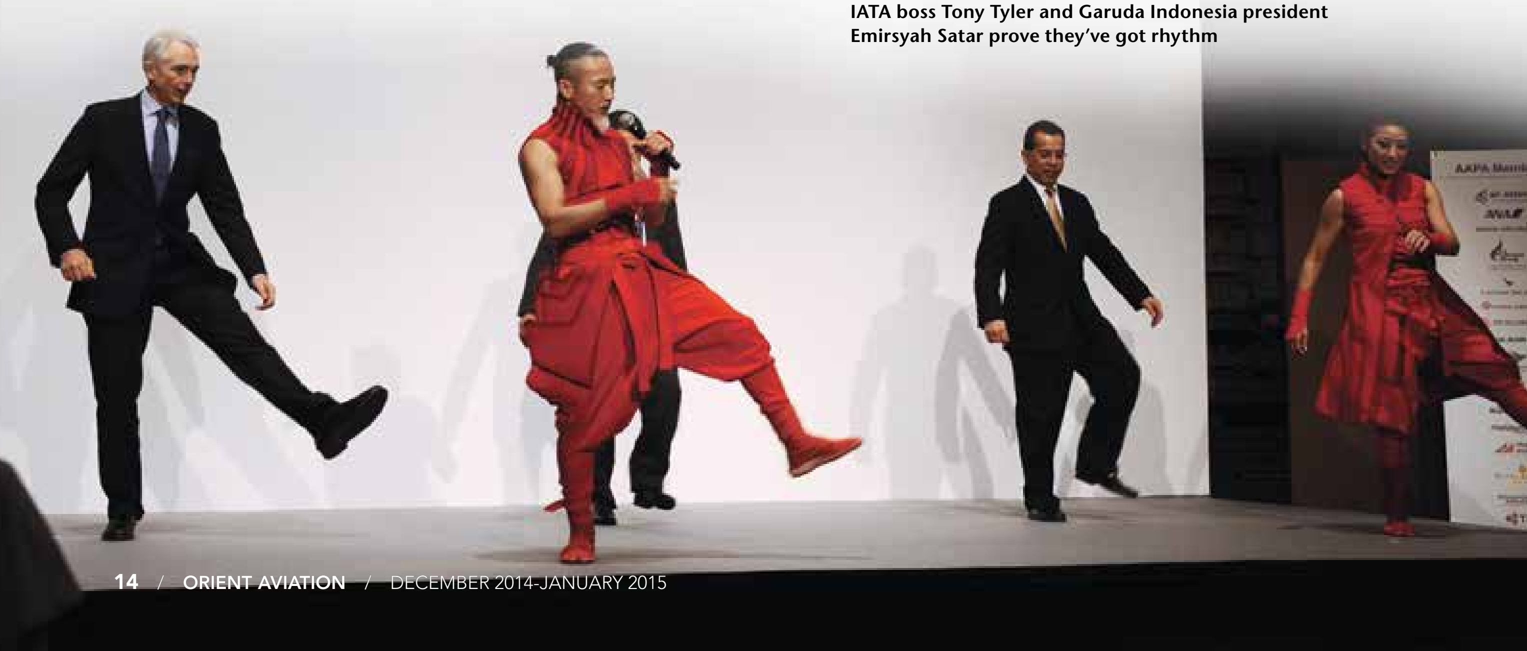
The director geneal of the Association of Asia-Pacific Airlines, Andrew Herdman, said the Assembly's board had passed a resolution that sought improved intelligence sharing for flights travelling over conflict zones. A robust, safe commercial aviation system required the sharing of information of where and when it is safe to fly, he said.

"But trying to explain that need for diversity of information sharing (to governments) is difficult. How it should be done and if it should be centralized is still under discussion. The strength of the system is that it is a shared system and it is robust," he said. An ICAO-led task force was set up after MH17, combining state and industry experts worldwide, to look at airspace security issues and how to improve information sharing.

"MH17 was a military failure. You stay safe because governments enforce codes that say you don't shoot down commercial aircraft. I can think of just four times that this has happened, but when it happens it's a catastrophe and it's avoidable. But this is a military challenge," said Herdman.

Airlines must be able to make their own individual assessments on where and when to fly within the constraints applied by governments. It was essential, therefore, for information on potentially unsafe routes or areas to be shared and declared, he said.

IATA boss Tony Tyler and Garuda Indonesia president Emirsyah Satar prove they've got rhythm




CATHAY PACIFIC CARGO

a disincentive to innovation by the airlines."

He also criticized "a series of uncoordinated and reactive restrictions" introduced by governments in the face of a perceived health pandemic threat from the Ebola virus. Many still remember the disastrous H1N1 Influenza pandemic of 2009, which saw empty aircraft flying the region's skies, he said. The Ebola outbreak "has not had an impact on airlines in the region", but the AAPA and other global airline bodies want more consultation with the World Health Organization (WHO).

This should include a "focus on outbound screening" from the departure airport, rather than inbound screening at destinations. Herdman advised governments to "seriously consider" the implications of potentially disruptive travel advisories.

As for making more money, AAPA airline chiefs agreed an early return to profitability is a priority. Herdman said airlines are reviewing their fleet and network development plans, whilst maintaining a tight rein on costs to restore profitability.

"On a more positive note, after many years of stagnant market conditions, air cargo volumes are picking up, which is news welcomed by Asian airlines as air freight accounts for 38% of the global air cargo market," Herdman said. ■

Region's LCCs morphing into hybrids of premium carriers?

Taiwan's China Airlines may have become the region's latest full-service carrier to enter the budget sector with Tigerair Taiwan, a joint-venture with Singapore's Tigerair, but the lone standout in the no-frills subsidiary stakes, Hong Kong's Cathay Pacific Airways, is standing firm. It definitely won't be getting involved with an LCC, says the carrier's chief operating officer, Rupert Hogg.

Besides, he argued, there are so many different business models, or hybrids, that the tag "low-cost carrier" no longer fits. It's a view many airline chiefs hold.

Hogg, a member of the airline executive panel at the 58th Association of Asia-Pacific Airlines annual Assembly of Presidents, said Cathay Pacific had analysed the model and asked: is this a long-term profit-making sustainable model and, even if it is, does it suit my environment?

"When we looked at this model and many people cleverer than us have studied it, it seems to me it has developed in Asia very differently to the way it has in Europe and America. The most successful ones in Europe, such as Ryanair and EasyJet, operate standard narrow-body aircraft, basically linking points that weren't linked into hub systems. They also weren't flying against full-service airlines. Instead, they were flying single-aisle aircraft against single-aisle aircraft on relatively short stages," he said.

"Fast forward to what's happened in this region and to me, it is by and large a bit different. One consultancy pointed out that despite the low-cost phenomenon in the region there are no two international city pairs operated by a low-cost carrier that aren't already served by a legacy carrier.

"What Cathay believes is happening, and what is already happening in Europe, is LCCs set themselves a ticket price ceiling because they have one product for which the passenger is willing to pay so much. But then they will go onto a full service carrier.

"So, if your cost base starts to inflate and you have to start buying aircraft to replace aircraft, you have salary inflation in your pilot community or whatever it might be. Then you need to find a way of generating more revenue from the same airframe.

"You can see it happening now. You can see people connecting over hubs that have the ability to check in all the way through, including to business class. The current name is hybrid and that looks to us to be pretty similar to what we look like.

"So maybe the only difference between a full service carrier and a low-cost carrier is time. If that's the case, then ultimately all the capacity they put on and all the frequency they put on will morph into something that looks much more like Cathay Pacific than it does now.

"So, in the face of that, we have no intention really of moderating the growth of our network. We will continue as we are."

Hogg said that many of the airports where the impact of the huge traffic growth is likely to be felt are already pretty full. "It's not that the demand is not there, it's how you are going to accommodate it," he said.

"Really, we are not convinced that long-term, [the budget model] is the right model for us. We are convinced that if we get our own model right and keep focusing on what customers are prepared to pay, then that's the best way forward for us," he said. ■

"Maybe the only difference between a full service carrier and low-cost carrier is time"

Rupert Hogg
Chief Operating Officer, Cathay Pacific Airways

Starting over at MAS

It has been the worst year imaginable for Malaysia Airlines (MAS) chief executive, Ahmad Jauhari Yahya, and his airline. But he made it clear at the recent annual assembly of the Association of Asia Pacific Airlines (AAPA) that the carrier will survive this year of tragedy and financial stress. *Tom Ballantyne* reports from Tokyo.

Corporate introspection has been the name of the game at Malaysian Airlines (MAS) this year. Said the carrier's CEO, Ahmad Jauhari Yahya, at a leading industry gathering in November: "the incidents we had in 2014 caused us to take a very hard look at what we are doing, what we did in past years and what we need to do as we move forward."

Speaking as a member of the airline executive panel at the AAPA Assembly of Presidents in Tokyo, he continued: "We don't just have two competitors on many of the routes we fly, but five or six. So it puts a lot of pressure on you as an organization, especially an organization that has been around for 40 years. A lot of that has to be revised in order to meet new challenges."

MAS is now in the process of becoming wholly-owned by Malaysian government sovereign wealth fund, Khazanah Nasional, and will soon be de-listed from the nation's stock exchange. The flag carrier is undertaking a major restructuring that will be supported by a $1.4 billion capital injection from the government backed fund. Some 6,000 jobs, or 30% of MAS's workforce, will be depart from the airline. There will be a major adjustment of its fleet and network which will be underpinned by a new focus on regional flying.

MAS CEO, Ahmad Jauhari Yahya: MAS must meet the new challenges

At press time, MAS confirmed industry rumours that the CEO of Aer Lingus, Christoph Mueller, is the man the airline wanted for the job. Mueller's contract with the Irish airline expires next year and Mueller has announced he will be moving on. He will be MAS CEO-designate from January 1.

In the meantime, Yahya is tackling the enormous challenges that confront an airline in a Southeast Asian market that has altered irrevocably in the last decade. The region has become one of the world's most competitive airline arenas as both rapidly expanding budget carriers and increased legacy carrier competition from the Gulf and Europe vie for passenger business.

"How do you cope with the barrage of LCCs coming through KLIA? We just have to respond on equal terms. Operating out of Kuala Lumpur is probably one of the best run low-cost airlines in the region (AirAsia). We have no choice but to respond," he said.

The MAS CEO said competition from the Gulf carriers and budget airlines has put a lot of pressure on the carrier's costs. But what was "more important was customer behavior". "Customers who like to fly with us have evolved. We have growth of 5% to 10% a year, but that growth is not necessarily on the premium side.

"Growth is in the value side. How do you address that? We have been a bit slow and we just need to move faster," he said.

With his airline headquartered in Kuala Lumpur, the heart of the LCC explosion, Yahya agreed with one of the main themes of the Tokyo gathering: that the lines had blurred between full-service airlines and LCCs, or hybrids.

"I do see a strong blurring between low cost and premium. Low-cost is trying to act like premium and premium is trying to act like low-cost.

"We are also are talking [at least] to our own government to ensure they provide us with the necessary infrastructure to compete on an equal basis," he said.

"An airline is an airline. The government can't differentiate. It can't decide an airline is a low-cost carrier and provide it with beneficial charges. That's a debate that's going on right now."

With MH370 still to be found after it disappeared on March 8 this year, MAS is attempting to rebuild its market in China as many of the passengers aboard the lost aircraft were from the Mainland. Yahya said the business in China had contributed "some 10% of the airline's revenue" before the MH370 loss. This business stream was almost completely wiped out after MH370 went missing.

"Only time allows us to actually move on after these incidents. There are pockets of recovery, but all in all we are still down on traffic in China," he said.

As for the coming year, Yahya forecast that the major challenge would be "to consolidate and then look at strengthening what MAS does well while dealing with rivals' greater penetration of the region's market. "We do expect more capacity will be thrown in the mix from the U.S. and the Gulf," he said. ■

Infrastructure "headache"

Aviation leaders at the region's premier airline gathering once again highlighted the fact that the shortfall in infrastructure development across the Asia-Pacific is hindering growth and costing airlines money.

Garuda Indonesia's Emirsyah Satar: a study by his airline revealed the carrier spent US$34 million a year on fuel "just queuing and flying around"

He stopped short of calling it a crisis, but the director general of the region's leading airline body repeated that airline infrastructure remains a major problem for Asia-Pacific airlines as they surge in growth. It remains a "big headache" said the Association of Asia-Pacific Airlines' (AAPA), Andrew Herdman.

Airlines executives at the AAPA's annual Assembly of Presidents, this year hosted by All Nippon Airways in Tokyo, agreed their airlines faced restrained market access as infrastructure failed to keep pace with growth. Delegates heard that airways congestion, too few runways, bulging terminals and ATM clearance restrictions were not being sufficiently resolved by governments and their stakeholders and remained a problem of priority for carriers.

President of Garuda Indonesia, Emirsyah Satar, whose Jakarta headquartered airline operates from one of the most congested airports in the world, said the Jakarta facilities were limiting the carrier's growth.

"Unfortunately, passenger growth exceeds infrastructure growth, so it is costing us," he said. "We did a study last year to determine how much more fuel we burn because of congestion. At the time, it was costing us US$34 million a year for additional fuel because of queuing and flying around. And that was only us."

The Garuda president, who announced the 2015 AAPA Asssembly of Presidents would be held in Bali, said the airline and its stakeholders were examining the option of building their own facilities, particularly because of the high charges, which continue to increase, imposed by some airport operators.

It is not all gloom and doom, however. Satar said Indonesia's recently elected government was focused on building infrastructure. "We always have to be optimists. They have already managed to increase the number of take-offs and landings at Jakarta from 66 to 72 by changing the system and investing in new equipment. We expect that target to increase by another 10% to 15% without building new runways. But yes, the current situation does give us inefficiencies," he said.

Cathay Pacific Airways chief operating officer, Rupert Hogg, pointed out that congestion was not only happening in Hong Kong, but in many other of the airline's destinations. "It is a problem for us. We have a plan that will give us the growth we need in the next ten years," he said.

"We have bought a lot of long-haul aircraft because we want to keep building the network by frequency and destination. So, we will have to start trading slots around our portfolio of slots - if you like - to ensure we grow the way we want to grow. We always work with the relevant authorities to see how we can improve things."

At an Assembly media briefing, Herdman said new facilities are being built, but rarely fast enough for an industry which is growing at a rate of 5% annually. In some countries with up to 10% growth, such as China, infrastructure development needs to double every six years to simply keep pace with airline expansion. These "doubling periods" mean that when airports open they are operating at full capacity, he said. Herdman identified Indonesia, particularly Jakarta, the Philippines, India and Hong Kong as "trouble spots".

The AAPA is pressing governments to act more as regulators and planners rather than owners and architects. "We need to call on the regulators. Government has a role to play, even if it is not financing," he said. ■

Skymark and JAL to code share?

By North Asia correspondent, Geoffrey Tudor, in Tokyo

Demonstrating determination to survive despite the forced cancellation of its A380 order, Japan's Skymark Airlines has sought regulatory approval to commence some domestic codeshare flights with Japan Airlines (JAL) in 2015.

At press time, Skymark president, Shinichi Nishikubo, said in Tokyo that his airline, the third largest in Japan, aims to commence codeshares next February with JAL on 36 return services from Tokyo Haneda airport to Shinchitose, Kobe, Fukuoka, Kagoshima and Naha.

Nishikubo emphasised to media, when the proposed codeshares were announced, that the deal was only a trade between the two airlines and should not be construed as an intention by Skymark to secure funding support from JAL.

Regulators must decide if it is appropriate to allow JAL, which received public funds for its business reconstruction, to expand its operations by code-sharing with another airline.

Skymark is reported to be offering 20% of its seats for the code-share, which Nishikubo estimated would improve seat utilization of Skymark ticket sales, by a forecast eight billion yen a year.

If approved, JAL will be able to offer more frequency on major routes, for example, Haneda-Shinchitose and Haneda-Fukuoka, where it is currently outnumbered by its arch rival, All Nippon Airways (ANA). Skymark also will offer JAL available cargo space on the code-share flights.

For fiscal 2014-2015, Skymark forecast it will lose a record 13.6 billion yen, so improving profitability is a priority. The airline pulled out of Narita in October and Nishikubo said the company is considering withdrawing from more routes once it analyses its average load factor at the time of its 2015 interim results.

Skymark Airlines: nearing deal over cancelled A380 order?

Skymark implied it also is making progress in its financial negotiations with Airbus following the manufacturer's cancellation of the Japanese carrier's order for five A380s earlier this year. Nishikubo said the two sides are working towards a compromise, but no final agreement has been reached.

The two parties have been in talks since October, with a hope of reaching a final settlement by year end. When Airbus announced the deal would not go ahead in July, unconfirmed reports said that the Toulouse headquartered manufacturer was seeking a cancellation penalty of up to 70 billion yen. In October, some media in Japan said the numbers were in the range of 20 to 23 billion yen.

When Orient Aviation asked about the progress of negotiations in November, Airbus Japan president, Stephane Ginoux, declined to comment.

If the negotiations fail, Skymark maintains there is a "material uncertainty" that the carrier, established in 1998, could stay in business.

Nevertheless Skymark, battered like all Japanese operators by a falling yen and increasing competition from Japanese low-cost carriers, is forging ahead with the introduction of its 271-seat A330-300 aircraft, configured with premium economy seating with 38 inch seat pitch, on trunk routes. And Airbus is still delivering new aircraft to the lessors supplying the airline.

According to results for October 31, which were the latest figures available, the A330s were operating on nine out of 10 daily round trip flights on the key Tokyo Haneda-Fukuoka route. By October 31, Skymark was flying the larger aircraft on one round-trip flight out of eight from Tokyo to Sapporo. The delivery of a fifth A330-300 to Skymark last month boosted Skymark's schedule to four A330 services out of eight.

On the Haneda-Fukuoka line, Skymark passengers increased by 13.6%, but capacity climbed by 32% following the introduction of the A330 on the route. Load factor declined from 80.5% to 69.3% for the month. On the Tokyo to Sapporo flights load factor dropped to 82.2%, from 86.4%, over the same month last year.

Skymark's first half results, to September 30, reflected the delay of nine months in the introduction of the A330-300s into Skymark's fleet. The carrier was unable to earn revenue to pay leasing fees and maintenance charges while the process of authorization dragged on.

Its first half net loss was 5.7 billion yen, compared with a previous 1.7 billion yen net profit. Until Skymark announced that it would lose 13.6 billion yen for the current fiscal year, its net profit forecast was 354 million yen to March 31, 2015.

As part of cost cuts announced after the A380 cancellation, Skymark pulled six domestic routes out of its network by October 31, including the shutdown of its Narita operations.

The carrier reported to a government finance bureau it will sell and lease back ground support equipment and two flight simulators. The asset disposal has raised 1.8 billion yen and eased pressure on cash flow. ■

FORGING A PACIFIC DESTINY

After a little more than three years in the airline industry, first as group general manager of Air New Zealand's international arm and then chief executive from January 2013, Christopher Luxon, the former Unilever high flyer, has built on the carrier's reputation as one of the region's most successful airlines.

Tom Ballantyne reports

PHOTO: BLOOMBERG

It has been a stellar year for Orient Aviation's 2014 Person of the Year, Christopher Luxon, and his team of "Air New Zealanders". After less than two years as Air New Zealand's (Air NZ) CEO, he has reported record profits for the Auckland headquartered carrier as his "Go Beyond" strategy propels the company to greater fiscal and service heights.

"I don't see that many challenges. I just see a lot of opportunities," Luxon said when *Orient Aviation* asked him what lies ahead for the carrier. "For us, it's a question of how fast we can secure them and get into them," he said.

He eschewed the view that New Zealand sits at the end of the earth, isolated from world markets. It is, he insisted, ideally placed to take full advantage of the fast growing markets that stretch all the way round the vast Pacific Ocean.

"Sitting in this Pacific Rim region, there are huge opportunities for us to offer the future massive middle class and rapidly urbanizing large countries around us a great tourism experience in New Zealand," he said, "as the power moves from the Atlantic to the Pacific."

"It's an opportunity for us. It's how we can develop markets quicker. It's how we identify what works and rapidly implement it across our network and the entire company. There is nothing out there in the big world that I think is particularly problematical for us and the macro environment," he said.

> I love the industry. I've been in the airline industry for just over three years and it's incredibly addictive. It's just an incredibly fun, challenging and stimulating industry to be part of. Infinitely more interesting than where I've come from, I think
>
> **Christopher Luxon**
> CEO Air New Zealand
> *Orient Aviation Person of the Year 2014*

Luxon's record of running the airline confirms his optimism. In the past year, he finalized a revenue sharing alliance with Singapore Airlines (SIA) that will commence next month. In November, Luxon signed a Letter of Intent with Beijing-based Air China for a similar deal that will give the carrier critical access to the Mainland Chinese market.

A B787 customer from get-go, the carrier recently took delivery of the first B787-9 to come off the production line. Its second and third aircraft of the type are scheduled to arrive in Auckland before Christmas.

To top it off, Air NZ reported a big lift in profit, record pre-tax earnings of NZ$332 million (US$262 million) for its 2013-2014 financial year, to June 30, representing meaty growth of 30% over the previous year.

It was the carrier's third straight year of strong earnings growth, underscoring why Air NZ is one of only four airlines in the world to have an investment-grade credit rating. During the year, it carried 13.7 million passengers, up 2.5% over the previous 12 months, with an average load factor of 84.1%.

So, what are Luxon's secrets of success? Right off, he does not take the credit for the good news. "First of all, we have very good foundations in the business. They have been built over a long period of time, certainly by Ralph Norris and then Rob Fyfe (his predecessors as CEOs at the airline).

A year ago Luxon explained that corporate heritage. "We have had a series of CEOs over the last decade that have come from outside the industry. With that comes a lot of provocation about why we can't do things differently," he said.

"So, we have good levels of customer centricity, good reputation, and a very open and innovative culture in the business. We would describe ourselves as being a really good company. We want to become a truly world class, great company."

Great companies, Luxon said, whether airlines or those in other industry sectors, can deliver superior commercial results and enhance the customer experience while continuing to build and develop their people.

"For us, success at Air New Zealand is very much multi-dimensional, but centred around three core tenets: commercial, customer and culture. We see those things often in tension with each other, but they are actually very interdependent.

"We fundamentally believe if we've got highly positively engaged staff, we will have happy customers. If we have happy customers we have a strong business. Likewise, if we can generate good economic returns and cash flows as we've been doing, that's enabling us to rapidly enhance the customer experience. We are investing a lot more in the development of our people and our leadership skills."

The driving force behind greater success for Air NZ is the company's Go Beyond strategy, implemented two years ago. Its first tranche focuses on the customer experience and incorporating the values of the brand. It identifies what customers value and what could be new sources of revenue.

The second major tenet of the strategy "is built around market place execution and realizing that if we are going to be focused around the Pacific Rim, that is a huge opportunity for us in Asia, the Americas and Australasia", said Luxon.

"We want to be with the right partners, in the right markets and with the right execution. A lot of that has been about alliances and how we build our alliance network.

"The third big thrust for us is to be fighting fit. How do we make sure we're safety first? How do we ensure a seamless journey? How do we strip out cost and complexity in the business that is not adding value and for which our customers do not want to pay?"

The final element of the Go Beyond strategy is building

a winning team. "I fundamentally believe everything can be copied about our business except our people. That's the one difference maker. How do we get a differential effort from our people through better leadership?" Luxon said.

"We've learnt a lot about the culture of an organization. Eighty per cent of it is shaped by the actions of leaders. So, if I can invest more in people and our leadership potential that is important."

Go Beyond has been quite critical for the business, Luxon said. "We don't want to rest on our laurels and say: 'aren't we a great business?'. We need to reframe the business and give it new ambition and new aspiration. Go Beyond has huge traction for us."

Interestingly, Luxon said Go Beyond is not just about Air New Zealand. "For us, at the heart of our Go Beyond strategy, we have what we call our significance goal. We want to help supercharge New Zealand's success as a country economically, socially and environmentally.

"We feel a real responsibility to help our country succeed and we take that really seriously. Our people understand they are ambassadors for New Zealand. We have a mission and purpose to the business that's bigger than just making money."

Nevertheless, profits are obviously important. Luxon outlined to Orient Aviation the carrier's "success goal", which is about doubling the airline's profits.

"In the last two years, we have doubled profitability. We are on the right track. We need to improve profitability to afford our big fleet investments. We have $2.2 billion (of aircraft) coming in the next four years," he said.

"We have $50 million in lounge developments this year. We have a lot of IT systems and technology applications to be rolled out. And we have a big investment in customer service training as well. None of this is possible if we don't get that economic engine moving right."

On the operational front, the airline has developed a strong portfolio of alliance partners. Apart from its Star Alliance membership, its deepened relationship with Singapore Airlines (SIA) will result in Air NZ flying to Singapore for the first time since 2006, using a refurbished B777-200. The expanded partnership will open up 58 new destinations for Air NZ through SIA and Singapore to Southeast Asia, Europe and India.

Negotiations to conclude a similar deal with Air China are expected to be finalized early next year and then submitted for regulatory approval. The proposed alliance will see Air China operate a new direct Beijing-Auckland route in addition to Air New Zealand's existing Shanghai-Auckland service. Along with its alliance with Cathay Pacific Airways, the Air China partnership will enhance the airline's presence in Greater China.

The carrier also has alliances with All Nippon Airlines, United Airlines and Air Canada.

Its 25% equity in Virgin Australia provides network coverage across Australasia. Luxon serves on the Virgin Australia board.

He described the pending deal with Air China as "a really exciting thing" because the two countries have a special relationship. New Zealand was the first nation to recognize China in the World Trade Organization (WTO) and the first country to receive approved destination status from China. New Zealand sealed its first free trade agreement with Beijing six years ago.

Cost discipline

"There's a lot to do around good cost control. It's a mindset of saying: 'if we spend money in this space is that going to add value to the customer, will they ultimately value it and will they be prepared to pay more for it? Equally, let's strip out the cost of complexity."

He has brought in a new capability around Lean Six Sigma (a methodology that relies on a collaborative team effort to improve performance by systematically removing waste), continuous improvement tools, strategic rendering and partnering and procurement. "That is having huge advantages for us. We are trying constantly to recover our CPI increases, our costs, each and every year through more productivity, more efficiency.

"That's been great as we've been growing the company. That's expanding the profit, expanding the cash flow and expanding our investment grading, that is freeing up our ability to pay dividends which we have done for the last decade, but we've continually increased over the last few years," he said.

"All of that is throwing up the profits to plough straight back into the company to afford the fleet, the lounges, investment for technology and other things. We want to make sure that in this part of the cycle we are as strong as we can be and we are making sure we go on being strong in five, ten, fifteen years from now."

"We have a long history of working with China. It's been a very successful one, to the point where China is our biggest trading partner and our second biggest source of foreign visitors after Australia," said Luxon.

There are likely to be more alliances. "We are very interested in opening up South America. Really the big opportunity is about South America. We are looking very closely at it," he said.

The carrier's fleet plan is rapidly coming together, with the arrival of the B787-9s bringing new levels of economy to fleet operations. After the third Dreamliner arrives this month, there will be seven more to come.

The first B787-9 is flying between New Zealand and Perth, with occasional services to Sydney and other eastern Australian seaboard cities. The second Dreamliner began flying to Shanghai from Auckland on November 4. The third will operate on the Auckland-Tokyo route.

"The -9 is performing incredibly well for us. It's a fantastic aircraft. We had high expectations for it and it's performing slightly higher than we even thought it would," said Luxon.

Air NZ has a jet fleet of 49 aircraft (50 with the B787-9's arrival this month). It comprises 23 A320s for domestic and regional flying, 4 B737s, 5 B767s, 8 B777-200ERs and 7 B777-300ERs, along with the B787s. It has ordered 5 A320s and 13 A321neos.

"Our big challenge with our wide-body fleet has been consistency. I'm sure it's a challenge for many airlines, but we had such an odd, inconsistent fleet. We were determined to put in place a fleet where the same product is available on every single aircraft," he said.

That product includes business class lie flat beds and an innovative premium economy class. The carrier's unique SkyCouch allows some economy cabin passengers, for a additional charge, to convert three economy seats into a lie flat bed. It is already on the B777-300s and the B787s. Some $120 million is being spent refurbishing the B777-200s to the same standard. AirNZ has licensed the product to China Airlines, who will fit it on their B777-200ERs.

"We will end up with a fleet of B777s and B787s, of one type rating with a lot of operational synergies and efficiencies, but very good fuel burn and a very good customer experience. That's the end game we talk about achieving," Luxon said.

The fuel view

Luxon said the recent drop in the oil price is of assistance, but some of these gains have been cancelled out by a devaluation of the NZ$ against the US$. "We have a very good hedging policy," he said. "And to be honest, unlike many airlines, we don't get that obsessed by it. It's a good situation to be in, but I think there has been an over-reliance by airlines on building their business around fluctuating fuel prices.

"We put together our business plan each year assuming fuel will be at $125-$127 per barrel and then we cut our cloth - our business - so we can assume that is a reality. For me, the bigger issue is that it gives people false security. They believe they are running a good business because they get a windfall benefit of fuel.

"I'm more interested in the underlying economics and the health of the business rather than the benefit received from a lower commodity fuel price. Lower fuel prices will spur the global economy. My observation is airlines get lazy and complacent when fuel goes low and don't do the work on their businesses. In fact, that's the time to do work to ensure you are fit for when it goes high again."

Amidst all of this, he keeps a keen eye on the carrier's cost base. Its unit costs have been coming down because the airline has adopted a constant cost reduction programme, benchmarking itself against the best-in-class low-cost carriers. The idea is to work on continuous improvement rather than having blueprint cost control programmes.

"Coming from outside the airline industry, I would say cost control is something that airlines in general do quite poorly relative to other industries. Our view has been that in many ways people in the airline industry would like to blame macroeconomics for our issues and the performance of our businesses," he said.

Luxon has no regrets about ending his long career at Unilever, where he was president of Unilever Canada, based in Toronto, and was responsible for leading that company's $1.4 billion Canadian business and 1,500 employees. He was also a key member of Unilever's North American Leadership Team. ■

ORIENT AVIATION WILL PRESENT MR LUXON WITH HIS 2014 ORIENT AVIATION PERSON OF THE YEAR AWARD AT A GALA RECEPTION AT THE AUCKLAND ART GALLERY IN JANUARY.

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THE GOOD NEWS IS COMING

OVERVIEW

Until the final months the year, 2014 was not substantially different from the previous twelve months for the region's extremely competitive airlines. The main issues were over-capacity – producing low yields and a flat trajectory for Asia-Pacific air cargo.

Airlines continued to cement relationships with the right partners in the search for more business in the world's fastest growing passenger market. They were reaping the benefits of aircraft, tho often delayed in delivery and with faults (e.g. lithium battery malfunctions), that are more fuel efficient and fly further.

At the same time, they had to manage the challenges of countries in political conflict, regions of economic weakness, wide currency fluctuations and demands for better security and safety systems after MH370 exposed gaps in the world's current aircraft tracking system.

Then two non-predictive factors entered the profit forecast equation. In the last quarter of the year, the air freight recovery demonstrated it truly had legs and the oil price dropped to its lowest level in four years.

At press time, the International Air Transport Association (IATA) said consumers will benefit substantially from oil's near 40% price collapse in the past six months, with an average of 5.1% cheaper fares and lower cargo rates.

IATA said Asia-Pacific carriers should improve on their forecast 2014 year profit of US$3.5 billion by US$1.5 billion in 2015. The general global recovery and some strengthening in the region's critically important cargo sector will drive this moderate improvement, IATA said.

In the meantime, the performance of Asia-Pacific airlines has been patchy, with the exception of a few full-service carriers, a clutch of budget airlines and the expansionary behemoth known as the Gulf airlines reporting substantial profits during the year.

Air New Zealand, reported an annual profit of US$262 million for its June 30 fiscal year. In Hong Kong, Cathay Pacific Airways announced a US$45 million profit for the 12 months to March 31 and both Japan Airlines and innovative All Nippon Airways reported profits.

Most of the region's low-cost carriers (LCCs) announced bad news, usually substantial losses, to their shareholders, often for the first time since 2008. Among the losers were AirAsia X, the long-haul arm of Malaysia's AirAsia Group, the repositioned Tigerair group, most of the Qantas Group's Jetstar subsidiaries, Air India and all of India's LLCs except successful Indigo, Thailand's NokAir, budget carriers associated with the Lion Air Group and Citilink, Garuda Indonesia's low-fare arm.

Some other airlines continued their terminal decline: Merpati Nusantara Airlines has not flown since February and the shareholders of India's grounded Kingfisher Airlines owe more than US$1 billion to creditors, including aircraft manufacturers and lessors.

However Qantas, after reporting a net full year loss, to June 30, of more than US$2 billion, appears to be on the mend, with CEO Alan Joyce's December announcement that the flag carrier is on track to report an interim profit of between US$260 million and US$300 million.

In this improved but highly volatile environment, India's civil aviation authorities have approved applications for six airlines: full service carriers Air One and Premier Air and LCCs Zexus Air, Turbo Megha, Air Carnival and Zav Airways. Approval earlier in the year was granted to the Tata-Singapore Airlines joint venture, full-service carrier Vistara.

In December, Airbus forecast China will become the world's No. 1 domestic market in the next decade and that the country will need 5,300 new airplanes, or 17% of the global market, by 2033. At the beginning of 2014, there were 47 LCCs flyng in the Asia-Pacific. By the end of the December, the budget fleet is set to hit 60 airlines.

Against this dynamic background, airlines have seen the work of IATA, ICAO, the AAPA and CANSO make significant progress towards achieving carbon neutral growth by 2020 and imbedding better systems for tracking, travel security, safety and in-cabin communications.

Airbus has introduced the revolutionary A350XWB to the world, the A330neo will be built and the B787-9 has received positive acclamation, including from launch airline, Air New Zealand.

Not a bad year at all. ■

The year of the turnaround chief

PEOPLE

Life at the top of the region's airlines was generally stable in 2014, with a few notable exceptions. Airlines that have endured the deepest traumas in the last year also were the carriers that suffered upheaval at the top. In mid-December, Thai Airways International (THAI) finally confirmed a new president, Charamporn Jotikasthira, a former president of the Stock Exchange of Thailand (SET) and highly regarded IT innovator. He arrived at THAI almost 12 months to the day of the decision by the last president, Sorajak Kasemsuvan, to resign "for health reasons".

During the 12-month leadership vacuum, which spanned extended political unrest in Bangkok and a military coup in May, two acting presidents failed to stem the carrier's financial losing streak. The new president, a Massachusetts Institute of Technology graduate in electrical engineering and computer science, is credited with tripling the turnover of SET during his tenure. Analysts attribute THAI's poor performance to tourist's general lack of confidence in Thailand as a safe haven leisure destination and the costs of maintaining a bloated work force.

At Malaysia Airlines (MAS), the incumbent managing director, Ahmad Jauhari Yahya, has endured months of critical media coverage about MAS's management of the losses of MH370 and MH17. Despite the speculation, the university trained engineer and iron man competitor will remain with the airline during the transition to his recently announced successor, Christoph Mueller, who turned around Aer Lingus.

At TransAsia Airways, a Taiwanese carrier that was enjoying a feisty revival, the airline's president, Chooi Yee-chong, resigned in the aftermath of a July crash that killed 48 people. Chooi had tendered his resignation before the crash but stayed on to assist the families of passengers who had lost their lives. Fred Wu was appointed acting president.

Some familiar faces also returned to airline's executive offices and boardrooms in 2014, with octogenarian Lucio Tan taking the prize for the most emotional buyout of the year. Tan retook full control of Philippine Airlines (PAL) in September, following his sale of 49% of the airline to San Miguel Brewery two years earlier. "Like many of you, this is where I belong," he told staff. "I love PAL and PAL loves me back." Popular Jaime Bautista, the airline's former president, is revamping PAL's fleet and strategy since accepting Tan's offer of rejoining PAL as general manager.

Giovanni Bisignani, who retired as director general and CEO of the International Air Transport Association in 2011, after a decade leading the association, has also come back home – as a non-executive director of the "new" Alitalia. Bisignani, who has a many a tale to tell about the "old" Alitalia has served as a CEO of the Italian carrier.

In March, Ivan Chu, the airline's former chief operating officer, succeeded John Slosar as chief executive of Cathay Pacific Airways, only the second Hong Konger to run the carrier in its 68-year history. Slosar is chairman of the carrier as part of his remit as chairman of John Swire and Sons and the group's trading, property and engineering arms. The scholarly Chris Pratt, Slosar's predecessor, took himself off to London for 12 months of the student life.

Etihad Airways boss, James Hogan, announced several appointments across the region as he used his influential equity in Jet Airways and Alitalia to revitalize the C-suite line up of the carriers. Australian Cramer Ball, formerly in charge of Air Seychelles and an Etihad veteran, took the top job at Jet, while three former Etihad executives, Duncan Naysmith, Aubrey Tiedt and John Shepley are CFO, chief customer officer and chief planning and strategy officer respectively moved to Alitalia. ■

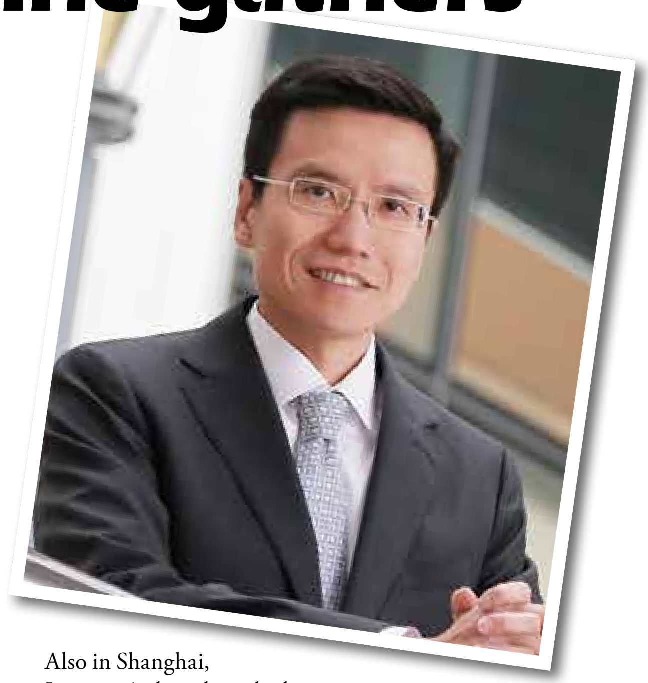

John Slosar


Christoph Mueller


Lucio Tan


James Hogan

Growth engine gathers momentum



CHINA

China's slowing economy dampened the mood of the region's airline industry in the past year as carriers grew increasingly concerned that a primary driver of its growth might slow expansion. They needn't have worried.

Realists recognized China's double digit growth had to slow. Said Ivan Chu, the chief executive of Cathay Pacific Airways when he spoke to *Orient Aviation* earlier this year: "the economy is still vibrant. The fact that it is not growing in double digits does not worry me. It is still expanding at 7% a year. For us, the Cathay story is going forward with the China story."

Neither were the Mainland airlines deterred in their plans for expansion. The "Big Three", Air China, China Southern Airlines and China Eastern Airlines, now being supported by Chinese aircraft lessors and their smaller rivals, are forecast to maintain an order book of 6,020 new aircraft by 2033.

As flight services continued to expand between China and Taiwan in 2014, China's large carriers were forging relationships with airlines across the region, of which the newest is the Air China-Air New Zealand partnership. Due to be approved early in 2015, the agreement will bring the New Zealand carrier to Beijing and increase direct traffic between the two countries rather than having the majority of visitors arrive via Australia.

Late in 2013, Beijing announced a significant policy shift that quickly had an impact in 2014. The government announced it would encourage the establishment of more budget carriers by removing price caps on domestic fares and lowering the financial entry barriers for new LCCs. While the start-ups won't be granted easy access to the congested Beijing, Shanghai and Guangzhou hubs, the take up under the new rules has been swift.

China Eastern quickly turned one of its domestic subsidiaries, China United Airlines, into a no-frills airline.

> "The fact that it is not growing in double digits does not worry me. It is still expanding at 7% a year. For us, the Cathay story is going forward with the China story"
>
> **Ivan Chu**
> Chief Executive of Cathay Pacific Airways

Also in Shanghai, Juneyao Airlines launched its LCC, Jiuyan Air. A number of others are in the pipeline. In another first for Mainland airlines, successful LCC, Spring Airlines, received permission to set up a new subsidiary in Japan.

Airlines weren't the only Chinese companies making waves in the aviation market place. The country's leasing industry is becoming a far more serious player in world markets as Chinese banks stepped up their focus on the leasing sector. While Chinese lessors control up to 80% of the aircraft leasing market in China, until now they had little impact offshore, but that changed in 2014. ICBC Leasing, a subsidiary of the Industrial and Commercial Bank of China, has enlarged its fleet six times, to some 380 aircraft, since it went into business.

And leasing subsidiaries of the remaining Chinese "Big Four" banks – CCB Financial Leasing Co. (Agricultural Bank of China), ABC Financial Leasing Co. (Agricultural Bank of China), and BOC Aviation (Bank of China), as well as CDB Leasing Company, China Aircraft Leasing and several other smaller lessors are seeking to invest beyond Mainland China, either by investing in established international lessors or buying a lessor's fleet outright.

Another significant development for the industry was the decision by the Civil Aviation Administration of China's (CAAC) to grant licences to global distribution systems (GDS), which will give them greater access to China's travel market.

Most importantly of all, whatever the prevailing economic conditions, it is abundantly clear that the Chinese government regards the aviation sector as critical to the nation's economic expansion. ■

MAS tragedies highlight gaps in airline tracking systems

SAFETY AND SECURITY

Following two of the safest years in commercial aviation, the events of 2014 brought into sharp relief the industry tenet that disaster can be seconds away - and not always as a result of operational error.

The twin tragedies of Malaysia Airlines' MH370's disappearance in March and the shooting down of MH17 five months later focused the global aviation industry's attention on gaps in its safety systems it had not realized existed.

In the case of MH370, it was the fact that a B777, equipped with groundbreaking technology, was not under constant surveillance by global satellite systems. With MH17, it was the discovery that commercial aircraft were flying over war zones where soldiers were equipped with sophisticated ground-to-air missiles that could, and were, shooting aircraft out of the sky - at 35,000 feet.

MH370 is presumed to have crashed, with 239 people on board, in the Indian Ocean. A deep sea search is still underway. On July 18, all 298 people aboard MH17, another B777, crashed out of the sky in the Ukraine after it was shot down, an act the director general of the Association of Asia-Pacific Airlines, Andrew Herdman, said was "a military failure".

Sir Tim Clark, president Emirates Airline: maintains doubts about the role of the Malaysian military in the disappearance of MH370

In the same week as the MH17 attack, 48 people died when an ATR-72 turboprop, operated by Taiwan's TransAsia Airlines on a domestic flight, crashed as it attempted to land during a thunder storm at one of the country's outlying islands.

After MH370 disappeared, the International Civil Aviation Organization (ICAO), along with International Air Transport Association (IATA) and other aviation partners, very quickly set up the Aircraft Tracking Task Force (ATTF) to examine more comprehensive tracking options for all operational commercial aircraft.

At press time, the ATTF was due to report on its recommendations.

Some airlines already have revised their tracking systems to ensure they know where all their aircraft are all the time. Major communications providers such as satellite operator, Inmarsat, and communications leader, SITA, are offering customers improved or new tracking systems.

Said Tony Tyler, director general and CEO of IATA, the ATTF will "examine all of the options available for tracking commercial aircraft against the parameters of implementation, investment, time and complexity to achieve the required coverage."

The issue, however, has not been without controversy. Emirates Airline president, Sir Timothy Clark, said in an interview in late November that he continues to have serious doubts about nearly all aspects of the near nine month search for MH370 and its passengers and crew.

"I think we will all know more if there is full transparency of everything that everybody knows. I do not believe the information held by some is on the table," he said.

"The B777 is already one of the most advanced planes in the world, with the most modern communications systems. It is already difficult to turn off current tracking systems such as transponders and the ACARS (Aircraft Communication Addressing and Reporting System)," he said earlier in the year. Even if it was disabled it would still send out weak signals and remain traceable, Clark said. Manufacturers should work to make them impossible to switch off. "We have to ensure that ACARS runs continuously. If that happens, then we can monitor planes over the seas, and then we wouldn't need extra tracking systems," he declared.

Clark also maintains doubts about the role of the Malaysian military, questioning the claim they identified MH370 as friendly when it suddenly reversed course. He said the fact they took no further action "was bizarre" and needed to be "looked at very carefully".

Following the shooting down of MH17, airlines rapidly re-routed their flights around danger zones such as the Ukraine and some Middle Eastern countries. The industry wants ICAO and individual national aviation authorities to dramatically improve communications and co-operation with airlines by informing them in detail of potential danger zones.

Indeed, the whole question of security and the demands various governments continue to make on airlines remains a running sore with the industry. Tyler has said many times, in both industry forums and in meetings with government regulators, that the prevailing one size fits all proscriptive model for aviation security was not sustainable. IATA maintains the position that airlines cannot accept 100% risk. If we don't evolve, the system will ground to a halt under its own weight, he predicted. ■

Fleet overload

LOW-COST CARRIERS

When it comes to the Asia-Pacific LLC sector in 2014, it's been too much, too soon. The breathtaking speed at which the region's low-cost carriers have been travelling hit a road bump in 2014 that has inflicted considerable damage on the sector. The examples of the pain are everywhere. The line of A320s, with their TigerAir tails, parked at a desert facility in Australia's Red Centre. The decision of Jetstar Asia to suspend growth plans until market conditions improve. And, most revealing of all, AirAsia, the region's biggest budget airline company, planning to defer some deliveries and focus on cost cuts across the group.

It's become clear that the Asia-Pacific's budget sector has grown too fast and that over-capacity is sapping revenue. Too many new seats are being thrown into the air so the inevitable has happened: fares go down, yields erode.

During the year, the capacity binge reverberated across the region, also straining full service carriers' revenue targets. Former Cathay Pacific Airways and British Airways chief executive, Rod Eddington, said in an industry speech in Australia, where he is now based, that Asia-Pacific airlines have endured tough periods in the past, usually because of external events such as the 1997 Asian financial crisis in 1997 or the outbreak of severe acute respiratory syndrome (SARS) in 2003.

"But this is different. This time it seems the problem has been precipitated by a lot of carriers buying a lot of aircraft and putting them into the market at the same time, particularly no-frills carriers," he said.

Despite this situation, existing airlines and newcomers alike appear keen to enter the budget market, no matter how loud the warning bells ring. At the beginning of the year, there were 47 LCCs, or variants of the model, in the region. As the year draws to a close, the number is approaching 60.

And while some LCCs have curtailed expansion, the airlines in the sector still started the year with a fleet of around 1,000 aircraft and 1,500 orders. If October's record order from India's Indigo for 250 A320s is taken into account plus hundreds more commitments by other Asia-Pacific no-frills operators, the order book will top the 2,000 by December 31.

According to consultancy, CAPA, Southeast Asia is the only region in the world where there are more planes on order than are in existing fleets. Of the world's 15 busiest low-cost international routes, nine are in Southeast Asia. The domestic markets of Indonesia, the Philippines and India are dominated by LCCs, with Thailand and Malaysia going the same way.

The situation has spelt trouble for some airlines. Jetstar Asia's difficulties have been well documented, including the long, costly and still to be decided attempt to set up Jetstar Hong Kong. Tigerair losses have seeped into investor, Singapore Airlines' (SIA) financials, to the company's detriment. Tigerair sold its Philippines offshoot to Cebu Pacific, as well as shutting down Tigerair Mandala in Indonesia and selling off the remaining 40% stake it had in Tigerair Australia to Virgin Australia – now the sole owner – for A$1.

To survive, it is to receive a cash injection, through a share issue, which could result in SIA owning up to 70% of the budget airline. On the other hand, the region's big low-cost players – AirAsia and its subsidiaries, Indonesia's Lion Air and Citilink and Cebu Pacific – are pressing ahead, convinced that the region's expanding demand for flying will redress the capacity imbalance.

A Hong Kong-based aviation analyst, Andrew Orchard, of CIMB, said LLCs have indicated they will reduce capacity by leasing aircraft due for delivery to them to other airlines. "But any measure they take will be quite temporary. I am not convinced they have altered their mindset. They are taking a wait-and-see approach, trying to be one of the survivors. The only way you can do that is build up your network.

"The biggest and fittest will survive and a few airlines will pull back or go under. I think it will happen over a number of years," he said. The savior, at least for some of the long-haul LLCs, such as SIA's Scoot and Jetstar, is the arrival of more fuel efficient aircraft, such as the B787 Dreamliner, in their fleets. Short-haul budget airlines also are looking forward to the economic benefits of a new narrow-bodies, the B737MAX and the A320neo.

Yet the entrepreneurial nature of those who run LCCs means the major players – and many of the minor ones – remain extremely optimistic about their futures, convinced that the present disruption to their progress is temporary. Azran Osman-Rani, chief executive of Malaysia's medium to long-haul - and unprofitable – LCC, AirAsia X, conceded competition is the most intense ever in Southeast Asia.

But he said it is "a short term, one to three-year crunch, before demand catches up to capacity. When you look at the situation in the context of population and economic development, then demand will very quickly catch up with this excess capacity". He said airlines need to hold their nerve during the capacity crunch. ■

LCCs take hold in Japan

Geoffrey Tudor reports

In only 33 months, Japan's commercial low-cost carrier (LCC) business has gone from zero to five budget operators with added competition for customers from regional LCCs whose passengers are keen travelers to Japan.

The naysayers said it could not be done. Budget carriers and high-cost Japan won't mix, they said. And they were partly right, but only partly.

So far, Kansai-based Peach, an All Nippon Airways (ANA affiliate and the airline that launched the LCC business in Japan), has been the sector's star performer with a strategy that eventually sees international flights bringing in up to two thirds of the airline's revenue. Not only was Peach the first LCC to fly in Japan, it was also the first budget airline to go into profit. In the fiscal year to March 31, it reported a net profit of 1.05 billion yen (US$8.88 million).

Peach's first flights took off from Kansai airport at the beginning of March, 2012, to Sapporo and Fukuoka, respectively. By May the following year, it had carried two million passengers and expanded its network to six domestic and three international routes.

During the peak summer holiday period in July and August this year, cockpit crew shortages forced Peach to make mass flight cancellations that are estimated to have cost the carrier three billion yen.

It operates 14 A320s, with six more of the type planned to be added to the fleet by year end in 2016. Peach said it intends to open a second base in Naha, Okinawa, to improve access and meet passenger demand for services to Southeast Asian destinations.

Jetstar Japan, a four partner venture whose principal shareholders are Japan Airlines (JAL) and the Qantas Group, announced an 11.1 billion yen loss for year to June 30, 2014. The Narita-based carrier has recorded a loss every year since it was launched in August 2012,

The major cause of Jetstar Japan's continuing deficit was the delay in opening its second hub, in Kansai, which has

Vanilla Air to fly daily between Narita and Tokyo from next month, with plans for a double daily service

now been approved. In early 2015, Jetstar Japan will be able start short to medium range international flights, which it had to delay until the Kansai base was approved. Until now, the LCC has concentrated on domestic flights. The young carrier is the fourth biggest airline in Japan after ANA, JAL and Skymark.

Another handicap for Jetstar Japan, and for any LCC based at Narita, is the airport's 23.00-06.00 daily flight curfew, which corrupts the LCC model of around the clock high aircraft utilization.

Total revenue has increased 2.27 times to 29.1 billion yen. When the Kansai hub is up and running, Jetstar Japan will be the first local LCC to operate from two bases.

The curiously named Vanilla, a 100% subsidiary of ANA, was launched last year after AirAsia pulled out of a joint venture LCC with ANA, AirAsia Japan. ANA bought out AirAsia and renamed the airline Vanilla.

Based at Narita, Vanilla made a modest start, so the market was surprised when it launched three times a week Narita-Hong Kong flights in November. Vanilla plans to go daily with the service from February next year and later increase the frequency to double daily.

Outbound traffic on the route has been sluggish, declining by 20%, from 1.2 million in 2012 to one million in 2013. Vanilla's president, Tomonori Ishii, thinks the new flights will increase traffic. Conversely, traffic from Hong Kong to Japan is "very strong", with recent growth of 20%.

Japan's fourth LCC, Spring Airlines Japan, launched services from Narita in early August with twice daily flights to Hiroshima and Saga and a daily round trip to Takamatsu. The new domestic airline is led by Shanghai-based Spring Airlines and minority Japanese investors.

The new airline, which is not linked to any Japanese carrier, has ambitious plans to launch international services in the 2015 North Atlantic Spring between Narita and up to 10 inland cities in China. Speaking to Japanese media in November, Spring Japan chairman, Wang Wei, said "Chinese tourists' potential demand for visiting Japan was extremely high".

"In comparison with Korea and other countries, the number of Chinese visitors to Japan is still small even though Japan's tourism resources are the richest among neighboring countries," he said, and added the carrier is studying the feasibility of routes from Chongqing and Wuhan to Narita.

"If at first you don't succeed, try again," is the attitude AirAsia Group managing director, Tony Fernandes, has adopted for Japan. Fernandes has forged links with new Japanese partners and hopes to relaunch a Japan-based LCC for domestic and international services by July next year. Mid this year, AirAsia announced it would will be entering into a Shareholders Agreement with four new partners to establish Mark 2 AirAsia Japan.

They are Octave Japan Infrastructure Fund I GK (Octave), internet travel and financial services company Rakuten Inc., Noevir Holdings Co. Ltd, whose main businesses include cosmetics, pharmaceuticals, apparel and aviation and Alpen Co. Ltd, a sporting goods manufacturer and retailer, to establish AirAsia Japan. The Mark 2 AirAsia Japan team is proceeding through the necessary regulatory approval process to launch as scheduled next year. ■

SHORTTAKES

AIRLINES: **Juneyao Airlines**' low-cost subsidiary, **Jiuyuan Airlines** postponed its inaugural flight from Guangzhou to Zhanjiang to early this month following approval of its routes application. It has 50 B737-800 and MAX aircraft on order. Thai long-haul budget start-up, **NokScoot**, has unveiled its livery, a combination of Nok Air's quirky bird beak with Scoot's yellow swoosh. **Vistara**, the Singapore Airlines – TATA Group start-up will commence operations next year after encountering delays in obtaining its Air Operator Permit from **India's Directorate General of Civil Aviation**.

CARGO: On December 3, **Qatar Airways Cargo** will launch a new three times weekly A330 freighter service between Doha and Guangzhou. China's largest privately owned express delivery company, **SF Express Co**, aims to more than double its freighter jet fleet from 36 to 100 by 2018.

CODESHARES: **All Nippon Airways** will add 15 additional **United Airlines** services from Chicago, Houston, Los Angeles and San Francisco to Mexico. **American Airlines** commenced a codeshare with **Jetstar Japan**, adding five of Jetstar's domestic routes out of **Tokyo Narita**. Subject to government approval, **Singapore Airlines** plans to add its 'SQ' code to **EVA Air's** services from Taipei to Los Angeles, San Francisco and New York starting this month. **Xiamen Airlines** has formalized its code share on **China Southern Airlines**' regional services from Guangzhou, including Bangkok, Jakarta, Ho Chi Minh City, Denpasar, Phuket and Singapore. **Myanmar Airways International (MAI)** and **Garuda Indonesia** will code share on Garuda Indonesia's services between Jakarta, Bangkok and Singapore and on MAI flights between Yangon, Bangkok and Singapore. MAI said it planned to sign a codeshare agreement with **Air France**. **JAL** will code share on **SriLankan's** four-weekly Tokyo (Narita) –Colombo service, as well as onward connections to Bangkok and Male. Meanwhile, SriLankan will add JAL's services from Tokyo (Narita) to Seoul's Incheon and Pusan, its domestic rotations from Tokyo (Narita) to Osaka (Itami) and Nagoya, and services from Osaka (Kansai) and Nagoya to Bangkok. **TAM Airlines** and **All Nippon Airways** will codeshare on five ANA domestic routes from Narita and four domestic routes from Haneda. **Qantas** has added its 'QF' designator to eight additional domestic **American Airlines** routes, three out of Dallas Forth-Worth and five out of Los Angeles.

FLEETS: **Boeing** has announced **Kuwait Airways** intends to purchase ten B777-300ER aircraft worth $3.3 billion at current list prices. The Everett-based manufacturer also has signed a Memorandum of Collaboration with **Air Mandalay** that will see it assist the Yangon-based carrier in procuring B737NG aircraft through leasing channels to support the airline's expansion plans. Thailand's "boutique" carrier, **Bangkok Airways**, has taken delivery of the first of nine 70-seat ATR 72-600s. Indonesia's **Lion Group** has ordered 40 additional ATR 72-600s in a deal worth more than $1 billion at current list prices, bringing the group's order log for the new generation turboprop to 100. Chinese start-up, **Ruili Airlines**, has received its first direct-purchase B737-700 aircraft as part of an order for 14 B737 aircraft. Ho Chi Minh-based **VietJet Air** has accepted delivery of the first A320 ordered directly from **Airbus** as part of a firm commitment for 63 A320 Family aircraft.

MANUFACTURERS: Using a B787, **Boeing** has begun flight testing more than 25 new technologies aimed at improving aviation's environmental performance through every phase of flight. **ATR** has obtained European Aviation Safety Agency certification for approach avionics developed for its ATR 42-600 and ATR 72-600 aircraft. **United Airlines** will be the launch customer for the first Dreamliner built at the North Charleston factory. Russia's Interstate Aviation Committee's Aviation Register has granted a Supplemental Type Certificate to **Sukhoi Civil Aircraft Co.** for its Sukhoi Superjet 100 to perform vertical navigation for all stages of flight.

INFLIGHT: **Japan Airlines (JAL)** has introduced a new variant of its B787-8 Dreamliner. The 161-seat configuration comprises 38 fully-flat business class seats, 35 premium economy and 88 economy seats and will debut on the Tokyo – Frankfurt and Tokyo – JFK routes this month and January 1, respectively. The **oneworld alliance** member will also introduce domestic first class on its B767-300 aircraft between Haneda and Osaka (Itami) from December 8.

ROUTES: **Air China's** B747-8 will make its international debut as a daily service between Beijing and New York's JFK from January 7. **China Eastern Airlines** will add a fourth daily B737-800 service on the Shanghai – Nagoya route from December 26. Finnair has added a weekly Helsinki – Ho Chi Minh City service, using two-class A330-300 aircraft. **HK Express** will increase frequency on the Hong Kong – Incheon A320 route from double daily to 18 times a week from February 5 and will increase its Hong Kong- Tokyo (Narita) schedule to 12 flights a week. **Jin Air** will also expand its Incheon – Hong Kong B737-800 service to 12 times a week in mid month. **Thai Airways International** postponed the introduction of the B787-8 on the Bangkok – Nagoya route by three weeks to December 21. **Xiamen Airlines** will introduce a daily Xiamen – Manila flights using B737-800s from February 8. Separately, the carrier is accelerating the retirement of its B777-200ER fleet with the last scheduled service of the aircraft type flown from Guangzhou to Beijing on December 7. **Emirates Airline** has added a third daily two-class B777-300ER Male flight from Dubai. **IndiGo** will introduce a daily Mumbai – Kozhikode and a daily Kozhikode – Dubai service from January 1. Japanese budget carrier, **Peach Aviation**, will add a four-weekly Okinawa – Hong Kong A320 schedule to add its network from late February. **Philippine Airlines** increased frequency on the A330-300 Manila – Dammam route from three to five a week and from four to five flights weekly from Manila – Riyadh. Taiwanese budget start-up, **V Air**, will launch Taipei – Bangkok and Taipei – Chiang Mai services from December 17 and January 7, respectively, subject to government approval. ■

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