Orient aviation

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BACK IN THE DRIVING SEAT

AirAsia Group CEO, Tony Fernandes, is determined to prove critics wrong about his LCC "baby"

Orient aviation 22 YEARS

Separation but not divorce across the Tasman

Testing times for aerospace "big guns"

An airline house divided as favoured EVA son ousted

SPECIAL REPORT
Developing a seamless Asian air traffic management network

Orient aviation 22 YEARS

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COVER STORY

Striking a balance

Airlines have had it easy at Kuala Lumpur International Airport (KLIA). Some fees and charges have not changed for almost 40 years, an era that included operations at the city's former international airport at Subang and the construction and equipping of the present 18-year-old KLIA and its support facilities.

So it is difficult to criticize Malaysia's Department of Civil Aviation (DCA) for increasing fees for airlines that use KLIA and Malaysia's other airports.

Until the price rise in mid-April, Malaysian airport fees and charges were among the lowest, if not the lowest, in the world. Current costs of upgrading air traffic management systems, providing air navigation services, introducing new technology and retaining talented staff bear no relation to airport budgets of four decades ago.

In fact, the Malaysian government has been heavily subsidizing the system, and therefore airlines, for most of that time. In today's economic climate that could not continue. Increases were inevitable.

However, the airlines have a very good case against the government when it comes to the timing and size of the increases.

After a DCA briefing with airline representatives, which carriers believed was a prelude to more detailed discussions about fees, they were told the new rates would apply from April 15, less than two weeks after the briefing. The sting in the tail was that the charges would rise ten fold.

It is now accepted by all parties that there was insufficient consultation with airlines and their representative bodies about the fee changes.

Under the new system, an airline now paying US$360,000 a year to the DCA would be required to pay $3.8 million. To quieten the howls of outrage from airline associations, the DCA agreed the fees would be doubled for now, but incremental increases would follow subject to detailed industry discussions.

As both the Association of Asia Pacific Airlines (AAPA) and the International Air Transport Association (IATA) pointed out, such increases should be introduced in line with the International Civil Aviation Organization (ICAO) Policies on Charges for Airports and Air Navigation Services.

This prescribes that user charges should be non-discriminatory, transparent and determined "in close consultation" with industry stakeholders.

And if fees increase airlines argue, carriers want regulatory authorities and air navigation service providers to deliver better value by investing in technology, improving operational efficiency, delivering better service and establishing a long-term system of rates and charges.

What airlines don't want is a clumsy fee regime imposed on them with little notice or consultation. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

Debt laden Mallya absconds to Britain as creditors close in

Believed to be resident in a US$15 million mansion on the northern outskirts of London, V. J. Mallya, the playboy owner of bankrupt Indian carrier, Kingfisher Airlines, has had his Indian passport revoked and been stripped of his membership of the indirectly elected Upper House of India's national parliament.

Under pressure from investigators and a 17-bank consortium to repay US$1.36 billion in loans allegedly used to operate the short lived premium carrier, Mallya slipped out of the country on March 2. Since then he has declined to return to India to answer government investigators' questions about alleged corrupt practices at the defunct airline.

India's Enforcement Directorate (ED), which is responsible for investigating financial crimes, has summoned Mallya three times for interviews about the airline's unpaid loans. The flamboyant 60-year-old has ignored the summonses and stayed put in Hertfordshire.

Mallya, who inherited a drinks empire from his father, attempted to settle the case earlier this year by offering to repay US$650 million of the outstanding debt, but the lenders declined his terms.

During Kingfisher's four-year life, Mallya supplemented the airline's operations with funds from his liquor company, United Spirits. It was India's biggest spirits company until Mallya was forced to sell a controlling share of it to global spirits conglomerate, Diageo, in 2014.

In February, investigators were furious to learn that Diageo had paid Mallya $75 million to resign as chairman of United Spirits. It is generally agreed the windfall payment intensified the lenders' determination to make Mallya pay. But he was too agile for them and used his diplomatic passport to depart the country.

This week it was reported that the Indian government had begun proceedings to deport Mallya from Britain,but so far he remains beyond its legal reach. ■

Etihad's Hogan stands his ground on open skies

Delivering the keynote address at The Wings Club, New York, in April, Etihad Airways' James Hogan said his airline was "a tiny player in the U.S. air travel market, with less than 0.01% of daily international departures". However, he said, "we have been able to offer major benefits to the United States".

"We connect the U.S., through our Abu Dhabi hub, with scores of markets that are not served by other carriers," he said. "That means we are feeding hundreds of thousands of travelers, both leisure and business, into the U.S. Hundreds of thousands of those get fed onto U.S. carriers."

Hogan told his American audience that many of the issues raised by the Big Three North American carriers in their Open Skies campaign against Etihad stemmed from a limited understanding of the airline's business model.

"There are many myths about our business. The truth is we run a commercial organization with a shareholder that demands a clear return on its investment. We get no subsidiaries or state support," he said.

His Excellency Majid Al Suwaidi, consul general United Arab Emirates New York, Mary Ellen Jones, The Wings Club president and Pratt & Whitney vice president sales for the Asia-Pacific and China and Etihad Airways president and CEO, James Hogan

"What we have had is the investment required to compete in a capital intensive business. That is a smart investment when you consider the many advantages Abu Dhabi offers as the focus for a global network airline - as long as there is a return."

He continued: "global air travel is a business with incredibly high barriers to entry – not just in cost, but in market access, infrastructure requirements and the need to compete against established mega-carriers.

"The highest barrier is network. You can't build a global network overnight – in fact you need decades and billions of dollars to compete against the major airline groups.

"That is where partnership comes in. From day one, we have taken an open partnership approach, working with scores of airlines with code share agreements and then minority investments in strategically places airlines," he said.

Last year, American Airlines, Delta Air Lines and United Airlines submitted a White Paper to the U.S. government that claimed the three major Gulf carriers had received $40 million in subsidies, funding that gave them an advantage when building market share in competition with North American airlines. ■

An airline house divided

Events in the boardroom of EVA Air descended into soap opera last month when the Taiwan carrier's newest chairman, and favoured son of the late founder, was ousted. A safe pair of hands, former chairman Steve Lin, has been installed at the airline to maintain order as the boardroom drama plays out.

Tom Ballantyne reports

When EVA Air's then chairman and qualified pilot, Captain Chang Kuo-wei, flew out of Taipei's Taoyuan International Airport on March 11, in command of the regular B777-300ER service to Singapore, he had no idea what he was leaving behind.

Within hours of his departure, the 45-year-old Chang, or K.W., the fourth son of the late founder of the Evergreen Group and its subsidianes, Chang Yung-fa, was on his way out of his day job.

At issue was a family divided between the three older sons of Chang's first wife and K.W, a son born of the tycoon's second marriage.

The elder Chang died on January 20, aged 88. In February K.W. made his father's will public. It had appointed him as successor and principal beneficiary. He had been chairman of the airline since 2013, but he immediately promoted himself to chairman of the entire Evergreen Group.

It may have appeared like a natural succession, but his three older half- brothers from his father's first marriage, Chang Kuo-hua, Chang Kuo-ming and Chang Kuo-cheng, were far from happy.

So, with the youngest brother out of town, they seized the moment and convened an unscheduled board meeting at the group's corporate headquarters. In just 30 minutes seven out of nine board members voted to replace K.W. with Steve Lin Pao-shui.

The company veteran was president of EVA in 2004 and chairman of the airline from 2005 to 2011. K.W. supporters were fired or reassigned and staunch ally, airline president Austin Cheng, opted for early retirement after more than 20 years at the carrier.

The drama is far from over with legal proceedings continuing about the later founder's will, but K.W. seems to have accepted the situation at EVA. He has resigned from the airline's board and stopped attending meetings. He appointed two lawyers, Daniel Song and Liang Huai-hsin, to represent him at the meetings.

In a short and rare public statement, K. W. said EVA Air, established by his late father, had become a leading global airline known for its corporate governance and aviation safety after 27 years of conscientious operation.

"Although I was expelled from EVA Air, I still feel a sense of duty towards the company's employees, minority shareholders, foreign investors, bankers and a great number of consumers," he said.

Whatever is happening at the top, analysts were confident EVA's operations would remain stable. In March, as the dynastic turbulence continued, the carrier launched flights to Istanbul, a destination previously served by a code share with Turkish Airlines. A few days later, it added a service to Cebu in the Philippines, which brought its global network to 66 destinations. It also is planning direct flights from Taipei to Chicago and New Delhi, although no dates have been announced for the route launches.

New chairman Lin has been with the airline since 1976 and is credited with helping it survive the global financial crisis and historically high oil prices. He was at the helm when the airline posted its first profit, on revenues of $1.41 billion, in 1995. The result was a year ahead of schedule.

There is no indication the new rulers of EVA are considering dramatic strategy changes, including any revision of its 2015 order for 24 B787-10s and two B777-300ERS, at list prices of $8 billion. The order was Taiwan's biggest single commercial aircraft purchase.

The latest Boeing order was in addition to its previous order of 13 B777-300ERs. This year, EVA also will introduce six high-capacity 184-seat A321s to its fleet and seven B777-300ERs. It has 70 airplanes, with 44 aircraft on order, including five B777F freighters.

Last December, the carrier signed long-term agreements with Air Lease Corporation for

Sacked EVA Air scion planning his own airline?

Qualified B777 captain and ousted EVA Air chairman, Chang Kuo-wei, is planning to cut all ties with EVA and its parent, the Evergreen Group, according to media in Taiwan. His lawyer told the Taipei Times he was considering selling his equity in EVA to his half-brother, Song Yao-ming, to raise capital for what may be a new airline. An audit of the Evergreen Group and its subsidiaries has reportedly valued Chang's 11.45% share in the conglomerate at $237.3 million.

four B787-9s and two B787-10s, with deliveries scheduled from mid-2018 to early 2020. The company will expand its fleet to 100 planes in the next four years.

In March, EVA announced plans to hire 600 flight attendants and more than 100 pilots by year end to crew its expanding network and fleet. It recruited more than 1,000 flight attendants in 2015.

After some rough financial years, 2016 has begun on a bright note for EVA and its major rival, China Airlines (CAL). EVA reported a $191 million profit for its latest nine months, which represented a better than airline average profit margin of 6.25%.

CAL posted a net profit of $158 million for the same period. Consultancy CAPA said earlier this year that the result reversed a decade plagued by perennial annual losses in all but two years. In this period, the two Taiwanese airlines posted combined net losses of $847 million.

Last year was the best 12 months for CAL and EVA since 2010, with both carriers returning to moderately profitable status.

A factor that augurs even better times ahead is the granting of sixth freedom rights to the Taiwanese airlines to carry connecting passengers from China's Chongqing, Kunming and Nanchang to global destinations via Taiwan.

"This is especially crucial for Star Alliance member EVA, which aims to develop Taipei Taoyuan International Airport into a trans-Pacific hub to feed traffic from Southeast Asia and China to the U.S. and beyond, rivalling the roles of Cathay Pacific Airways and Hong Kong," said CAPA.

The practice, as opposed to the theory, may not be easy. Hong Kong, for example, is a long established gateway for Chinese travellers transitting onto long-haul routes. Analysts said the Cross Strait market is likely to remain EVA and CAL's "bread-and-butter" alongside Japan.

CAPA warned that "despite their great ambitions in becoming an important connector in ferrying Chinese passengers to the United States and Australia, it is questionable if the pair can overcome their latecomer status to the game".

EVA is bent on serious expansion. Now a critical part of Star Alliance influence in the region, it has been increasing its capacity to extend the alliance's reach and depth. In March, its Taipei-Singapore frequency expanded from 11 to 13 flights a week and will be lifted again in October to double daily. A sixth weekly service will be introduced to Hanoi and Bangkok will grow from 17 to 19 flights a week.

The airline is planning to fold its subsidiary, UNI Air, into EVA to improve operational efficiency, although regulatory requirements indicate full integration of the two carriers will not happen until 2018. ■

Tenure of Jet Airways CEO uncertain

By Dominic Lalk in Mumbai

"Who's next, Naresh?" is often asked of the Jet Airways chairman when he is in India following CEO Cramer Ball's February departure from Jet Airways, the airline Goyal founded in 1992.

Etihad Airways has a 24% equity in Jet and Cramer Ball is a protégé of Etihad boss, James Hogan. When Ball tendered his resignation to the Jet board on December 17, Gaurang Shetty, an 17-year veteran of the airline with 35 years of experience in aviation was named as the intended acting CEO. Shetty never made it to the CEO suite. Instead, Amit Agarwal, Jet's chief financial officer, was appointed interim CEO on March 1.

Now Agarwal's days as CEO appear numbered given that Mumbai-based Jet is searching for a new leader. Counting Shetty's 'non-tenure', whoever gets the top job next time around will be the airline's seventh CEO in just under three years.

Cramer Ball has succeeded Silvano Cassano as chief of ailing Alitalia, a carrier, like Jet, that has Etihad as a large minority investor. Orient Aviation learned from Jet Airways that Ball's decision to leave the carrier was personal. He is married to an Italian and Ball and his family wanted to be based in Italy.

Top management changes appear to be par for the course since Etihad bought into the Indian airline in 2013. In May 2014, Ravishankar Gopalakrishnan, then Jet's CEO and CFO quit. He had taken over from Garry Toomey, who was brought in after Naresh Goyal's long-term confidante, Niko Kardassis, resigned following disputes about the Etihad deal.

Naresh Goyal, 66, Jet's chairman, does not live in India, typically dividing his time between the U.K. and Dubai, and Mumbai as required.

Jet is under pressure to perform after an eight-year losing streak. However, there is ground for optimism. Under Ball, Jet reported three quarterly profits in the last financial year. It is expected to post a net profit in the 8.2-8.6 billion rupees range ($123-129 million) for the year to March 31, added by the low fuel price.

The carrier's results will be announced on May 26. The market talk is that Etihad is considering increasing its shareholding in Jet to 49%. ■

Separation but not divorce across the Tasman

Will Singapore Airlines (SIA) buy Air New Zealand's (Air NZ) holding in Virgin Australia? At press time, the question was exercising the industry after the dramatic March resignation of Air NZ's chief executive, Christopher Luxon, from Virgin's board.

TOM BALLANTYNE reports

The aviation chattering classes came alive when Air NZ's CEO, Christopher Luxon, suddenly announced he was resigning from the board of Virgin Australia (VA) and that the Auckland-based carrier was considering selling its 25.9% investment in the airline. At one stage, it was reported Luxon had "cleared his diary" and was heading overseas to finalize a quick sale.

The report was speedily denied by Air NZ, who said Luxon was not going anywhere. Instead Air NZ signalled it was going to take its time in working through its plan to divest some or all of its holding in Virgin Australia.

Selling, or not selling the shares, remains under review with First NZ Capital and Credit Suisse appointed to advise on the options.

Nevertheless, with most observers believing the airline would opt out of its shareholding, a fierce debate is continuing about the future shape of VA's ownership registry. Would SIA, which increased its holding in VA from 22.91% to 23.11% shortly after Luxon resigned, buy up the entire Air NZ package?

And would SIA insist on showing Borghetti the door and appointing their own CEO?

Other options include Etihad Airways, with 25.1% of VA, buying the surrendered Air NZ shares. Or might each of the two airlines purchase half of Air NZ's 25.9% of VA? Could Delta Air Lines, a major VA alliance partner, join the ownership club? Or would the big Chinese carriers, who have shown interest in investing in Australian airlines, become part-owners of VA?

Most analysts see SIA as the most likely buyer, although the Singapore carrier is not commenting. "Essentially, it would make sense for SIA to raise its stakes in VA and I believe they are deliberating taking their stake above 23%, indeed as high as possible," said Shukor Yusof, head of Kuala Lumpur-based consultant Endau Analytics. "Australia/NZ is a key plank in SIA's strategy. SIA has deep pockets and the favorable exchange rate makes a possible purchase all the more alluring."

He added Chinese airlines have "money to burn", but asked if buying into VA made economic case. "Not a compelling one, in my view," he said.

Air NZ's departure from VA was not a surprise to the industry. As long as a year ago Luxon had declared that "now is the time" for VA to "get profitable" and that "there is certainly a lot more to do".

The VA investment has never given Air NZ or its other shareholders any returns and Luxon reportedly stepped down from the board after failing to convince the airline that VA chief executive, John Borghetti, should be replaced. Air NZ is understood to believe the money from a share sale, estimated to bring in around $300 million, can be better used in investing in its own growth.

Borghetti, (60), who has overseen an impressive transformation of the former LCC, Virgin Blue, into the full-service Virgin Australia, has made it clear he does not plan to quit. "I don't intend to go anywhere. I've still got things I need to get done. This week is just one more week," he said after the Air NZ events developed.

But he clearly has challenges ahead of him. Since December, VA has undertaken a major assault on costs, including outsourcing back office financial functions to India and a cracking down on any non-essential travel for staff.

The airline has delivered negative returns on equity for three years, mirroring consecutive annual losses in the same period. Since 2008, the carrier's return on equity has been positive only twice.

In contrast, SIA has generated positive returns on equity every year on record.

VA returned to profit after years of losses when it posted US$63.5 million in net income for its latest first half, ended December 31, but the result failed to impress analysts concerned about cash flow at the airline.

In the first half, Virgin reported negative free cash flow of $197 million and its unrestricted cash balance fell to $423.5 million from $559.7 million a year earlier. Borghetti cited negative working capital as the problem because its increased share of business travellers meant more late bookings.

Nevertheless, analysts found the trend concerning. VA's latest accounts show it took out a $125 million secured bank loan in the first half, which is listed as due for repayment within a year. In total, it has $487.5 million in current liabilities.

Last month, ratings agencies, Standard & Poor's and Moody's, downgraded VA's credit rating from stable to negative. A week before Luxon's resignation, the airline's four major shareholders - Air NZ, Etihad, SIA and Sir Richard Branson's Virgin group – lent the airline $330.9 million to repair its balance sheet.

At press time, uncertainty about VA's future dominated industry discussion. However it evolves, it will be complicated. VA has a unique ownership structure that was designed to allow foreign partners to play a major role in the carrier.

In 2012, it separated its international arm into a company with a separate board. If SIA wants to significantly increase its shareholding in VA, it will require Australian Foreign Investment Review Board clearance. Under Australian law, the domestic arm of VA can be 100% foreign owned, but the international arm must remain 51% Australian-owned to retain its traffic rights.

Etihad chief executive, Australian-born James Hogan, who was in Melbourne when Luxon resigned from the VA board, indicated he would not go after the shares. He said Etihad was "a partner, not a predator". He was positive about the partnership with VA and added Etihad was "committed for the long term". A spokesman for Delta said it was not considering an investment in VA, but did not rule out a future investment in the airline.

As for the events at board level, it also has to be made clear that this does not affect the critical cross-Tasman alliance VA has with Air NZ. In a statement after stepping down from the VA board, Luxon said Air NZ looked forward "to continuing our partnership on the Tasman alliance providing customers with the most comprehensive trans-Tasman network".

The partnership offers customers on Air NZ and VA more than 200 flights a week to more than 60 destinations across Australia and New Zealand as well as flexible fares, reciprocal lounge access and frequent flyer benefits.

It is due for renewal next year, but in purely commercial terms it is highly doubtful either carrier will want to end it. Sources at the airline in Auckland confirmed the shareholding in VA is entirely separate from the trans-Tasman alliance and that agreement was "business as usual". ■

Virgin Australia leads region in emissions reductions

Virgin Australia is one of the top three least polluting airlines in the world and the cleanest airline in the Asia-Pacific, a study conducted by the University of Warwick's Warwick Business School has reported.

Finland's Finnair and TAP Portugal took first and second places, respectively, for the smallest carbon footprints of the 20 airlines surveyed, followed by Virgin Australia. American Airlines, after its merger with US Airways three years ago, had the largest emissions of all airlines in the study.

Rival North American carriers, Delta Air Lines and United Airlines, who have a large number of ageing airliners in their fleets, were the other two worst polluters in the voluntary survey.

"Finnair performs best due to the age and type of its planes, the routes it flies and the overall number of connections it offers. It is probably among the most advanced [airlines] in accounting for and managing its emissions," said the author of the study, Dr. Frederik Dahlmann.

"The data shows that for most airlines emissions either are growing or are stagnant and none are showing a significant reduction. This is despite many airlines introducing modern and efficient aircraft into their fleets. With flights set to double by 2030, cutting emissions is a real problem."

There is no obligation for airlines to release its carbon footprint information, said Dr. Dahlman, which was why only 20 airlines had participated in the study.

"There are more than 200 international airlines and many would not provide the data. Unfortunately, the data does not provide a full and completely fair picture [because of this fact] and also because there are significant variations in business models, flight destinations and aircraft at the world's airlines," he said.

Three other Asia-Pacific airlines participated in the study and were placed in the following positions for their volume of emissions: Qantas Airways (10), Korean Air (11) and Cathay Pacific Airways (12). ■

France's de Juniac to take charge at IATA

IATA's director general-designate is an old Asia hand.

By Tom Ballantyne

There is universal agreement that International Air Transport Association (IATA) director general and CEO, Tony Tyler, will be a hard act to follow when he steps down at the organization's AGM in June.

But if anyone can pick up the baton for the airline cause, it is his nominated successor, Alexandre de Juniac, until recently the chief executive of the Air France-KLM group. Confirmation of his succession is expected at the AGM in Dublin.

De Juniac, who held the top post at Air France-KLM for three years, is well versed in airline politics, a critical attribute for the sometimes volatile atmosphere at IATA member meetings. Before he took the top job at the European airline group, he was chief executive of Air France, where he oversaw a cost reduction program.

When he moved up to chief executive at AFI/KLM he has had to continue an efficiency drive across the group and he has produced results. Under his leadership, the airline group has become more productive. It reported an operating profit of $908 million for 2015 following losses in the four previous years.

De Juniac is a graduate of France's elite Ecole Nationale D'Administration. He began his career at France's Council of State in 1988. He joined the cabinet of Nicolas Sarkozy at the French Budget Ministry in 1993, as Technical Advisor to the Minister of the Budget.

He left government in 1995 and held senior roles at Thales, formerly known as Thomson-CSF, and Sextant Avionique, including stints running several Thales divisions in Asia, the Middle East and Latin America. In his last position at Thales he was general manager for Asia, Africa, the Middle East and Latin America, equipping him with global experience that will serve him well at IATA.

He returned to France as chief of staff to Christine Lagarde, the Minister for the Economy, Industry and Employment, from 2009 to 2011. Lagarde is now managing director of the International Monetary Fund.

De Juniac was appointed chairman and CEO of Air France in 2011 before he moved up to chairman and CEO of the Air France/KLM group in 2013.

The fifty-three-year Frenchman has had a three-year struggle to contain costs amid fierce union resistance. His strategy was to shift short-haul Air France flights, that did not connect with lucrative long-haul trips, to the lower-cost units, Transavia and Hop!, to compete with LCCs, Ryanair and EasyJet.

Union opposition stymied that plan. In 2014, a 10-day strike over proposals to base Transavia planes outside France, sidestepping pilot opposition, led to a government-enforced climbdown. Last October, violence forced managers to flee from a meeting over a fence. Their undignified exit left their clothes in shreds and made headlines around the world.

A January deadline aimed at securing savings from pilots has been pushed back to later this year and will be in the hands of de Juniac's successor. He also has had to deal with Air France-KLM losing market share on intercontinental routes as Gulf carriers, led by Dubai's Emirates, feed more Asia-bound traffic through their home hubs using big fleets of new wide-body jets.

While some observers might assume IATA will bring more sedate times for de Juniac, it is almost certain that will not be the case, given the issues facing the airline industry.

De Juniac's appointment was announced last month, when the chairman of IATA's Board of Governors, Aeromexico chief executive, Andres Conesa, said the Board was "very pleased" to recommend him to lead the association.

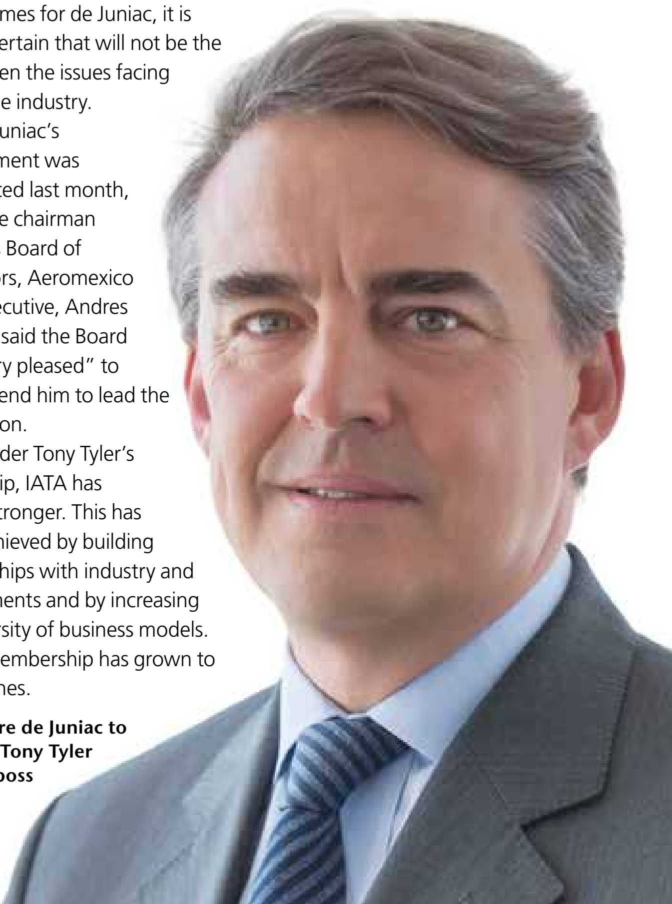
"Under Tony Tyler's leadership, IATA has grown stronger. This has been achieved by building partnerships with industry and governments and by increasing the diversity of business models. IATA's membership has grown to 264 airlines.

"Alexandre's broad experience in aviation and government makes him the ideal candidate to take our association to even greater heights."

De Juniac said: "Tony Tyler has done a great job at the helm of IATA and I am excited to succeed him. IATA has a critical role to play in supporting the success of the aviation industry - leading advocacy, safeguarding the industry's money, building the standards that underpin global connectivity and partnering with stakeholders and governments to drive important changes. I look forward to leading IATA as it supports safe, efficient and sustainable global connectivity."

De Juniac resigned from the Air France KLM group in April and is undertaking a short handover period in his transition to the IATA leadership.

IAG chief executive, Willie Walsh, will succeed Conesa as chairman of the association's board of airline governors at the Dublin AGM. ■



Alexandre de Juniac to succeed Tony Tyler as IATA boss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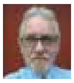
TESTING TIMES FOR AEROSPACE BIG GUNS

It's has been tough couple of months for Airbus and Boeing as funds from government backed agencies dry up, stalling some deals, and the European Union investigates alleged price setting at several aviation manufacturers and suppliers.



TOM BALLANTYNE reports

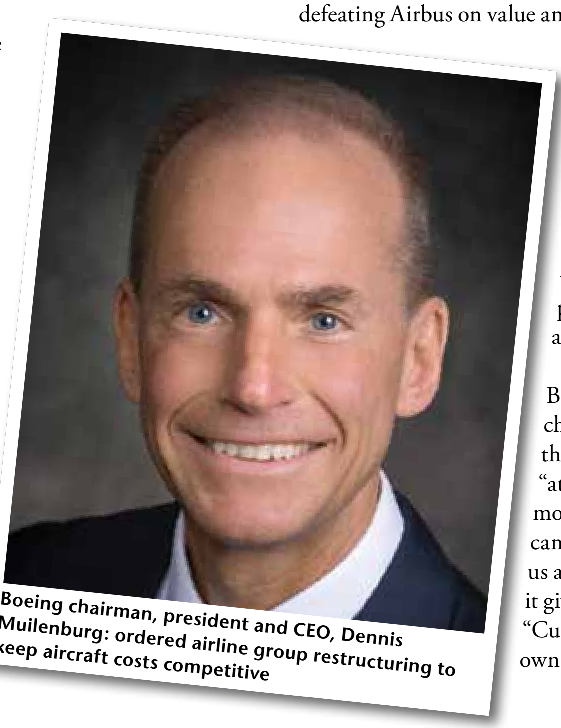
The belief that the small number of global aircraft and engine manufacturers concentrates power in the hands of the few when setting aftermarket services rates is to be tested by the European Union (EU).

In March, the EU initiative was given added authority when the International Air Transport Association (IATA) said it was an official complainant in the investigation because "airlines wanted the situation clarified".

The IATA endorsement was news aerospace companies did not need. In the last 12 months, U.S. manufacturers have been stymied by a hiatus in the operations of the U.S. Export-Import Bank (EXIM), a valuable source of funding for some of Boeing's customers.

The Boeing Group's board chairman, president and CEO, Dennis Muilenburg, told a U.S. conference recently that the company was on the verge of losing orders because only two of the five seats on EXIM's board had been filled, which meant deals of more than $10 million could not be approved.

More recently, Airbus was presented with its own customer financing issue. Britain's version of EXIM, the UK Export Finance Bank, halted support for the European plane maker until it provided "satisfactory" assurances about its dealings with "overseas agents". A week later, Germany and France withdrew export credit guarantees from Airbus.



Boeing chairman, president and CEO, Dennis Muilenburg: ordered airline group restructuring to keep aircraft costs competitive

This latest set of challenges comes at a time when Airbus and Boeing are engaged in sales battles that are as fierce as they have ever been.

With price the only game in town for winning orders, Boeing's Muilenburg has announced the most significant restructuring at the group in years with the ultimate aim of defeating Airbus on value and price in the negotiating room.

By June, the company intends to eliminate 4,500 jobs from its 161,000-strong workforce, a headcount reduction that will trim the workforce by 5% company-wide.

The jobs are going despite the manufacturer's $431 billion production backlog of 5,800 aircraft at the end of 2015.

In a note to employees, Boeing Commercial Airplanes chief executive, Ray Conner, said the focus on costs was coming "at a time when price carries more weight than ever in sales campaigns. This should concern us all because if our costs are high, it gives us less pricing flexibility".
"Customers will be forced by their own competitive pressures to take

their business elsewhere," he said.

The EU investigation, being conducted by the European Commission's Directorate General for Competition (DG-COMP), will examine the rates Original Equipment Manufacturers (OEMS) charge for their aftermarket services, parts and third party MRO client access to propriety information.

In 2015, the DG-COMP sent questionnaires to several industry stakeholders, including IATA member airlines. It requested information to validate claims of abuses of dominant positions by aviation OEMs when writing MRO and parts contracts.

"This is an area of deep concern for our members," said IATA director general and CEO, Tony Tyler. "There are relatively few equipment vendors and our members are frustrated that there is little flexibility in negotiations for aftermarket services.

"Airlines do not have the leverage to resolve these concerns individually. So IATA is fulfilling its role as their global trade association and representing their interests as a complainant."

IATA will not claim monetary damages or other forms of compensation for past conduct. "Our focus is on the future. Our members want to be able to negotiate contract terms more effectively and with more options than the OEM community will entertain today," said Tyler.

"OEM revenues are airline costs, so there is a natural tension on this issue. But airlines are, and will continue to be, important customers for OEMs. Whatever conclusion the investigation comes to, at the end of the process there will be greater clarity on the rules of the game and how they should be applied. That will be a good development for all involved."

The OEMs are not saying much about the EU investigation, which is expected to take months to complete.

Joseph M. Del Balzo, a former U.S. Federal Aviation Administration (FAA) acting administrator and now president of consultancy, JDA Aviation Technology Solutions, said if the process continues it is likely the U.S. Department of Justice would join in the matter.

The former FAA administrator warned an anti-trust case could have serious consequences for the structure of aerospace manufacturing and could have safety implications.

"Judgments made about the costing of these complex engineered products could impact on the ability of the OEMs to accumulate the capital needed to develop them. The economics and finances of both airframe and power plant manufacturing are well known.

"For example, the massive capital Pratt & Whitney has invested in research in the last 20 years as well as the $10 billion required to engineer the geared turbine engine requires years to recoup," he wrote in the JDA Journal.

"Boeing's -787 made its first dollar over its investment at year ten. If the fully allocated cost of airplane #1 in a model line was charged, it would be immense. To make the initial deal more commercially viable, manufacturers price their products on the expected total value of the charge plus the forecast earnings stream from the aftermarket sales."

> **Boeing's -787 made its first dollar over its investment at year ten. If the fully allocated cost of airplane #1 in a model line was charged, the cost would be immense. To make the initial deal more commercially viable, manufacturers price their products on the expected total value of the initial charge plus the expected earnings stream from the aftermarket sales**

Del Balzo said the DG-COMP must determine if the sale of replacement parts are priced above their costs. "Erudite cost accountants and micro economists will have to study this 'bundled' price (original plus spares) to determine if it exceeds the appropriate costs," he said.

"They would have to decide if the OEMs have used the limited availability of certificated parts as well as the restrictions on repair manuals and data to raise their charges above some lawful number."

When an OEM sells a large capital asset such as an aircraft or engine, certain manuals and data are part of the transaction. "It has been alleged the information so transmitted may not be adequate for the plane/engine owner to develop repairs and parts internally," Del Balzo said.

"The counter argument is that full disclosure would allow competitors to replicate OEM products. If the OEMs cannot protect their intellectual capital, their incentive to research will be diminished. If the consequence of the DG-COMP and/or U.S. Department of Justice actions is to prohibit this practice, the result may be a diminution of safety."

The U.S.'s EXIM suspended operations last June when its charter lapsed. It was renewed later in 2015.

With only two seats filled and confirmation of a third board member halted by the U.S. Senate Banking Committee Chairman, Richard Shelby, some airplane sales have been blocked. Senator Shelby has imposed a moratorium on several of the 16 Obama administration financial nominees that require panel confirmation. It included EXIM.

Clearly, it is hurting Boeing. In April, EXIM Chairman, Fred Hochberg, said the appointment of a third board member would allow the agency to help finance billions of dollars in sales of U.S. aircraft, rail, power and communications equipment worldwide.

"We have about $10 billion worth of loans and guarantees in our pipeline that are being held up because of the short-handed board. If exports slow in the areas that require our financing, it will hit the supply chain of 14,000 U.S. companies that service Boeing and, as a result, threaten jobs," he said.

For Airbus, the export-import issue stems from a different source. The financing halt by the UK, France and Germany is a result of scrutiny of the role of cross-border intermediaries in multinational deals.

This follows the search, in March, by authorities of a Monaco-based company, Unaoil SAM. It served as a go-between for companies and officials in the Middle East, Africa and former Soviet countries, and was accused of corruption.

There is absolutely no suggestion Airbus has been involved in corruption, but U.K. Export Finance said it was suspending support for Airbus after the manufacturer informed regulatory authorities of "inaccuracies" in a number of applications (for financing).

The suspension will remain in place until the company provides "satisfactory" assurances about its dealings with "overseas agents". Airbus spokesman, Rainer Ohler, said German, French and U.K. export agencies typically act in concert.

Germany's Federal Ministry for Economic Affairs and Energy said it was undertaking its own investigation with the cooperation of Airbus. Applications for new export credit guarantees in Germany were suspended pending completion of the evaluation.

If existing loans are affected, it could endanger shipments of Airbus planes sold on the basis that the financing package included the backing of government guarantees. However, less than 10% of Airbus plane sales use such guarantees.

Jefferies Equity Research tempered the impact of the financing hiatus with its estimate that export-credit agencies last year only provided 7% of financing for Airbus plane deliveries compared with 45% from leasing companies and 40% from airlines.

Airbus is co-operating fully with the relevant export credit agencies to re-establish the financing facility. "The group believes that although some export credit financing will be temporarily unavailable, the affected customers will be able to resume obtaining such financing or refinancing in the near future," it said in a statement.

Boeing won the sales battle with Airbus in the first quarter of this year, although there were worrying signs of a slowdown in orders. Airbus sold a gross total of 32 aircraft and delivered 125 in the first quarter, down 74% and 7%, respectively, compared with the same period last year.

After adjusting for cancellations, it posted 10 net orders, the lowest figure for the first quarter of its year since 2011. Boeing reported 140 gross orders in the same period this year, or 122 after cancellations.

It should be pointed out a slowdown in deliveries of engines from Pratt & Whitney, while the engine manufacturer fixes software issues, has left a backlog of partially assembled jets at Airbus. Despite plans to raise its output of new planes in the first quarter, the European manufacturer's production rate was 103 aircraft, the lowest first quarter total since 2011. Airbus expects to catch up later this year. ■

Malaysia forced to backtrack on pre-emptive fee strike

Malaysia's decision to increase airport fees ten fold from last month was postponed after airlines and their associations protested vehemently. The government backed down and only doubled fees, but warned more incremental fee increases were inevitable.

Tom Ballantyne reports

When Malaysia's Department of Civil Aviation (DCA) told airlines early last month they would have to pay up to ten times more in fees for aviation services from April 15, it was an unwelcome shock.

Carriers using the country's airports and airways knew increases were on the way because they had been briefed about them. But they understood there would be industry consultations before fees were struck.

The airlines came out fighting. After their strong rearguard reaction and an urgent day of discussions between the airlines' representatives and the DCA, it was decided to only double fees – for everything from airspace use to air traffic facilities, air operator's certificates (AOC) and pilot licences.

"We welcome the Malaysian government's announcement to temporarily defer the steep increases to the air navigation charges following urgent engagement with the industry over the last few days," said the International Air Transport Association's (IATA) regional vice president for the Asia-Pacific, Conrad Clifford.

"Nonetheless, we remain concerned that charges still doubled, effective from 15 April. Moving forward, robust consultations with industry will be critical before any more increases are introduced."

IATA Asia Pacific regional director Conrad Clifford: discussions between stakeholders essential before additional fee increases are decided for airlines servicing Malaysia

The Association of Asia Pacific Airlines (AAPA) director general, Andrew Herdman, said: "The proposed changes were announced without prior consultation with the airline industry as the main users of such services.

"As a general principle, ICAO's (International Civil Aviation Organization) Policies on Charges for Airports and Air Navigation Services prescribes that user charges should be non-discriminatory, transparent and determined in close consultation with industry stakeholders."

The increased fees in Malaysia were not the only new costs airlines in the region will need to build into their ticket prices. At Dubai and Sharjah in the Middle East, a new "airport facilities fee" of $9.53 per departing passenger will apply from June 30.

The fee will go towards the expansion of the airports and is in addition to a $20.42 service fee and a $1.36 security fee already imposed on travelers at Sharjah International and Dubai International airports.

For now, a truce prevails in Malaysia. Transport Minister, Liow Tiong Lai, speaking after negotiations ended, said the Air Navigation Facilities Charge (ANFC) to airline operators would be implemented in stages with a maximum one-fold increase. They will not be more than doubled at any one time.

"I have instructed the DCA to prepare a comprehensive plan for future fees and charges, that will be implemented in stages, in our effort to remain competitive with neighbouring countries," the transport minister said. At press time, no timetable had been announced for future fee increases although there are suggestions they may rise on an annual basis.

There is justification for fee increases for Malaysia's airport

Before April 15, 2016

and aviation services. The charges are among the lowest in the region, Liow said, and added the industry had been heavily subsidized by the government since the 1970s.

"A point to note is that the Air Navigation Facilities Charge (AFC) has not been changed for well over 40 years. Other charges such as the issuance of an AOC or a Certificate of Airworthiness have not been revised since 1996. These costs and much more have continued to be subsidized by the government. This cannot continue. As such, the necessity for the revision in fees," he said.

It is hardly surprising the original plan for the fee increases stunned both domestic and international airlines. If they had gone ahead an airline that pays ANFC fees of US$30,000 a month would face new charges of $308,000 for the same period.

The new fee structure would have forced airlines to increase their ticket prices. Hardest hit would have been AirAsia, Malaysia Airlines and Malindo Air, who operate several hundred domestic flights every week.

The threat prompted local airlines to immediately set up the Association of Malaysian Air Carriers (AMAC) to provide a common platform to discuss such issues. A press release from AirAsia's communication department said subject to approval from the respective boards and the Registrar of Society, the founding airlines of the association would be Malaysia Airlines, MASwings, Firefly, AirAsia, AirAsia X, Malindo Air and Berjaya Air.

With all the main operators represented, the association would ensure it had one voice for the airline industry while also representing common industry interests among institutions such as the Transport Ministry, the DCA and the Malaysian Aviation Commission.

"The AMAC will engage in enhanced air traffic control services, aero-political concerns, safety and security standards in airports, charging regimes and other related issues. By joining forces, the association will promote healthier growth for the industry and create highly qualified jobs, both directly and indirectly, for the sector and the broader aviation eco-system," the announcement said.

IATA's Clifford said making air travel more expensive would dampen air travel demand and put at risk the substantial potential benefits of aviation to the Malaysian economy. "An IATA commissioned study found that aviation is expected to support one million Malaysian jobs and $26 billion in economic activity in 2035, double that of today," he said.

"But these jobs and GDP expansion are by no means guaranteed if the necessary infrastructure is not available and if policies, including fees and charges, do not facilitate the growth of the industry.

"The proposed new charge for the Advanced Passenger Screening System (APSS) is one such example. Security is a state function and should be funded from the national budget. There is no justification for airlines or their passengers to pay for it.

"The Malaysian government is a respected member of the ICAO Council and we trust that any further charges will be determined through consultation based on ICAO principles of cost-relatedness and transparency."

DCA director general, Azharuddin Abdul Rahman, said the DCA has spent US$361.5 million on new ATM infrastructure. The new Kuala Lumpur air traffic control centre, expected to be operational by 2018-2019, will cost the DCA $166.7 million. The department needed about $140 million for the new Kota Kinabalu air traffic control centre and for other system upgrades in Malaysia.

"We are spending about $32 million every year on maintenance. That is why we need to raise our rates. We are essentially building a new air traffic control centre for the benefit of the airlines," he said. ■

Putting customers first brings best returns for airports

Customer service is the biggest driver of non-aeronautical revenue at airports and can produce a greater return on investment than traffic growth or additional commercial space, an Airports Council International (ACI) White Paper reported last month.

The White Paper is based on an ACI Airport Quality Services (AQS) annual survey of 300 airports worldwide and the views of 550,000 passengers gathered over a year. Its conclusions were supported by ACI's annual Airport Economics Survey.

The annual survey covers 34 areas and includes the key touch points of access, check-in, security, airport facilities and food and beverages. All airports in an AQS survey use the same set of questions with the aim of setting an industry standard of responses to passengers' perceptions of ACI World member airports.

Key findings were:

* 1% increase in passenger satisfaction levels delivers a 1.5% increase in non-aeronautical revenue.
* 1% increase in passenger traffic drives a non-aeronautical revenue rise from 0.7% to 1%.
* 1% increase in commercial space produces an additional 0.2% in non-aeronautical revenue.

ACI World director general, Angela Gittens, said: "each airport faces unique issues when determining its investment program, but many airports seize upon traffic and retail space as the key engines of revenue growth when customer service may be the optimal route."

Asia-Pacific best airports for service quality:

* Seoul Incheon and Singapore Changi
* Beijing, Mumbai, New Delhi, Sanya Phoenix, Shanghai Pudong
* Guangzhou Baiyun, Taiwan Taoyuan, Tianjin Binhai

Middle East best airports for service quality :

* Amman
* Abu Dhabi, Doha
* Dammam, Dubai, Tel Aviv

BACK IN THE DRIVING SEAT

It has been a bumpy ride at the AirAsia Group in the last two years. Profits nose-dived, the share price slumped and most of its subsidiaries lost money. But in 2016 the group is back in the black and its charismatic group chief executive, Tony Fernandes, is determined to keep it there. He spoke to chief correspondent, Tom Ballantyne.

AirAsia Group CEO, Tony Fernandes, is not one to make excuses about anything, including his own missteps. He quickly conceded to Orient Aviation last month that there was a lot of truth in suggestions by some critics that his large portfolio of non-airline businesses meant he had taken his eye off the ball at the low-cost carrier group.

Along with AirAsia and its regional subsidiaries, he was running the leisure and entertainment company, Tune Group, which Fernandes co-founded with Kamarudin Meranun. He also launched the Caterham Formula 1 motor racing team, now sold after a bitter ending, and took majority ownership of English soccer club, Queens Park Rangers. These huge investments crowded his business agenda and the aviation industry noticed.

"Yes, there is truth in the fact that I had more on than AirAsia, but it was clear we had a role to go out and do other things," Fernandes said. "I have built AirAsia with Kamarudin and we thought it was time to start handing over.

"We brought in other people and I started dabbling in a few other things. But I have scaled back a lot, having decided AirAsia can do with me for a few more years. As long as I am aboard and see the usefulness of us being around, we will carry on."

There is, however, a lot more to Fernandes' commitment than a verbal declaration of backing for the airline group. In April, he and his long-time partner announced they would spend $260 million to buy 559 million new shares in the AirAsia Group. The purchase will raise their direct and indirect holdings in the region's largest budget carrier group from 18.9% to 32.4%.

The airline group will use the funds injection to reduce debt, pay for aircraft purchases, construct a new headquarters at Kuala Lumpur International Airport and provide working capital going forward.

For the AirAsia Group it was proof that Fernandes was totally behind it and was staying put. It also signaled that privatization, rumoured to be on the cards, definitely was off the agenda, at least for now.

The group had needed cash. A $1 billion multi-currency medium-term note program, announced early this year, was abandoned because the cost of funding was too high, said Fernandes.

"Kamarudin and I decided: lets show confidence to the group. We did this by one, demonstrating we will be around for a while and will put our money where our mouth is. And two making it clear to all how deeply we believe that the AirAsia Group is quite special," he said.

"AirAsia is our baby. We have been hurt by the lack of confidence shown in us by analysts and shareholders. We thought we would kill two birds with one stone: raise the money needed for the AirAsia Group and show our long-term commitment to the company."

The announcement was a huge shot in the arm for the entire Kuala Lumpur headquartered conglomerate. It was still recovering from a period of losses in a fiercely competitive budget carrier market, a situation not helped by the tragic crash of Indonesia AirAsia flight 8501 on December 28, 2014.

In its latest results, for the fourth quarter to December 31, the group's net profit was $142.6 million, compared with a loss of $110.4 million in the same period a year ago. For full-year 2015, AirAsia Group's net profit grew more than six-fold, to $139.3 million, from a meagre $21.3 million a year earlier. Revenue was up 16.3%, to $1.6 billion. Fernandes said the "outlook remains positive".

Results at affiliates in Thailand, the Philippines, Indonesia and India have been mixed. Thai AirAsia is in the black and is forecast to double its profits this year. It posted a net profit of $42.1 million for the first nine months of 2015, compared with a loss of $13 million for the same period in 2014.

But AirAsia's joint ventures in the Philippines and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>
> **Tony Fernandes**
> AirAsia Group CEO

Indonesia and in India, which is virtually in its start-up phase, remain in the red. Nevertheless, Fernandes is pleased with their progress. "We see from the first quarter results, ending March 31 and not yet released, that things are tracking very well," he said.

"There will be bumps along the way in the next two years, but I am sure the Philippines and Indonesia have the potential to be like AirAsia Thailand in the not-too-distant future."

Also on the horizon is the launch of AirAsia Japan, which Fernandes said is likely to be in October. "We've have received the Air Operators Permit and are doing the regulatory clearances. We are on track for an October launch," he said.

AirAsia's Indian joint venture subsidiary has another problem apart from fierce competition. Local rivals claim the carrier is run from Kuala Lumpur and not India. A similar objection was successfully argued by carriers in Hong Kong when Qantas's attempt to set up Jetstar Hong Kong was rejected by the territory's aviation regulator.

The debate about AirAsia India's modus operandi has become so heated that AirAsia has issued a statement that insisted the airline's majority ownership and effective control were in the hands of Indian parties and conformed to regulations.

"All the important decisions concerning the day-to-day operations of the airline are taken by the management team of the airline under the overall supervision, control and direction of the board of directors (which includes a majority of Indian nationals)," the statement said.

> The stock market will go up and down. Analysts can say what they want. The best way to shut them up is actually to perform. I've said little, apart from my belief that the AirAsia Group is very valuable. It has motivated me tremendously to put my nose to the wheel and let the results speak for themselves
>
> **Tony Fernandes**
> AirAsia Group CEO

Fernandes, who has strong Indian roots, said AirAsia India is "a phenomenal case" of incumbents doing their best to stop him. "Instead, they have made us the peoples' hero for fighting the incumbents. Our brand [there] is very large," he said.

"We have put in a new management team and are more and more confident about the future of AirAsia India.

"Clearly, the TATAs have increased their shareholding -the Indian conglomerate bought an additional 7.94% equity that lifted its stake to 49% - that makes us very comfortable about what is being done. So I continue to be optimistic about India.

"The country has a billion people. I believe we can do in India what we have done in Southeast Asia. We are up to eight aircraft and well on the path to profitability. Consistent profitability will come to us when we reach a reasonable size, which I believe will be in 2017 or 2018."

Another development that hit the headlines recently was his application to be an Overseas Citizen of India (OCI), which detractors claimed was intended to circumvent Indian airline ownership rules.

"Absolutely not the case," Fernandes said. "It has nothing to do with AAI (AirAsia India). I didn't apply for OCI for anything to do with AAI. It has zero bearing whether I am an OCI or whatever.

"I applied because my dad would have been proud. I applied because I want to spend more time in India and as an OCI I don't need a visa. And I can buy houses. So that was another bonus."

There is one other issue that clearly rankles with him – the negative reports about the AirAsia Group that were circulated by some analysts in the past year, particularly GMT Research. The Hong Kong-based company claimed the carrier boosted its bottom line with lease and maintenance deals between the parent group and its associates. AirAsia Group always has denied doing so, but the report has been blamed for a significant drop in the group's share price.

How frustrating has it been? "I have been very consistent," Fernandes said. "The stock market will go up and down. Analysts can say what they want. The best way to shut them up is to perform. I've said little, apart from my belief that the AirAsia Group is very valuable. It has motivated me tremendously to put my nose to the wheel and let the results speak for themselves."

AirAsia [group] is a pioneer, he said. "People benefit from what we have done. As a pioneer you are going to set the standards, but also be bound to scrutiny. There were no low-cost carriers of any significant size before AirAsia. There were no joint ventures in the Asian airline business until we came along. That invokes jealousy. It invokes issues and a new set of problems," he said

One of those issues is the process of investing in the consolidation of the AirAsia Group, which is made difficult because of the different regulations and ownership rules in various countries. "We are still struggling with that process. It's less than clear. We've done a lot, but we have been hammered for that. We have tried to be as transparent as possible."

Fernandes said with consolidation so much attention is given to each component country. "You know Ryanair is not asked how is Ryanair Poland or Ryanair Hungary doing. It's because it's Europe. It's one airline," he said.

"If we were doing one airline you would just look at the bottom line, but because of the way we have to account for ourselves in different countries it's fragmented and hence you have all these unnecessary questions."

Some affiliates remained unprofitable, he said, but they still contributed to the group as a whole. "AirAsia India contributes immensely to the AirAsia Group. Its flights from Thailand and Malaysia are doing phenomenally well due to our brand having such big prominence, probably for the wrong reasons, but that is thanks to our competitors," he said.

"India, the Philippines and Indonesia as individual countries are not making much money or making money as we would like, but as a group they are contributing phenomenally to the Group's operating profits."

Fernandes is a Mueller admirer

At home in Kuala Lumpur he also welcomes the recovery of Malaysia Airlines (MAB), now edging back into profit after its serious flirtation with bankruptcy. "I feel that there is a chief executive there (Christoph Mueller) who's very focused on cost. This is always a good thing. I'd rather a stronger MAB than a weak MAB that has to be propped up by the government. I think it is good Christoph comes with no baggage and no emotionality and is a good businessman focused on his job and is happy to work with us. We've always been open to co-operation for the betterment of the industry. A healthy industry is good for everyone."

At press time, Mueller announced he would resign as MAB CEO in September "for personal reasons" but will remain at the airline as a non-executive board director.

On the wider stage, there is one subject where Fernandes has been very vocal: the need for ASEAN (Association of Southeast Asian Nations) countries to work together.

"If ASEAN doesn't get it together then we are going to be marginalized by China and India. As an economics student - I'm not a very good economics student - economic co-operation is a real benefit."

Lots of progress has been made with ASEAN open skies, with most countries having ratified it, although some barriers remain, he said. "I am very optimistic. I am hoping this forms the framework for an ASEAN aviation authority and an ASEAN form of Eurocontrol (Europe's overall air traffic management system) so we have more efficiency. We have to persuade governments they are not going to lose sovereignty," he said.

After playing a prominent role in the formation of the Association of Malaysian Air Carriers (AMAC) last month,

an initiative sparked by the Malaysian government's plans to dramatically increase air service charges, he hoped an ASEAN airline association could come into being soon.

He would like to see a consensus reached with ASEAN that would allow some measures to be introduced in the region even if there was not unanimous agreement among the ten members. Visa rules are one example. "If eight countries agree, go ahead with it. That is better than nothing. You sit on the doorstep of India and China yet in some cases those people have to get five or six visas to travel round ASEAN," he said.

Operationally, the AirAsia Group is expanding after a period of slowed growth that included deferral of some aircraft deliveries. At last December 31, AirAsia and its affiliates were operating 188 A320-200s. On order are 41 A320-200s and 300 A320neos, with many of them destined for fleet replacement.

"We are not looking at more orders, but there are some interesting developments coming along. Certainly, if all the associates start firing then we are short of planes. We are definitely short of planes. When we do it, how we do it, we'll just wait and see," he said.

Fernandes is not concerned about possible over-capacity, given the large orders placed by LCCs around the region. He said Indonesia's Lion Air and AirAsia itself are the only two budget carriers with really large aircraft orders in place.

"From our standpoint, we cut back dramatically and have been adding capacity in the single figures. We'll restart to grow. I don't see any other airline doing stupid orders. We are small given the population Asia has and Europe has far more aircraft than the 700 operating in ASEAN," he said.

The long-haul arm, AirAsia X, which recently launched to Auckland via the Gold Coast in Australia, is to re-launch to London, a route it terminated along with Paris in 2012. Fernandes said the return is "imminent" and negotiations are underway with UK airports.

It will finally allow him to make his European trips aboard his own heavy metal. Since AirAsia X withdrew from London, he has mainly flown with Singapore Airlines and thinks he has probably been one of its best customers between Singapore and London. "The crew is always fantastic and treat me really well. They surprised me with a birthday cake and a card on one flight."

> If ASEAN doesn't get it together we are going to be marginalized by China and India. As an economics student - I'm not a very good economics student – I understand economic co-operation is a real benefit
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> **Tony Fernandes**
> AirAsia Group CEO

Now operating 20 A330-300s, AirAsia X has 55 A330-900neos on order, with deliveries from 2018, and 10 A350-900s that will begin to arrive at the airline later this year.

But above all, it is his AirAsia Group employees that get Fernandes out of bed in the morning. He is in awe of the job they have done, and continue to do, despite the huge obstacles they have faced. "I look at KLIA2 (Kuala Lumpur International Airport 2) and see the number of places we fly to and how people are happy. We have made the world a smaller place. The other great thing that may be under-reported a little bit is that we have broken down discrimination with females and female pilots," he said.

"I know there are lots of stories, but we set the blaze. We have created pilots from dispatch boys and created chief executives from cabin crew. It's been a great story. We reached 300 million passengers last August. My hair stands on end. It was not so long ago that we had just two planes."

In fact, the original airline was launched in 1993 by a government-owned conglomerate and was heavily in debt when Fernandes and Kamarudin bought it for RM1 (around 25 US cents) in 2001.

So how long will he stick around? "I have always said I'm not going to be here forever and I don't think I should be. I'm not a leader who wants to create a dynasty," he said.

But you can be sure of one thing. He will be there as long as it takes to prove to his detractors wrong about the AirAsia Group and its longevity. ■

ASEAN ambitions

AirAsia Group boss, Tony Fernandes has his eye on more affiliates. His dream would be to have AirAsia clones in every ASEAN country, but at some stage he would probably look at adding two, with Vietnam a particular target.

"We need to capture more opportunities in ASEAN. We are in six countries and would like to add a couple more. It is nice to have an airline in all parts of ASEAN, say Cambodia, Myanmar, Vietnam, Brunei and Laos. China also is a big market for us. It is a dream, but let us now deliver what we have," he said.

Politics limits congestion improvements

Integration of Asia-Pacific air traffic management is an achingly complicated process. Airlines and airports are lobbying governments hard to fully implement the huge efficiencies seamless skies would bring to their operations – and their bottom lines.

Tom Ballantyne reports

If there is one issue that unites airlines, air navigation service providers (ANSPs) and airports it is the belief that the region's governments are not moving fast enough to address the damage the region's increasingly crowded skies is doing to their businesses.

"It is happening in some parts of the Asia-Pacific, but this is not universal," International Air Transport Association (IATA) director general and CEO, Tony Tyler, has said.

The Civil Air Navigation Service Organization's (CANSO) director general, Jeff Poole, said some nations fully accept the concept of seamless airspace. They recognize the [positive] impact it would have on capacity, efficiency and connectivity and the boost it would give to the region's collective economy. "But unfortunately others are focused solely on their own national airspace," he said.

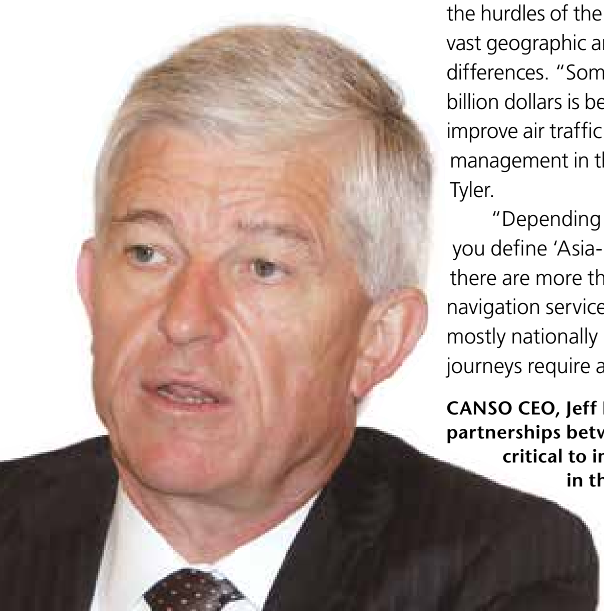
Speaking at a CANSO Asia Pacific Conference, Poole said a clear message had been sent to all nations and their ANSPs. They needed to recognize the value of aviation to their economies and accept the necessity of investing in ATM to ensure sufficient capacity was offered to airlines and efficient operations were maintained.

The Seamless Asian Sky project is at the heart of CANSO and IATA ATM strategy for the region and is a pivotal element in the strategic plan for the ATM industry, Vision 2020.

Industry insiders said, however, adoption of Seamless Asian Skies has to overcome the hurdles of the region's vast geographic and cultural differences. "Some three billion dollars is being spent to improve air traffic capacity and management in the region," said Tyler.

"Depending on how you define 'Asia-Pacific', there are more than 40 air navigation service providers, mostly nationally based. Many journeys require airlines to fly through airspace managed by multiple providers. The Seamless Asian Sky project has the commonsense aim of using joined-up thinking to make it as safe and efficient as possible to fly across the region and into adjacent airspace as well."

Poole said seamless skies would allow aircraft to navigate across national borders and FIRs (Flight Information Regions) in the whole region, selecting the most efficient route for each flight.



CANSO CEO, Jeff Poole: partnerships between nations critical to improving ATM in the Asia-Pacific

Tyler calls on China to revise its system of sharing military and civilian airspace

IATA director general and CEO, Tony Tyler, pointed out there is one market in Asia that towers above all others in scale. "Nearly 70,000 flights a week operate to, from or within mainland China. This is about 10% of the global total," he said.

"Although much progress has been made in improving the efficiency of China's air traffic management, flight delays in China are a major issue for airlines. The cost of the frustration to both passengers and airlines is real in terms of lost productivity. Without compromising on safety, urgent solutions for China's delays are both needed and possible."

Tyler said much more capacity could be made available with better sharing of airspace between civilian and military operations and by opening domestic routes to international operations.

"Flexibility and predictability would help. In the first instance, that means giving airlines more options to plan their flight routes in light of prevailing weather and traffic conditions. If that is combined with 'flow management' techniques, there would be a further efficiency dividend from greater predictability," he said.

"This will be a big undertaking. We will not have a solution overnight. But I am confident that with a continued and concerted focus on efficiency, it will not be too long before the bottlenecks in China's airspace are freed up."

"Achieving seamless skies is an ambitious goal, but it is achievable with the right attitude and the drive to make it happen," he said.

"While seamless skies is a single concept in a region as large and diverse as Asia Pacific, there is no 'one size fits all' solution. We must take account of many different factors. The region has more than 40 States spread over a huge geographic area, made up of large populations of different races, cultures, history and religions, with many languages that differ completely from the way they are spoken and written."

Another factor in achieving full seamless skies was the differences in economic development among countries in the region. "Strong economies mean high traffic growth in a number of Asia-Pacific nations. Traffic levels range from some of the world's busiest city pairs to low density oceanic routes. In some cases, demand is outstripping airport and airspace capacity," Poole said.

"Also, ANSPs are at various stages of development and have different organizational structures, capabilities and resources. Flights could experience different levels of ATM service as they cross national boundaries and it is the lowest common denominator that determines airspace capacity, safety and efficiency."

Other operational issues to be resolved are the differences airlines encounter when crossing FIR in a region with such large areas of airspace reserved for the military.

"There are different approaches by States to regulation as well as the management of airspace," said Poole. "Some countries recognize that airspace can be organized better over larger areas, but others continue to maintain artificial national boundaries in the sky.

"Each State has its own aviation regulations and priorities about providing and regulating ATM. Unlike Europe, there is no single aviation regulator, which means new technology and procedures have to be approved multiple times."

CANSO advocates that:

- National ATM plans must be consistent with and integrate into the Regional Plan so improvements are optimized and synchronized across the region.
- States and their ANSPs must ensure timely implementation of ATM Plans for the delivery of systems and hardware and the recruitment and training of staff.
- States and their ANSPs should engage in much closer ATM collaboration among neighbours, within sub-regions and in the region as a whole as well as ensuring closer civil military cooperation and the flexible use of airspace.

Poole said three important developments gave the Asia-Pacific a unique opportunity to modernize the region's ATM: technological advances; a greater willingness to cooperate across national boundaries and the commitment of nations to implement system upgrades.

"All the parties believed the International Civil Aviation Organization's (ICAO) Aviation System Block Upgrades (ASBUs) are an important catalyst for achieving seamless skies. ASBUs enable States to modernize their air navigation infrastructure at a pace appropriate for each of them," he said.

"ABSUs focus on improvement: airport operations, global matching and integration of systems and data, optimum capacity and flexible flights and efficient flight paths."

Tyler said: "there is no off-the-shelf solution, but there are some strategies which have been proven effective. A second strategy is to work in partnership." ■

Cathay tackles US$130 million congestion blowout

When Cathay Pacific Airways chief executive, Ivan Chu, announced the airline's 2015 results in March, he said operational challenges, ranging from continued air traffic control adjustments in the Greater China region to increasing congestion at Hong Kong International Airport (HKIA), cost the airline HK$1 billion (US$130 million) for the year.

"Naturally, we are not prepared to sit back and do nothing," he said in his chief executive's column in the April edition of the airline's CX World magazine. The company has developed a Ground Time Optimisation project at its home hub to improve on time performance, quicken aircraft towing around the terminal, introduce more efficient "pit stop" turnaround times for aircraft, eliminate time wasting cleaning practices of aircraft and enforce more stringent departure times for "first wave aircraft" from 7 am to 10 am at the airport.

A second initiative, the Operations Enhancement Project, is formulating a longer term strategy to provide a framework for the airline to adjust from slot planning stage to on-the-day aircraft rotation to cope with the "new normal' of the Greater China operating environment.

"We can see positive trends, but overall On-Time-Performance is still low and the operation is still under pressure day by day," Cathay's General Manager HKIA, Liza Ng, said in CX World.

Singapore and Japan sign historic ATM agreement

At CANSO's World ATM Congress in Madrid in March, the Civil Aviation Authority of Singapore (CAAS) and the Civil Aviation Bureau of Japan (JCAB) signed a Memorandum of Cooperation (MoC) to jointly promote air traffic management (ATM) transformation in the Asia-Pacific.

Signed by Kevin Shum, director-general of CAAS, and Hitoshi Ishizaki, director-deneral of JCAB's Air Navigation Services Department (JANS), it will facilitate the sharing of information, knowledge and expertise between the two organisations. It will also enable collaboration in ATM modernization efforts and in research to develop ATM concepts, solutions and technologies for the next generation of ATM systems.

"The establishment of this MoC furthers CAAS's vision to develop Singapore as a Centre of Excellence (CoE) for ATM. This MoC is CAAS's first with an air navigation services provider from the Asia-Pacific. With our combined experience and expertise in the region, I am confident we will be able to develop valuable ATM solutions for our countries and the Asia-Pacific," said Shum. Ishizaki was "convinced that we could gear up both ATM modernization and Seamless Sky realization by reinforcing mutual cooperation in this area".