Orient aviation

Vol. 23 No. 10
December 2016-January 2017
orientaviation.com

SAVOURING THE PROFIT 'SWEET SPOT'

But no let up on costs campaign says Qantas Airways CEO, Alan Joyce

ORIENT AVIATION PERSON OF THE YEAR 2016

ALAN JOYCE

CEO and Managing Director
Qantas Airways

Orient aviation 23 YEARS

DOUBLE ISSUE

YEAR IN REVIEW
Aviation feats and faces in 2016


The closer we look
at your engine,
the better you see it.
Pratt & Whitney keeps a close eye on every engine we build and service. Then we share our decades of engine intelligence and advances in big data to bring unprecedented performance, predictability and service life to your engine. It's the operational advantage you'll see only from your engine maker. Take a closer look at www.pw.utc.com.
A United Technologies Company
Connect with us
PRATT & WHITNEY
DEPENDABLE ENGINES

CONTENTS

Volume 23, Issue 10

Orient aviation 23 YEARS

PUBLISHED BY

ORIENT AVIATION MEDIA GROUP
Mailing address:
GPO Box 11435 Hong Kong
Office:
17/F Hang Wai Commercial Building,
231-233 Queen's Road East,
Wanchai, Hong Kong
Tel: Editorial (852) 2865 1013
E-mail: info@orientaviation.com
Website: www.orientaviation.com

Publisher & Editor-in-Chief
Christine McGee
E-mail: christine@orientaviation.com

Chief Correspondent
Tom Ballantyne
Tel: (612) 9638 6895
Fax: (612) 9684 2776
E-mail: tomball@ozemail.com.au

Greater China Correspondent
Dominic Lalk
Tel: (852) 2865 1013
E-mail: dominic@orientaviation.com

North Asia Correspondent
Geoffrey Tudor
Tel: (813) 3373 8368
E-mail: tudorgeoffrey47@gmail.com

India Correspondent
R. Thomas
Tel: (852) 2865 1013
E-mail: info@orientaviation.com

Photographers
Rob Finlayson, Colin Parker,
Graham Uden, Ryan Peters

Chief Designer
Chan Ping Kwan

Printing
Printing Station(2008)

ADMINISTRATION

General Manager
Shirley Ho
E-mail: shirley@orientaviation.com

ADVERTISING

Asia-Pacific, Europe & Middle East
Clive Richardson
Tel: (971) 50 554 6608
E-mail: clive@orientaviation.com

The Americas / Canada
Barnes Media Associates
Ray Barnes
Tel: (1 434) 770 4108
Fax: (1 434) 927 5101
E-mail: barnesrv@gmail.com

Follow us on Twitter @orientaviation

Into the unknown

As another year draws to a close, Asia-Pacific airlines can look back on a relatively stable 12 months. Fuel prices have remained moderate. Passenger traffic continues to grow. There were no major crises in the region. Profitability is as good as it has been for years.

But when airline leaders met in Manila for the 60th Assembly of Presidents of the Association of Asia Pacific Airlines last month, there was caution in the air when discussions turned to the year ahead.

Apart from the perennial issues of worsening air traffic congestion and over-capacity, the CEOs were most worried that competition and low oil prices were having an adverse impact on income.

Combined, the two factors have forced down fares to unprecedented levels, with the result that airlines are carrying more passengers but are making less money.

The region's carriers are about to report a combined $6.63 billion profit for 2016, which is their best result in years. The question is can this profit run be sustained in 2017?

International Air Transport Association's (IATA) regional vice president Asia-Pacific, Conrad Clifford, pointed out in an Assembly panel discussion that this year 60% of airline profits will be made in the U.S.

In this region, over-capacity is a particular problem, especially at low-cost carriers. The election of Donald Trump as U.S. president elect and the vote for Brexit have added to industry volatility. Both Europe and North America are very important markets for Asia-Pacific carriers.

"It's very difficult to call the direction of the market. We've had seven years of pretty solid growth. That's been good, but no one really knows where it's going from here," Clifford said.

In the view of Orient Aviation's 2016 Person of the Year, Qantas Airways CEO, Alan Joyce, new technology will be critical in sustaining a profitable airline. As he nears the completion of the Qantas Group's three year turnaround, he said operational and managerial transformation has to become the built-in core of the business and not just a one-off exercise. No one would disagree, but that does not mean it will be easy. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

The way we were

Change of pace
Tony Tyler steps down after his success at IATA

Outstanding performance
CEO Christopher Luxon and all "Air New Zealanders"

An orderly transition
Boeing vice chairman and Airplane unit boss, Ray Conner

Loves business
Ruili Airlines chairman, Dong LeCheng

It's been another year of challenges for the region's airlines with mixed financial results, intensifying competition, unresolved airport and air traffic congestion and plenty of global uncertainty. It also has been a landmark 12 months when a long held industry goal of winning support for a global scheme for reducing emissions from aviation was achieved.

But there also was disquieting news. With Donald Trump as the president-elect of the United States, the Trans-Pacific Partnership (TPP), signed last February by 12 Pacific Rim nations excluding China, has been killed off. An Open Skies agreement between China and the U.S. is in a holding pattern, a trend considered by many in the industry to indicate a return to protectionism in U.S. aviation - at a time when demand from Asia-Pacific carriers to fly to the U.S. has never been greater.

Elsewhere, ASEAN Open Skies has been torturously negotiated to a solution that appears to suit most ASEAN airlines at least some of the time. At press time, Australia and China had agreed to a new Open Skies treaty that removed all capacity restrictions between airlines of both countries. Chinese airlines have inundated Australia with flights since the previous Sino-Australian Open Skies agreement was signed in January 2015. It is estimated that 200 million Mainland tourists will travel overseas by 2020.

The impact of Big Data, cyber security threats and rapid technological change were at the top of the 2016 risks list for airlines. In his landmark **Lunch with Orient Aviation** address in May, the **chairman of Cathay Pacific Airlines, John Slosar**, said airlines who are ignoring the importance of Big Data may not be in business in five years.

In **Technology's Threats** in April in Orient Aviation, it was reported that cyber security insurance could cost the aviation industry up to $25 billion by 2025. Other mega disruption trends are geopolitical instability and regulatory uncertainty, digital vulnerability, complex operating models in an interconnected world and finding the people with the talent to manage and overcome these challenges.

Among the manufacturers competition was as fierce as ever for business in the world's largest future aircraft sector, in a market where the traditional business models of both full service carriers and budget airlines are being challenged. Airbus introduced its latest A350 model, the -1000, in Toulouse in November and said it is committed to delivering the aircraft to its launch customer, testy Qatar Airways, on time in 2017.

Earlier in the year, Boeing said its B787-10 is ahead of schedule, delivery news expected to be enhanced by the streamlining of Boeing's business that was announced last month.

The news was not so good at MRJ. The 70-90 seat aircraft, which is Japan's first domestically produced jet, announced its fifth delivery delay, to mid 2018, in October. Its launch customer, for 25 MRJs, is ANA Holdings, the parent of All Nippon Airways.

The MRJ's problems were a boost for the entry to market of Embraer's new 190-E2 jet, powered by Pratt & Whitney's new Geared Turbo Fan (GTF) engine. It was rolled out at the manufacturer's San Jose dos Campos headquarters in February. The 95-seat E2 had its inaugural flight with Japan Airlines subsidiary, J-Air, in May.

As new aircraft continued to enter the region's fleet, over-capacity and consequent lower yields had an impact that varied across the region. The prevailing view was there were too many budget carriers for too few slots and that consolidation will come in the LCC sector when oil prices rise.

Oil prices were rising at press time, with mixed blessings for airlines. Those who have hedged high will be very relieved. Those who have not, particularly airlines that are suffering from currency depreciation, won't have the best Christmas.

Whatever the price of oil, the burgeoning of Chinese lessors in global aircraft leasing continues. Chasing the money, China's HNA Group devoured Avolon and then CIT Transportation (subject to regulatory approval) making Avolon one of the top three aircraft lessors in the world.

Most of Hong Kong's tycoons are following the lead of China's bank funded lessors and are setting up either in Hong Kong or Singapore. BOC Aviation Ltd, which listed on the Hong Kong Stock Exchange in May, was the first Chinese lessor to identify the value of aircraft leasing for Asian investors.

The Asian invasion continues. In December, Asia's second richest man, Li Ka-shing, agreed that his

in 2016

Re-shaping Airbus
Airbus CEO,
Fabrice Brégier

Riding China's growth
Juneyao Airlines chairman,
Wang Junjin

Cheung Kong Holdings would buy aircraft lessor, CK Hutchinson, a company also owned by Li.

The International Air Transport Association has forecast demand to double with the Asia-Pacific as the biggest driver of demand, in the next two decades.

It was India, however, and not China that was the fastest growing market in 2016, as budget travel boomed and the Modi government removed some of the taxes airlines paid under the old regime.

But China remains a major focus for the industry as it marches towards regional dominance.

The government has persisted with an anti-corruption drive that has seen several senior aviation executives toppled from their posts and also acted to stem air rage by blacklisting badly behaved passengers.

Air China, China Southern and China Eastern are no longer the only games in their respective towns. Fast-growing Hainan Airlines threw more capacity onto international routes and made a major investment in Virgin Australia. Air New Zealand, which had held up to 25.9% in VA, sold its holding to China's Nanshan Group. ■

Achievement of the year

Landmark ICAO environment pact

It was years in the making and involved hundreds of hours of often excruciating discussions, so it was with enormous relief that global aviation leaders could announce at the **International Civil Aviation Organization's (ICAO) 39th Assembly** that a new global market-based measure (GMBM) to control CO_2 emissions from international aviation had been agreed.

The historic agreement gave aviation a place in environmental history as the first global industry to collectively act on the environment.

ICAO's **Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)** is designed to complement the basket of measures, such as technical and operational improvements and advances in alternative fuels, that the air transport community already pursues.

Implementation will begin with a pilot phase, from 2021 through 2023, followed by a first phase - 2024 through 2026. These periods will be voluntary. From 2027 to 2035, all States must participate in the scheme.

CORSIA'S acceptance was not the only breakthrough at the Montreal ICAO Assembly.

Representatives agreed to fast-track a global aviation security plan with the goal of all nations working more closely to prevent security breaches and attacks. The commitment includes standardization of aviation security measures worldwide.

ICAO secretary general, China's Liu Fang, said the new plan "will help define the roles and responsibilities of all the agencies and lead to more progressive and co-ordinated aviation security enforcement". A draft of the plan will be available in May next year.

ICAO is moving speedily to resolve these issues – action it is hardly known for – and was a fitting postscript to another development, the changing of the guard at the **International Air Transport Association (IATA)**, when **retiring IATA boss and former Cathay Pacific Airways chief executive, Tony Tyler,** was acknowledged for his five successful years fighting the airline corner with governments and regulators and for his total commitment to bringing CORSIA into being.

People of the year

In ever turbulent Taiwan, **EVA Air's** board members were witnesses to soap opera in April when jealous siblings and their supporters ousted, in absentia, the airline's **chairman** and qualified pilot, **Chang Kuo-wei**, as he flew a scheduled B777-300ER flight from Taipei to Singapore. Chang, the son of his father's second marriage, inherited EVA's chairmanship and majority ownership of the airline when the elder Chang died in January, aged 88. Unhappy with the decision, the three elder children lined up enough board directors to depose the 45-year-old favoured son. Former EVA Air boss, **Steve Lin Pao-shui**, agreed to return to his old job of running the privately owned carrier.

A few weeks later, the leadership of **Malaysia Airlines Berhad (MAB)** changed hands unexpectedly when **Christoph Mueller**, formerly of Aer Lingus and Lufthansa, resigned as the first western CEO of the airline "for personal reasons". After he decided the job was not for him, his chief operating officer, **Peter Bellew**, a veteran of Irish aviation, including holding senior management positions at Ryanair, was chosen to succeed him. Bellew, who entertained executives at a recent annual regional airline gathering with a very respectable rendition of Karaoke favourite, "Stand By Me', is doing a ball-tearer of a job in moving MAB towards its stated goal of profits in 2018.

In July, at the **International Air Transport Association (IATA), Alexandre de Juniac** succeeded **Tony Tyler** as the **director general and CEO**.

Stronger partnerships
IATA director general and CEO,
Alexandre de Juniac

"My main objective as IATA DG and CEO is to help the business of freedom succeed by adding value to the industry", the **former chairman of Air France/KLM** said in an editorial in **IATA's Airlines International**. "Innovation with speed must also be in the picture. In less than two decades our industry will double in size," he said. "While addressing the problems of the day, the business of freedom will require us to plan and work together with our partners and with completely open minds, for a potentially very different future not that far from now!"

Business was definitely on the mind of **Thai King Power tycoon, Vichai Srivaddhanaprabha**, in 2016, who has had an exceptionally good year to date. As the owner of English football club, **Leicester City**, he raised the premier league trophy high after his underdog team, coached by Claudio Ranieri, won the 2016 English Premier League. The Thai duty free billionaire also was keeping busy in Thailand where he negotiated the purchase of 39% of **Thai AirAsia** for US$$225 million. The deal was completed in June.

Vichai made his billions from the exclusive duty free franchise, King Power, granted to him at Bangkok's Suvarnabhumi International Airport by former prime minister Thaksin – pre the leader's exile. The concession comes up for renewal in 2020 and is not expected to remain an exclusive arrangement.

In September, **Boeing** announced that the father of the B747, **Joe Sutter**, had died at age 95. Sutter led a team of 4,500 engineers who took just 29 months to design and build the first jumbo jet, the 20th century answer to the luxury ocean liner. Its launch in 1970 introduced affordable mass air travel to the world. As a teenager Sutter worked part-time at Boeing to help pay for his aeronautical engineering studies at the University of Washington.

Father of the B747 jumbo jet
Joe Sutter

His time at the company was interrupted by his WW II service in the U.S. Navy and engineering studies at the navy's aviation engineering school. He accepted an engineering position at Boeing where he decided, among other innovations, to put the engines beneath the wing "where they belonged" on the B737. He was the chief engineer of the Jumbo – the world's first twin aisle aircraft – but also worked on the B707, B757 and the B767. He retired in 1986, but remained with Boeing as a consultant, where he had particularly strong relationships with Asia-Pacific airline customers.

In Hong Kong, **HNA Group** controlled full service carrier, **Hong Kong Airlines**, announced, also in September, that the airline's executive vice president and air traffic control (ATC) expert, **Wang Liya**, would be the new **president** of the full service carrier, with immediate effect. Before he joined Hong Kong Airlines, Wang was director general of the Civil Aviation Administration of China's Operations Management Centre. Other key positions he held in Mainland China air traffic management in the last three decades were director general of China's Air Traffic Management Bureau, deputy director general of ATMB central and southern regional administration and membership of the International Civil Aviation Organisation's Air Navigation Commission.

Former president, **Zhang Kui**, was made **co-chairman** of the airline. His fellow **co-chairman** is **Mung Kin Keung**.

China and Singapore focus for foreign aerospace investment

For aircraft manufacturers it was a mixed 2016. **Boeing** and **Airbus** have bumper backlogs that will keep their assembly lines humming for years.

In China, the **COMAC**-produced mid-size twin engine 168 seat C919 has an order book, all from Chinese airlines and aircraft lessors, for 573 of the type plus 333 options and Letters of Intent from 23 customers. At the Zhuhai Air Show in November, the company said it planned its launch flight in early 2017 and that its launch customer would be **China Eastern Airlines**.

Multi-national aerospace companies also are investing millions in manufacturing and completion plants in the region, but largely in China and Singapore. In February, U.S. aircraft engine-maker, **Pratt & Whitney**, officially opened its first manufacturing plant in Singapore, a 16,000 square metre facility at **Seletar Aerospace Park** that produces fan blades and other essential components for the company's new **PurePower Geared Turbo Fan (GTF)** engine family. It is expanding into high pressure turbine discs in the coming months. Pratt & Whitney has orders for more than 7,000 GTF engines. Leading Indian LCC, **Indigo**, has bought the engine for its A320neos that are in service with the Delhi-based carrier.

In China, Airbus broke ground early in the year on its second Tianjin completion centre, this time for the A330, following the success of its A320 Final Assembly Line. In October, Boeing announced its first completion centre in China, for the B737, would be built on the island city of Zhoushan in Zhejiang province. It will be the first completion plant outside the U.S. for the company and will be run in partnership with the state-owned Commercial Aircraft Corporation of China (COMAC).

Playing catch up to Airbus, the Boeing/COMAC joint venture was established in 2015. Green aircraft will be flown from the U.S. for interior outfitting, painting and delivery to Chinese airline clients.

Airbus endured a period of setbacks during the year as cabin suppliers failed to meet the high standards of completion demanded by airline customers and problems emerged with GTF as the engines were proceeding to assembly on early model A350s.

In November, **Airbus CEO, Fabrice Bregier**, told Orient Aviation at the maiden flight of the A350-1000 in Toulouse that issues of poorly constructed toilets to engine failures that had delayed deliveries of the new A320neo and the A350 had eased.

A more controversial decision at the airline was the news that retired Hong Kong police commissioner, **Tang King-shing**, would work alongside Wang as the **vice chairman** and **executive director** of the 10-year-old carrier. A fluent English speaker, which many of Hong Kong Airlines leaders are not, Tang told Orient Aviation in November that his job is to oversee the development strategy of the carrier as well as its corporate governance, legal affairs, audits, security, safety and customer relations. Tang has never worked in aviation, but he served as head of the Kai Tak airport police division and also was commander for South Kowloon which had jurisdiction over the former airport.

Turkish Airlines CEO, aerospace engineer, **Temel Kotil**, resigned from the airline in October to head **Turkish Aerospace Industries**, which turned out to be a very good decision. Kotil and his successor, **Bilal Eksi**, had an uphill battle running the flag carrier in 2016. Tourism suffered an immediate hit when three suicide bombers attacked Istanbul's Ataturk airport, killing 45 people and injuring more than 230, on June 28. On July 15, the government fended off a coup d'etat. As a result, overseas visitors, which are critical to Turkey's economy, fell away as did yields at the airline.

Good timing
Head of Turkish Aerospace Industries, Dr Temel Kotil

In separate Orient Aviation cover stories this year, two of China's new breed of private airline tycoons chronicled their rises from street hawkers to billionaire status in the years that the Mainland's economy opened to the world and Chinese people took to flying with a vengeance. "If it were not for the great tide of reform and opening up, which awoke the entrepreneurial spirit hidden in our hearts, I might still be an honest fisherman like people in my father's village," **Wang Junjin**, **chairman** of Shanghai-headquartered **Juneyao Airlines**, told Orient Aviation.

Ruili Airlines chairman, Dong Lecheng came later to the airline business than Wang, setting up his carrier a little more than two years ago. "I like business. I like challenges. Eventually, I want to have three listed companies," Dong told Orient Aviation in May. "My parents were farmers and did not have any resources so I opened a small roadside grocery store and took my chances." The ruler of Ruili Airlines is Yunnan's third richest man.

There were significant changes at the top at **Boeing** in the closing months of 2016 when the company named new leaders and launched its integrated Services Business. **Boeing vice chairman and CEO of Boeing Commercial Airplanes, Ray Conner (61)**, is retiring and will be succeeded at the airplane division by former president and CEO of GE Aviation Services, **Kevin McAllister (53)**. Conner will stay on as Boeing vice chairman into next year in an orderly transition of the airplane division's top management.

Boeing chairman, president and CEO, Dennis Muilenburg, also announced that Boeing veteran, **Stan Deal**, would be head of the new **Boeing Global Services** unit. The division will provide "a broad portfolio of advanced services and incorporate the capabilities of various subsidiaries within the group, including Aviall and Jeppesen", Boeing said.

Closer to home, **Boeing's vice president of sales for Northeast Asia, Ihssane Mounir**, is to succeed **John Wojick** as the company's sales and marketing leader. In his new role, Mounir will be responsible for the sales and marketing of all commercial airplanes and related services to airlines and leasing companies worldwide. Wojick will retire after 36 years outstanding years with Boeing that included assignments in engineering and all facets of commercial airplane sales and marketing, Conner said.

At Star Alliance, **COO**, **Jeffrey Goh**, will take over from Mark Schwab next month as the alliance's CEO. Malaysian Goh was a legal academic and aviation lawyer before he joined Star from the International Air Transport Association in 2007. Full Asia-Pacific members of the Star Alliance, which is headquartered in Frankfurt, are **Air China, Air India, Air New Zealand, All Nippon Airways, Asiana Airlines, EVA Air, Shenzhen Airlines, Singapore Airlines** and **Thai Airways International**. Shanghai's **Juneyao Airlines** has accepted the invitation to become the alliance's first Connecting Partner. ■

New LCC alliances connect passengers across brand barriers

New budget airlines continued to start operations across the region, both in China and elsewhere, and the eight-member Asia-Pacific LCC Value Alliance was launched. Members are Cebu Pacific, its subsidiary Cebgo, Jeju Air, Nok Air, NokScoot, Scoot, Tigerair, Tigerair Australia and Vanilla Air. A smaller grouping, the U-FLY Alliance, was established early in the year with all-Chinese HNA Group airlines, HK Express, Lucky Air, Urumqi Air and West Air as members.

Well done Tom!

Congratulations to **Orient Aviation's chief correspondent, Tom Ballantyne**, who won the Australasian Aviation Press Club (AAPC) Technical Story of the Year award for his feature article, **Airlines Ignore the Big Data bandwagon at their peril**, published in the September 2016 edition of Orient Aviation. The award, sponsored by Rolls-Royce, was presented to Tom at the annual AAPC dinner in Sydney on November 25.

Pace quickens at MAB as the carrier plans its A380 pilgrimage airline

By Tom Ballantyne

Within Malaysia Airlines (MAB), the planned high density spin off airline the flag carrier eventually hopes to sell on is called Project Hope.

But the Irish-born group managing director of MAB, Peter Bellew, wondered aloud last month if a better label might be Project Faith. Whatever it is called, the carrier's six A380s will be configured with 650-700 seats by the end of 2018. They will form the fleet of a soon to be created MAB subsidiary dedicated to carrying Muslim pilgrims to Mecca for the Hajj and the Umrah.

The as yet un-named airline will have its own Air Operators Certificate (AOC), probably by the second half of next year, said Bellew. After "giving birth" to the new operator, MAB wants to invite outside investors to take it over.

Hajj and Umrah traffic is pretty much predictable over the next twenty years and is growing incredibly fast. It is estimated pilgrimage passengers will reach 30 million in the next decade, he said.

An additional advantage of a dedicated carrier is that the pilgrimage season extends beyond the Hajj - which is compulsory for all able-bodied Muslims and takes place during

the last month of the Islamic calendar. The Umrah, sometimes called the "lesser pilgrimage", is not compulsory but runs for seven or eight months of the year.

After MAB committed to letting the A380s to go, it looked at several options for their disposal, including a straight out sale or wet leasing. "For us, the A380 is too big for the London route. It's four engines are thirsty," said Bellew. He also decided it was too early for a viable A380 secondary market to exist.

MAB has signed a long-term lease for four A350-900s and options on two more. They will replace the A380s at the carrier when they begin arriving in the fourth quarter of next year.

MAB's strategy for its A380s did not mean he thought the aircraft type was a white elephant, Bellew said. "I describe them internally as spaceships. They are not really aircraft. They are like a space shuttle or something. MAB has just completed "C" checks on its A380 fleet. As each aircraft has been going through the hangar I had a peek, crawling all over the whole aircraft," he said.

"I don't know what they were planning to do with them when they built them, but they are put together in the most incredibly strong way. They are showing no signs of wear and

tear at all. I think they will be a bit like the Boeing 707s, which are still flying today. I think a lot of A380s will still be flying in 40 or 50 years."

Bellew revealed his pilgrimage carrier plans not long after Airbus chief operating officer - customers, John Leahy, said he stood by the A380, despite its poor sales in the last two years.

Leahy said two different markets were emerging for the A380: new and used.

"My argument is there are certain markets that will want new and some that will want used. Some of Tim Clark's (Emirates Airline president) used A380s create big marketing opportunities. You will see the market expanding to new operators," said Leahy.

He also said that the long discussed possibility of a re-engineered neo version of A380, which Sir Tim Clark would like in his fleet, would only be built when the time was right. It was inevitable that more carriers would order the A380, not only because of growing airport and airways congestion but because customers clearly prefer flying on the plane, he said. ■

Moving fast at Malaysia Airlines

Continuing its recovery under the leadership of Peter Bellew, Media reported last month that Malaysia Airlines Berhad (MAB) was weighing an order for either B787s or A330neos in 2017 and also was considering fine tuning its narrow body strategy.

The 78 aircraft carrier could place an order for up to 25 A330neos or B787s, said industry consultancy, CAPA, in a decision that would include replacement of its 15 A330ceos.

Its fleet of B737s also is being reviewed as better utilization has meant fewer of the type is needed. CAPA said some B737-800s will be reconfigured with business class seats and others would be converted to an all economy layout.

MAB, which has announced eight new destinations in China, also will introduce a second daily Kuala Lumpur-Shanghai service. Projected seat capacity at MAB is planned to increase by up to 10 per cent next year after its new marketing campaign, offering very competitive fares across the region, is launched.

DISTRIBUTION SYSTEMS

Budget airlines break ground with new booking system

Air Black Box (ABB), the UK-based multi-carrier booking system, whose platform facilitated the launch of the low-cost carrier Value Alliance, has attracted two Asia-Pacific carriers as investors.

Cebu Pacific, the biggest carrier by passengers in the Philippines and Japan's All Nippon Airways (ANA) have joined Scoot, Nok Air and VaultPAD Ventures in funding ABB Asia Pacific. ANA operates the LCC, Vanilla Air, and is a joint venture investor in another Japanese LCC, Peach Aviation. The Singapore Airlines Group owns Scoot and Thai Airways International is a part owner of Nok Air.

Two founding members of the Value Alliance – Vanilla Air under ANA Holdings, and Cebu Pacific – have each acquired a 15% shareholding in the new company. Scoot and Nok Air also are investors in the company.

Members of the alliance are Cebu Pacific and its subsidiary Cebgo, Jeju Air, Nok Air, NokScoot, Scoot, Tigerair Singapore, Tigerair Australia and Vanilla Air. They formed their partnership in May to enable direct interline ticket and ancillary sales between member airlines in one booking, a breakthrough made possible with ABB's platform.

The distribution solution provided by ABB, the world's first multi-carrier interlining and booking system, remains the only cloud-based tool capable of providing the interlining needed by members of the budget alliance.

Value Alliance members cooperate across a combined route network of more than 160 destinations. Using ABB, customers can view, select and book available fares on flights from any of the airlines in the Alliance in one transaction directly from each partner's website.

ABB Asia-Pacific general manager, Mildred Cheng, said: "We are in talks with some airlines. I can't reveal who they are, but you can see where the alliance's coverage is lacking right now geographically," she said, and added the markets of China, India, Vietnam and Indonesia are prime targets for ABB Asia-Pacific.

ABB technology also allows for expansion to bilateral interline partnerships, she said. For example, Scoot's website could interline transactions with a full-service carrier from Europe that doesn't belong to the Value Alliance. The benefits of interlining, as opposed to joint ventures or codeshares, are that airlines can cross-merchandise their products without compromising their brand integrity, she said. It is expected the eight members of the Value Alliance will be integrated with the ABB platform in the first quarter of 2017. ■

Right place, right time

A relaxed U.S. visa policy for Chinese visitors, tailored social media marketing and payment tools, low premium fares and increasing corporate traffic from Mainland cities is building trans-Pacific growth for United Airlines.

Dominic Lalk reports

Walter Dias, United Airlines managing director for Greater China and Korea, is no fly in, fly out North American airline executive that local managements often encounter. Hong Kong-based Dias, who trained as an accountant, is a 23-year Asia-Pacific aviation veteran who recognises the phenomenon he is living as outbound Mainland Chinese air traffic to North America explodes.

"The China outbound market continues to grow [for United Airlines]. Last year, outbound to the U.S. was about 2.6 million passengers. This year, we will probably hit three [million], which will be an 18% increase year-on-year," he said.

A huge impetus for the demand expansion was a revised visa policy that allows Mainland Chinese travellers to continually visit the U.S. for ten years on a single visa. The relaxed rule is predicted to increase Mainland visitors to the U.S. to 7.3 million by 2021 and add $85 billion to the North American economy.

Dias also told Orient Aviation the numbers of Mainland carriers flocking to the U.S. was "a good sign", despite their record low fares and dwindling yields. "Traditionally, the Chinese carriers have lagged behind the international carriers, but they are catching up," he said.

"We've seen an annual increase in Beijing of about 22%. In Shanghai, it is hovering around 19% and it's been more or less linear. The total outbound market is growing at about 17%-18% every year."

"The problem for us is we cannot add capacity in the same linear fashion, so we are in one of these situations where we may be above the current demand curve, but as time progresses it will come back and meet the demand curve," he said, as he outlined United's rationale for offering premium return fares between Shanghai and Los Angeles or Chicago for as low as $1800. "If there is one market in this world that can digest this, it is China," he said.

Nevertheless, Dias is aware of the challenges of the Mainland market. "The large cities have some capacity constraints. Air traffic control has been constrained, but I know the Civil Aviation Administration of China (CAAC) has it very high on their list of things to improve," he said.

In the meantime, United remains hell bent on opening routes to Chinese second and third-tier cities that it considers have enough citizens with disposable income for travel.

"United was the North American launch customer of the B787. One of the reasons we went down that path was we had markets in China such as Chengdu, Changsha, Wuhan or Hangzhou in mind. It really changed the world. Suddenly, we could establish destinations we would never have dreamed about five or ten years ago," he said.

In 2014, United launched San Francisco-Chengdu with B787-8s, which began as a three times a week service but now is twice a week. It added a B787 seasonal San Francisco-Xian route in May, followed by San Francisco-Hangzhou, both at three times a week.

Dias said United has noticed an increase in corporate traffic from Chengdu. "There's a lot of tech activity. There also is some oil and energy sector business that is continuing to move along. For us, Chengdu is doing OK. It's been meeting the forecasts we originally put together for it," Dias said. "From a U.S. perspective, we're seeing phenomenal growth from China."

When asked about launch subsidies for Chengdu, Xian and Hangzhou, Dias said he could not comment, but he acknowledged "[local] governments have been very supportive, at the airport, in marketing, just in general very supportive".

United extended its "strategic partnership" with Star Alliance fellow, Air China, in March. "We kind of re-signed and extended, but also deepened the relationship," Dias said, and added the two carriers have 100 code shares on each of their airlines.

One of Dias' jobs is to make sure United provides effortless communication channels with Chinese passengers. He has introduced a United WeChat channel, pioneered UnionPay for onboard sales and introduced AliPay on united.com.

The carrier will receive the first of 14 on-order B777-300ERs in December, with the remaining 13 -300ERs delivered to its Chicago home base by June. Outfitted with the new Polaris cabin, the airline's new "all-aisle" product will replace United's BusinessFirst product. GlobalFirst will be phased out due to limp passenger demand. ■

Philippine Airlines continues resurgence under Bautista

Philippines Airlines has reported softer profits this year compared with 2015, but the airline's chief operating officer and president, Jaime Bautista, is far from discouraged as he plans a network expansion.

Tom Ballantyne reports from Manila

Philippine Airlines (PAL) president and chief operating officer will report lower profits for his airline this year compared with the carrier's net profit of $129 million in 2015. But a seven per cent revenue increase, to $2.4 billion, will ensure 2016 will be a good year for PAL, Jaime Bautista said.

"We have flown more passengers and operated more flights this year, but the yields went down," Bautista said. "Other airlines in the region are experiencing the same problem. Air fares have dropped. Yield declines have been in double digit figures. Our capacity grew by 17%. Passenger numbers grew by almost the same amount, but our revenue is almost flat."

Despite the yield decline, PAL has expanded its fleet and added to its network, he told Orient Aviation. Back in charge at the airline after tobacco tycoon, Lucio Tan, repurchased the carrier from Ramon Ang's San Miguel brewery empire, the PAL boss has taken delivery of four A321s and one B777-300ER. Another B777 will arrive in Manila this month.

The inauguration of its latest B777 will bring the carrier's fleet, a mix of B777-300ERs, A340s, A330s, A321s and Bombardier Q400s and Q300s, to 81 aircraft. The ageing A340s will be phased out as the airline accepts delivery of six A350s from March 2018 to mid-2019.

The new aircraft means the carrier can extend its European network beyond London. "When we complete the A350 orders we are looking at possibly Frankfurt and Paris," said Bautista.

PAL also wants to identify a European partner. It does not have any code share agreements in Europe that allow it to transit its London-bound passengers onto inter-European flights under a PAL code. Bautista said "our people are working with some European airlines" to remedy this situation.

In North America, the airline has increased its flights to Los Angeles to a B777-300ER double daily service and will add capacity to Vancouver and Honolulu. "That will be made possible by the reconfiguration of more than half its fleet of A330s", Bautista said. Eight of the type are 414-seat single class planes and seven are fitted with a three-class 368 seat configuration.

"Those with 414 seats are relatively new so we will reconfigure them to a little over 300 seats with Business, Premium Economy and Economy and a state-of-the art IFE system with wireless connectivity," he said. "They will fly Manila-Sydney, Manila-Honolulu and to Japan, a very lucrative route, and possibly South Korea and Bangkok."

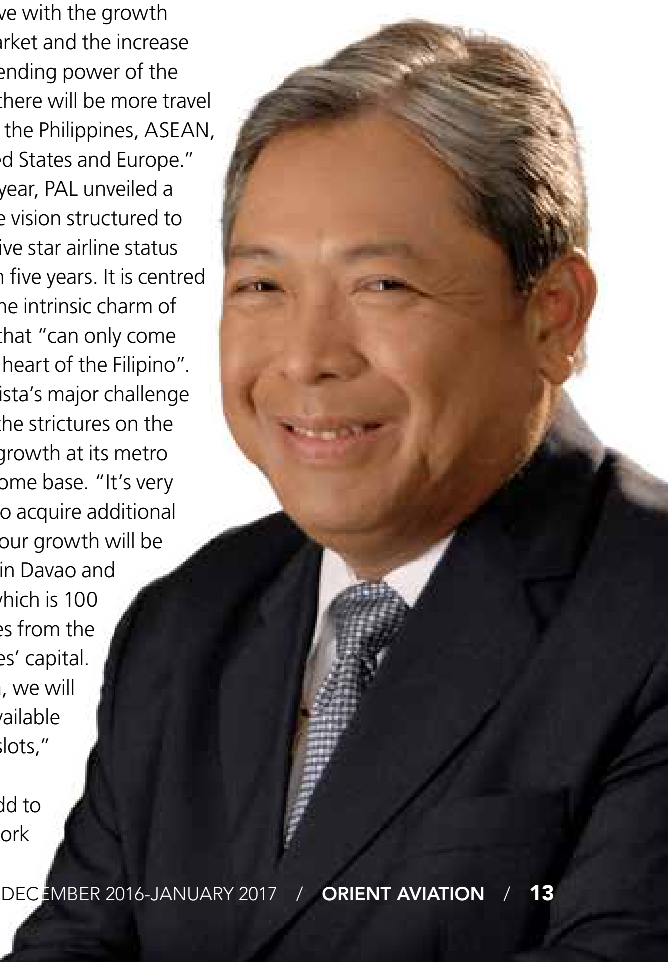
Not surprisingly, China is high on PAL's agenda. It flies to Beijing, Shanghai, Guangzhou and Xiamen as well as Hong Kong and Macau. "We're looking at Chengdu as a destination and working with some travel agents about establishing charter agreements from cities in China to Cebu, Boracay and Puerto Princesa," Bautista said.

"More Filipinos are travelling. We believe with the growth in the market and the increase in the spending power of the Filipinos there will be more travel between the Philippines, ASEAN, the United States and Europe."

This year, PAL unveiled a corporate vision structured to achieve five star airline status for PAL in five years. It is centred around the intrinsic charm of Filipinos that "can only come from the heart of the Filipino".

Bautista's major challenge remains the strictures on the carrier's growth at its metro Manila home base. "It's very difficult to acquire additional slots. So our growth will be in Cebu, in Davao and Clark – which is 100 kilometres from the Philippines' capital. In Manila, we will bid for available evening slots," he said.

To add to the network while attractive slots remain unavailable at Manila's Ninoy Aquino International Airport, PAL has begun increasing its flights from secondary cities. It inaugurated a Cebu-Singapore service this month, which will be followed by additions to its regional network from airports elsewhere in the Philippines in the second or third quarter of next year. ■



MORE VOLATILITY AHEAD

Air passenger traffic will be up, but the year ahead is loaded with risk delegates heard at the 60th Assembly of the Association of Asia-Pacific Airlines last month.

Tom Ballantyne reports from Manila

A rising oil price, sustained over capacity, currency fluctuations, increased borrowing costs and global political uncertainty are the major threats Asia-Pacific airlines face in the coming year.

As 2016 draws to a close, the region's airlines are on track for reporting improved profitability for the last 12 months, with US$6.63 billion in combined earnings, but the question asked at the Association of Asia Pacific Airlines (AAPA) Assembly of Presidents last month was could this profit momentum be sustained in 2017.

The industry had "probably seen the most of that stimulus from the low oil price", said the AAPA director general, Andrew Herdman. He added: "it would be unrealistic to expect this average growth rate to continue although it is still above trend and still strong.

"Having said that, the number of airlines competing for a share of the region's air passenger growth is as wide as ever. Competition is intense and it is in fares."

Recent airline results have reflected the difficult operating environment. Among them was Singapore Airlines' 70% decline in net profit for the three months to September 30, reported in a period the airline described as "tepid".

In mid-October, Cathay Pacific Airways issued a profit warning in response to "overcapacity and strong competition", an operating climate already reported by Emirates Airline and Air New Zealand. At the end of the same month, Qantas warned after tax profit could decline by up 16% in coming months.

International Air Transport Association (IATA) regional vice president Asia Pacific, Conrad Clifford, who moderated the Outlook and Challenges for the Aviation Industry panel

at the Assembly, said the global industry was more profitable than ever, at $36.3 billion in 2016, but the U.S. carriers were making almost 60% of the money.

"In the Asia-Pacific, apart from the extra capacity in the market that has pushed prices and fares down, we've seen the rise of the Gulf carriers," he said. "We've seen the emergence of LCCs in many different forms and all of them have increased competition in our market.

"We also are experiencing market uncertainty globally from Brexit and the recent election of Donald Trump as U.S. president. We've had seven years of pretty solid growth, but no one knows where it's going to go from here. The only certainty we have in our region, thankfully, is that growth will continue. The challenge will be to make money from that growth."

Founder and principal of Endau Analytics, Shukor Yusof, said risks for airlines in the coming year included revenue volatility, the cost of borrowing, fuel price movements and the uncertainty surrounding the Brexit. Europe is a huge source of revenue for many Asia-Pacific carriers.

"At the same time, Asia-Pacific carriers are well positioned to cope with industry changes," he said. "For example, will oil prices stay at these levels? We don't know. Our projection is they will be low for the first half of 2017 and may well go to around $70 from there onwards."

Managing currency risk would be challenging, he said. "A lot of carriers in the region – Malaysia, Thailand, even Singapore – are seeing their currencies severely impacted by the strength of the US dollar. Combined, these factors don't

Association of Asia-Pacific Airlines director general, Andrew Herdman: Governments continue to misjudge the strength and negative sentiment felt by Asian airline leaders about the unnecessary burden of misguided policies and unjustified taxation

Getting that camel into the tent

Speaking on the sidelines of the Association of Asia-Pacific Airlines Assembly of Presidents last month, Airbus chief operating officer - customers, John Leahy, told Orient Aviation the manufacturer now holds 90% of the budget carrier market in Japan.

He said Airbus had long been frustrated by the fact that Boeing "basically had a lock" on the Japanese airline market for so many years.

"But we knew once we got the camel's nose under the tent things were going to change in a hurry and sure enough that's what's happening. Airlines are starting to look at our airplanes. JAL [Japan Airlines] went with the A350 after finally deciding to take a close look at what our airplanes offer. ANA has the A380 and will be flying it soon," he said.

Airbus' latest Japanese victory was the firm order of 10 A320neo and three A320ceo from ANA Holdings joint venture budget carrier, Peach Aviation. The deal was sealed between Peach Aviation CEO, Shinichi Inoue, and Airbus president and CEO, Fabrice Brégier on November 18.

Leahy said the LCCs are important in Japan and are opening up the Airbus product to a broader market base. "The old way of doing things [in Japan] was with the Boeing product. The new way of doing things in Japan is with the Airbus product. I think that's a double win for us," he said.

In the last five years Airbus has won more than 100 orders and commitments from Japanese airlines. In 2013, Japan Airlines ordered 31 A350XWB plus 25 options.

In 2014 and 2015, All Nippon Airways signed for 37 A320 family aircraft and added three A380s last January. Airbus' backlog of firm orders in Japan stands at 86 aircraft.

Leahy said: "Our overall share of aircraft in service in Japan will rise to at least 30% in the next ten years."

> Very well-managed carriers are doing everything right. Load factors are good. Traffic is growing, but the bottom line is still disappointing. In Asia, and in other regions, the passenger can capture all the benefit. Is that sustainable?

Andrew Herdman
Association of Asia-Pacific Airlines director general

allow the airlines to have the advantages they should have."

Added Herdman: "Low air fares were keeping planes full, but passengers rather than airline bottom lines were the winners from the low oil price.

"Anecdotally, to maintain load factors airlines have had to give away more on fares than they had expected," he said. "Very well-managed carriers are doing everything right. Load factors are good. Traffic is growing, but the bottom line is still disappointing. In Asia, and in other regions, the passenger can capture all the benefit. Is that sustainable?

For now, the picture is positive. Asia-Pacific carriers' profits are about in line or slightly ahead of the same period last year, said Herdman. "The projection that Asian airlines will make slightly more in 2016 than last year has no reason to be doubted at the moment," he said.

Philippine Airlines president and chief operating officer, Jaime Bautista, who hosted the Assembly said: "We are based in a region blessed with many opportunities. Asia-Pacific international passenger demand is growing at a clip of 6.9% this year, which is ahead of the global average and far ahead of Europe and North America.

"Asia-Pacific airlines do not run away from change," he said. "Instead, we are forcefully igniting change, producing change, making change our friend and partner and inspiration. For change is the greenhouse of opportunity."

Bautista said the airlines' main concerns were: "Airport slot and infrastructure shortages, onerous taxes and charges, burdensome and needlessly complex regulations, red tape that produces red ink, the quest for effective ways to protect the earth and the call for a more connected world. These are the challenges we face every day," he said.

Malaysia Airlines Berhad group managing director and chief executive, Peter Bellew, told delegates that in all his years in the industry he had never seen an opportunity that matched what Asian carriers have before them.

"China and tourism outbound from China is like tourism was out of Germany, the UK, France and the Netherlands 40 years ago," he said. "Only four per cent of people in China have a passport. They are going to target 12% in 10 years. That's 150 million more people that will start to take trips. Where are they going to go? They are going to start by going to the region in the first few years," he said.

"The biggest issue is being able to handle them. There has to be enough hotel rooms. Infrastructure investment in hotels, resorts, theme parks and attractions is required.

"The challenges are a shortage of pilots and not enough hotel rooms. There is a time lag in the development of airport structure, but the opportunity is enormous. Airlines may have to consider building their own hotels to meet the shortfall."

Thai Airways International (THAI) president, Charamporn Jotikasthira, said when the requirement for Chinese visitors to have visas for Thailand was lifted, the number of passengers increased from three million to nine million.

The influx overwhelmed Thai airport immigration facilities. "The infrastructure was not able to cope with that jump (in passenger numbers), so you [THAI] can't capture the full opportunity," he said.

IATA's Clifford added: "Japan set a target of 20 million inbound tourists by 2020. Because of the cheaper yen and the relaxation of visa restrictions, particularly in China, it hit the 20 million target by 2015. It is now raised to 40 million by 2020."

Unsurprisingly, the rise and rise of LCCs in the year ahead was the subject of discussion at the assembly. THAI's Charamporn said low-cost carrier participation in Thailand

We also are experiencing market uncertainty globally from Brexit and the recent election of Donald Trump as U.S. president. We've had seven years of pretty solid growth, but no one knows where it's going to go from here. The only certainty we have in our region, thankfully, is that growth will continue. The challenge will be how to make money from that growth

Conrad Clifford
International Air Transport Association (IATA) regional vice president Asia Pacific

was amongst the highest in the world, at 53%.

"In the past, we let them do their business of competing in the low-cost arena. Now, we have to compete with them," he said. Legacy airlines needed new strategies to deal with the situation, including using their scale to negotiate cost reductions with suppliers. Non-LCC carriers also must be more active in marketing their airlines, he said.

MAB's Bellew said there are far too many low-cost airlines in the region and that Malaysia's short-haul market "is the toughest in the world". "You have unbelievable competition. On some routes there are triple the number of seats required for the market. People are blowing each other's brains out with low fares," he said.

He also forecast consolidation for Asian LCCs. "Budget airlines don't have critical mass so they will hit the same issues as the U.S. LCCs did. Here, there are too many airlines chasing too few slots and too few passengers. It's very easy to acquire 25-30 aircraft. To go up to 80 or a 100 is when it is tricky," he said.

"If you don't have scale you are fine for five, six or seven years, but then you start having maintenance issues that are very expensive. When the fuel price inevitably goes back up, I think that's when the shake-up will happen.

"Lots of airlines in Europe and the U.S. went bust and I think it will happen here. Consolidation will happen [in the LCC sector] here."

Aside from the global factors outlined by speakers and panelists at the Manila Assembly, Herdman said the barriers imposed by governments continue to threaten short-term profitability and maximum potential in the long term.

"The AAPA remains deeply concerned about safety oversight in the region, where carriers can sometimes find themselves subjected to restrictions or even banned from operating to other countries because of insufficient national regulatory oversight that does not match accepted international standards," he said.

"Governments continue to misjudge the strength and negative sentiment felt by Asian airline leaders about the unnecessary burden of misguided policies and unjustified taxation," said Herdman. He believed removing barriers to industry growth and profitability was ultimately beneficial to the growth of economies, and that it was critical for governments to recognize that. ■

Bullish Boeing

The growth is relentless and will continue. That was the message in Manila from Boeing's senior vice president sales Asia Pacific & India, Dinesh Keskar, in his media update for projected aircraft sales in the Asia-Pacific in the next two decades.

The region's airlines would need 3,860 new airplanes, valued at $566 billion, in the next twenty years, he said. Of these, almost three-quarters of the new orders would be for growth and a quarter, at 1,040 airplanes, would be for replacement.

Boeing estimated global airlines would require 39,620 new airplanes, valued at $5.9 trillion, in the forecast period. Single aisle aircraft would make up 71% of the orders, Keskar said. Fifty one per cent will be small and medium wide-body jets, with seating capacity of 400 or more, and the rest would be wide-body aircraft, whose value of $230 billion was "nothing to sneeze at", said Keskar.

He said the biggest trend in the aviation market was the emerging economies of China and India, and the significant growth of low-cost carriers, "making the market more diverse and balanced".

New non-stop destinations are being opened up because of the ability of the latest aircraft to go to places that could not happen before, driven by the propensity of people to travel, he said.

"The highest rate of growth in Southeast Asia is dominated by India at 8.9%," he said, and predicted Oceania - Australia, New Zealand and nearby island countries - would significantly build their fleets to catch up with the region's two future airline market leaders.

Unbridled ambition

Hong Kong Airlines, which celebrated its 10th anniversary last month, aims to topple Cathay Pacific and Cathay Dragon from their positions as Hong Kong' best full service carriers. It is an enormous challenge for the Mainland-owned airline, but as two of its leaders told Orient Aviation, launching international routes and leasing A350 aircraft will take them closer to their goal.

China-controlled Hong Kong Airlines (HX) has had more than its share of critical headlines since it launched a decade ago. It has been criticized for its below par on-ground and cabin crew service and lambasted for its poor on time performance, cancelled flights and unsettling safety incidents.

It also has attracted attention from analysts who question its financial viability and its seemingly unlimited sources of funding. It has an opaque fiscal profile that has not been helped by the airline's cancellation of three initial public offerings (IPO) in the last four years, including a dual currency listing planned for March last year in Hong Kong.

The subsidiary of the Mainland property, hospitality and aviation conglomerate, HNA Group, attracted more headlines in September when it was announced that a former police commissioner of Hong Kong, Tang King-shing, who retired from the force's top job in 2011, had been appointed vice chairman of the carrier and executive director of the airline's board.

Tang, who is a Hong Kong delegate to the Mainland advisory body, the Chinese People's Political Consultative Conference (CPPCC), told Orient Aviation last month that his job is to oversee the airline's development strategies and corporate governance, legal affairs and audits, security, safety and customer relations.

It's a big role to fill, especially as Tang's only airport and airline experience has been his time as airport police chief at Hong Kong's former international airport at Kai Tak and then as district commander of southern Kowloon where the former airport was located.

Tang is not fazed by the criticisms and said he was brought on board to support a carrier in growth mode. At press time, HX had a 36 city network. It launched seven destinations in 2015 and added 11 this year, including Hong Kong to Cairns, Australia's Gold Coast and Auckland. Seoul will join the network this month. It has 11 A320s, 18 A330s and five A330 freighters.

When the carrier begins flying A350-900 wide body jets next year, it will set about developing a global network. "The key words are gradual and progressive. If we work out, from a business point of view, that yes this is the place to go then we will go. Unfortunately, all these issues take time," he said.

HX's chief operating officer, Ben Wong, said: "We have at least three or four A350s coming next year." The carrier has ordered 15 A350s, for delivery from 2018, but it wants the type to join the fleet earlier, so it has gone to the market to seek leases for six more. "We have secured three, but there will be around six of the leased ones coming from next year. By the end of 2018, we will have more than 50 aircraft, mainly wide bodies," Wong said.

"Our plan is to cover areas in North America, including Vancouver, which is a destination we are focusing on now. Ideally, we would like to provide that service by the middle of next year, but nothing has been 100% confirmed."

The airline's first service to U.S. territory started in mid-year, with flights to the Pacific island of Saipan. Tang declined to name the U.S. cities on the carrier's radar, but said the A350s would open up Los Angeles, San Francisco, Honolulu and New York as possible destinations.

"We are growing very fast. For 10 years we have been operating regionally. But we are situated in Hong Kong, which is an international hub with geographic benefits. So we consider we have to be ready for our ultra-long-haul routes. It's the reason we have prepared the way using code-share and interline arrangements. So far, we have signed 11 code-share agreements and 69 interline agreements,"

> Is Hong Kong Airlines profitable? "Yes, of course, otherwise how are we going to celebrate our 10th anniversary? Not with a big margin. We also have to keep our shareholder happy
>
> **Tang king-shing**
> Hong Kong Airlines vice chairman and executive director of the board

said Wong.

One of these partnerships, forged in 2014 and extended last month, is with Etihad Airways. Under the expanded agreement, HX has placed its code on Etihad Airways flights between Abu Dhabi and Paris, Dusseldorf, Frankfurt, Manchester, Milan, Munich, New York and Zurich. Etihad has placed its 'EY' code on HX's scheduled flights between Hong Kong and Auckland.

"As an expanding company with a base in a major international aviation hub, we would like to see our presence grow by gradual expansion to North America and European destinations. How and where we will be flying has not been decided," he said.

In the last decade, HX has carried more than 26.5 million passengers. It has 10% of the market in Hong Kong. Its cargo penetration, at one of the world's biggest air freight hubs, is 6.7%.

Facing competition from both the best full service carriers and several LCCs out of Hong Kong, HX is attempting to add differentiation to its passenger experience. "If you travel on HX on your birthday, we give you with a free pass to our VIP lounge with another passenger of your own choice, even if you have an economy class ticket," said Wong.

There also is a mobile app designed to give continual assistance to passengers with 24/7 staff available to resolve passenger problems. On board, dedicated cabin crew look after and play with children.

In a major development, HX is moving 90% of its flights to the year-old midfield concourse (MFC) at Hong Kong International Airport. HX said 99% of its passengers board their flights via air bridges at the MFC, which has improved the airline's on-time performance.

A new VIP lounge, which is double the size of the current one in the main terminal, is being built

The carrier has ordered 15 A350s, for delivery from 2018, but it wants the type to join the fleet earlier, so we have gone to the market to seek leases for six more. We have secured three, but there will be around six of the leased ones coming from next year. By the end of 2018, we will have more than 50 aircraft, mainly wide bodies

Ben Wong
Hong Kong Airlines COO

at the MFC and will open in the first quarter of next year.

Like all airlines operating in Hong Kong, HX faces congestion and slot issues. Wong said everyone at Hong Kong airport, at the airlines and at the relevant authorities is working to solve the problem.

"The third runway is coming and should be in place by 2023. By then, the infrastructure issues, hopefully, will be finally resolved," he said.

"The Mainland and Chinese governments "are opening up new routes, particularly from Shanghai to Hong Kong, over the sea rather than inland. That will greatly alleviate the pressure of the airways congestion, particularly in the Shanghai area. We are working with the governments to see whether similar approach can be made for other areas," said Wong.

Some of HX's operations have been questioned by observers. The CAPA consultancy suggested in a recent report that its operations are increasingly overlapping with budget airline, HK Express, which also is ultimately owned by HNA Group.

It said its roles are undefined and uncoordinated and there is a risk the two carriers will compete with each other rather than combining their different propositions to address multiple segments of the markets.

Wong said: "on the face of it, the observation appears correct, but the observation is not correct. HK Express is an LCC whereas HX is providing full airline service to our passengers. So some overlapping of our destinations is not really much of a problem.

"First of all, the fare base is different. With the service we are providing we are much more comprehensive than HK Express," said Wong. Indeed, HX argues this applies to all competing budget operators.

China is critical to HX's strategy. It needs to soak up Chinese travelers and feed them through Hong Kong to the rest of the world. "Again, our overall strategy is to take advantage of Hong Kong's location as an international aviation hub," said the COO.

"We fully understand that Hong Kong, with just over seven million people, is not adequate from a business point of view. But if you look at Canton, we are talking about a population of 57 million, which is a big number compared with our own population. Add to that the business growth and industrial activity in Southeast Asia and you can understand our strategy."

HX is expanding its Chinese network, including to second and third tier cities in western China that will provide passenger feed for its regional and planned international network. "We need both, not only regional. We have built regional as a foundation and will progressively extend to longer-haul international," he said.

Is HX profitable? "Yes, of course, otherwise how are we going to celebrate our 10th anniversary," said Tang. "Not with a big margin. We also have to keep our shareholder happy." ■

SAVOURING THE PROFIT SWEET SPOT

Orient Aviation's 2016 Person of The Year, Qantas Airways CEO, Alan Joyce, said the company is in a "sweet spot" after earning record profits in the last 18 months and nearing completion of a billion dollar plus transformation program.

Tom Ballantyne reports from Sydney

The worst of times and the best of times. That is the sum of Alan Joyce's last five years as Qantas Airways CEO. Back then, in 2011, bitter union disputes and record losses had taken the iconic Flying Kangaroo to its lowest point in recent history.

Remarkably, through it all, Irish-born Joyce (50), remained publicly stoic as he fought to turnaround a carrier that was in a lot of trouble.

His determination, despite public constant criticism of his competence, to put Qantas on sure ground for the long term has paid off. In 2016, Qantas is in a "sweet spot", he told Orient Aviation last month.

For the first half of the fiscal year, ending December 31, the group is expected to report a profit ranging from A$743 million to A$788.375 million (US$593.6 million and US$630.7 million).

"It would be the third best result in our history, if we achieve in that range. Considering most of our peers are down 50% to 80%, with a few exceptions, Qantas is outperforming just about everybody in the region," he said. "For us, the most important goal is to maintain that outperformance so we can continue to invest in aircraft and product, invest in and reward our people and provide a return for our shareholders."

Roll back two years and the news was not so good. At the 2014 results announcement, Joyce faced the media and his shareholders with the news that the group had lost $2.1 billion for the fiscal 2014 year. It was the biggest bad number in the history of the 95-year old carrier and the criticism of his leadership was crushing.

A big part of the loss was the decision to write down the value of much of the fleet and implement a radical transformation plan that management and the Qantas Board believed would return the group to sustained profitability.

By 2016 Qantas had climbed out of the rough. It reported the biggest profit in its history, $1.2 billion, for the year to June 30. Qantas Domestic, Qantas International, the budget Jetstar stable and Qantas Loyalty all reported record results.

Joyce said the group had achieved permanent cost and revenue savings of $1.23 billion in the last two years and expected the savings to reach $1.56 billion when the three-year transformation program ended next June. This year, 25,000 staff received a one-off bonus of $2,225 and some $370.8 million was returned to the carrier's long suffering shareholders.

Joyce, using a horse racing analogy, said Qantas hit the trifecta this year for three main reasons. "The first is having the best financial performance we've ever had, which meant we could pay down a huge amount of debt, record profitability and strengthen the balance sheet for the company," he said. "Then it was getting the fleet to its youngest age in our history. That is investing in the hard product of seats and aircraft.

"What was also really special about the transformation was that we saw the best customer ratings we have ever had across all of our businesses. And nearly every month we are still seeing that good level of customer satisfaction.

"The third component, which is extremely important for us, is that our people engagement is at a record high. In our minds, we got the trifecta, getting our people, the customers and your shareholders, all of your stakeholders, into a very good position."

Qantas has ordered eight B787-9 Dreamliners, with purchase rights and options on another 45. "There is huge potential for growing. This is going to be a game-changing aircraft for Qantas," Joyce predicted.

As well, two new businesses, Qantas Assure health insurance and a combined loyalty and cash card, Qantas Cash, have been launched. "The continued growth of our loyalty business and the launch of businesses that are an extension of our brand are innovative. I don't think any other airline across the globe does these things," he said.

The loyalty scheme has 11.6 million members and generates $240 million in annual earnings. "What that has done, along with the success of our Domestic business, is put us into a unique situation. Two thirds of the group's earnings come from very stable domestic and loyalty businesses," he said.

"It makes us unique from a profitability point of view. Many other carriers are subject to the volatilities of the global airline travel business."

Joyce said after the transformation program concluded in six months, the group would not ease up on cost management. "We will go into an ongoing program. We know costs have to keep coming out of the business because airfares are always coming down. In the last decade, domestic airfares were down 30% and international down 40%. We have seen a hugely competitive environment in the aviation market," he said.

"We know that will continue. You are going to have to use new technology, new ways of doing things to remain efficient in our business. So past this program, which was an accelerated transformation program, it will be a task that has to be the natural core of your business and has to be built into your business."

What Joyce, his management team and staff have achieved has to be understood on a broader canvas than

American and Qantas abandon alliance expansion

Qantas and American Airlines have abandoned plans to expand their existing alliance after the U.S. Department of Transportation (DoT) issued an indicative denial of the application. DoT said an expanded alliance "would create a potentially anti-competitive environment given the scale of the resulting joint business, which would account for approximately 60% of seats between the U.S. and Australia".

American said DoT's ruling not to extend the 14-day period for the airlines to respond to the decision was the reason for its change of mind. A reply would take longer than that, it said. Current code-share agreements will remain in effect, the two airlines said.

Emirates partnership forged pivot to Asia

When Emirates came along, it brought change to Asia, which until then had essentially been a transit point to Europe for Qantas. "We redesigned the Asian network and that has made a massive difference. We were able to put the right aircraft in. Instead of B747s and A380s flying back-to-back to Singapore we have the A330s. It rebalanced us," said Qantas Airways CEO, Alan Joyce.

"We made this pivot to Asia because of the growth in Asia. We used to have one third of our capacity to Europe, one third to Asia and one third to North America. We now have around 12% to Europe, 50% to Asia and the rest to North America. It is a complete rebalancing that we could not have done without the Emirates Alliance."

just losses and stratospheric oil prices. In 2011, a bitter labor dispute with pilots, ground staff and engineers over pay and conditions led to the unthinkable: Joyce locked out staff and grounded the airline's entire fleet worldwide. Stranded passengers across the world went ballistic.

"The union action had been very effective. Under Australian legislation they could call disputes, giving us 72 hours' notice about the action. We would cancel flights. Once the flights were cancelled the unions would call off the action," he said.

"We ended up having to pay the employees who were taking the action but we had no revenue during that four hour period. The impact on the airline was unbelievably significant."

From the group's point of view there was worse to come. The unions said the campaign of disruption could go on for months, even years. Qantas was losing around $20 million a week and the peak Christmas season was approaching.

At airport lounges Joyce "found staff crying because of the abuse they were receiving from customers who did not understand why we were so unreliable. They also were crying because they could see our best customers walking down the road to our competition. We knew we couldn't survive".

There were three choices: continue and essentially bankrupt the airline, concede to the unions or take the lock-out action. Planes had to be grounded. As key staff were locked out any safety issues that emerged during the lock-out period could not be addressed. In the end, the dramatic coup de grace ended the dispute within days.

Joyce said he could not have taken the decision without Board backing. "We have a fantastic Board and chairman who always supported the strategy and the direction we were taking for the company. It's about continuous communication. They are the best advisers any CEO or management could have," he said.

Chairman Leigh Clifford came to Qantas from mining giant, Rio Tinto, where he was chief executive. "Mining is a very cyclical business. It also is a business with its own industrial relations issues so Leigh understood the stresses and strains that Qantas was going through. As a consequence, he was very understanding about our strategy."

Leigh told Joyce that as CEO, grounding the airline was his call. "But I needed to know the Board was fully behind me," said Joyce. "He spoke to each of the directors and said: 'Do you support the decision or not?' There was unanimous support, which gave me a lot more confidence about the decision and what we had to go through in the next few days. I knew fully that the Board was completely behind what had occurred."

Another major strategic shift was Qantas' alliance with Emirates Airline. The partnership saw Qantas shift its Australia-Europe operations from a Singapore midway hub to Dubai. It was extremely controversial, but it has paid huge dividends.

"The year before the Emirates alliance, on all of our code-share partners into Europe with a Qantas code – Cathay Pacific, Finnair, British Airways and others – we carried 400,000 people. This year, we will carry more than 1.7 million passengers on the Qantas code with Emirates. It has more than quadrupled the number of people we are putting over to Europe," he said.

Joyce said the Emirates partnership has been fantastic for three reasons. It allowed Qantas to take capital out of Europe by dropping Paris and Frankfurt. "Particularly Frankfurt. That was losing us a fortune," he said.

It also brought change to Asia, which until then had essentially been a transit point to Europe.

The third leg of the profitability rise was produced by its Loyalty and Domestic businesses. "Instead of competing with a bad network to Europe, we've have the best network to Europe and we have seen massive growth in our loyalty program.

"We have the ability to fly people to 39 destinations in Europe. They can burn their frequent flyer points on the Emirates network and earn frequent flyer points on Emirates. It has really strengthened our core Domestic and frequent flyer business," he said.

Joyce plans for more to run in the partnership. Emirates president, Sir Tim Clark, and Joyce, along with their teams, met in Australia recently to mull over ideas. "There's a lot more we can do to co-ordinate and improve on the partnership," he said.

One development that clearly excites him is the arrival, from next year, of the B787-9s. "It's an aircraft that in some ways is perfect for Qantas. It's an aircraft that gives you maintenance and fuel saving efficiencies and it has allowed us to change some of our union agreements in order to take the aircraft.

"Our pilots were great. They came to the table. There are big benefits with that aircraft entering our fleet, which will allow us to increase productivity by nearly 30%." He said the pilots understood that Qantas needed to make the business case work for the new aircraft. "If it made the business case work for acquiring the 787s, it would mean a lot more promotions, a lot more recruitment and a lot more growth for them. If you're a first or second officer that's what you want more than anything else."

Along with technological efficiencies of the B787 and the deal with the pilots comes the aircraft's capability and range. "Given the distance Australia is from a lot of the destinations we'd like to go to, it helps us. There are routes like Melbourne-Dallas, which would be the longest passenger route in the world. It would build on the success of Sydney-Dallas, operated with A380s, which has been phenomenal for us," he said.

"We also are very keen on a Perth-London service, which would be the first time in history that there would be a direct, regular passenger service between Australia and Europe. In fact, they are probably the only two continents, if you discount Antarctica, which do not have a regular direct passenger service."

Qantas sees Perth as a hub for one-stop flights to Europe, giving travelers from Australia's east coast an alternative to one-stop flights through Asia and the Middle East. It has upgraded seating on its domestic A330s to better fit with the onboard seating of long-haul B787 flights.

"If Perth-London works, we have the traffic rights to do Perth-Paris and Perth-Frankfurt. Opening up key European destinations becomes a possibility through that Western hub. It's a natural hub for us. We have all the domestic cities linked to Perth automatically and adding the operations into Europe would be phenomenal. We think it could work."

One aircraft type that won't be expanding its presence in the Qantas fleet is the A380. Qantas operates 12 and has eight more on order, but Joyce keeps deferring deliveries. "They are good aircraft. Customers love them, but 12 aircraft is the right size for us," he said.

"We have them on the right routes, to Los Angeles, Dallas and London. They work. But going past 12 aircraft we don't see a business case. We'd rather see more of the B787s. They allow us to fly directly into more places and on longer routes the A380 can't serve."

Joyce also wants to focus on recruiting the best people to the company. "We continuously talk about making sure

"If Perth-London works we have the traffic rights to do Perth-Paris and Perth-Frankfurt. Opening up key European destinations becomes a possibility through that Western hub. It's a natural hub for us. We have all the domestic cities linked to Perth automatically and adding the operations into Europe would be phenomenal. We think it could work"

Alan Joyce
Qantas Airways CEO

> Joyce plans for more to run in the partnership. Emirates president (Sir) Tim Clark and Joyce, along with their teams, met in Australia recently to mull over new ideas. 'There's a lot more we can do to continue to co-ordinate and improve on the partnership

that we are perceived as an attractive organization. You want to be at the forefront of innovation - that has to come from generation Y and the future generation Z – so we want the best of these people to work for us," he said. "Statistics forecast that soon 50% of the workforce will be generation Y and Z. We are starting to appear in the top two or three companies that people want to work for."

Earlier this year, Qantas advertised for 170 pilots. In ten days it received more than 1,000 applications from around the world. An advertisement for a single auditor attracted 170 applicants worldwide. "We are finding it to be the same for IT and technology jobs. People want to work in an exciting business and for an iconic brand like Qantas," he said.

Joyce, whose background was in IT, is putting Qantas in the forefront of innovation by using technology advances and Big Data to drive efficiencies at the group as quickly as they become viable.

"There are a number of projects in the transformation pipeline that will use information and intelligence systems better than we do today," he said. "For example, Compass is designed to handle disruption, a common issue for airlines.

"At the moment, that process involves a lot of people trying to solve the issues. But with the new technology, information is available from Big Data in minutes rather than hours. It improves and speeds up management decisions."

Qantas also is introducing high speed Wifi across its fleet. A couple of planes have been fitted with the technology and testing will begin early next year. The benefits extend beyond the passenger experience to operational efficiencies that provide instant information to pilots about weather and flight planning. "We think that technology will bring the next wave of efficiencies at airlines," he said.

How has Joyce survived, especially when his critics were baying for his blood? "One, you have to have good people around you. We have an amazing management team. I'm a big believer in diversity and inclusion. So you listen to people a lot. Sometimes you hear things and think 'that's a key item. It's exactly where we should go'. Leveraging that is very important," he said.

"The best leaders I've seen are always humble. A humble nature means you are curious. If you are curious and willing to admit when you are wrong and willing to adapt your strategy as a consequence of that, you will change.

"It's the people who are so convinced they are always right that will end up getting into trouble."

He also finds it useful to compartmentalize tasks. "So when you are here doing an (media) interview that is your entire focus. There might be a lot of things going on out there, but your focus is directly on the thing you're doing," he said.

"At the same time, when I leave work, to go home, jogging, watching TV, reading, I don't think of work, don't talk about work and don't want to have anything to do with work."

For Qantas, Joyce is producing the goods big time. "We want to reward our shareholders for their commitment and investment in Qantas. I have always said if you continue to reward your stakeholders, your customers, your employees and your shareholders you get a virtuous circle going on in your organization. I think Qantas has got that virtuous circle going. I certainly want to maintain that going forward," he said. ■

Airbus' A350-1000 completes maiden flight

In comments typical of the combatant relationship between the world's top two aircraft manufacturers, Airbus president and CEO, Fabrice Brégier, told Orient Aviation at the ceremony to mark the A350-1000 maiden flight in Toulouse last month that the new aircraft "has killed the B777-300ER". He added Airbus remained committed to a production ramp-up of the A350 XWB family to at least 50 a year. "Our goal is to have a backlog that supports production of 10 A350s a month," Brégier said. "I think the percentage of -1000 versus -900 orders will increase." Until now, Airbus has delivered 35 A350s to airline customers.

Issues with the A350 cabin interiors supply chain had eased, the Airbus CEO said. "I am more confident we can meet this number than I was as the end of June," Brégier said on November 24, the date of the maiden flight. But he conceded the following weeks would be "a hell of a challenge".

When asked about the recent B787 sales successes in Mainland China, Brégier said Airbus has had much interest in the A350 from Chinese carriers, but the "initial challenge" was early production slot allocation. "We were successful with Hainan and China Eastern. I believe the A350 will lead the Chinese market in the end," he said. Hainan Airlines subsidiary, Hong Kong Airlines, has 15 -900s in its books and China Eastern Airlines ordered 20 -900s last April.

Guests from Singapore Airlines, Tianjin Airlines, Vistara, AirAsia X, AerCap, Etihad Airways, China Airlines, Japan Airlines, Emirates Airline, All Nippon Airways (ANA), Thai Airways International, Qatar Airways and Qantas Airways attended the ceremonies surrounding the four hour flight over southern France. ANA, Qantas, Emirates, Vistara and Tianjin Airlines have not officially ordered the A350, but Tianjin has said the A350 is part of its fleeting plans.

The -1000 is the largest variant of the A350 XWB family and also is the largest twin engine aircraft in the market. The test flight aircraft was powered by Rolls-Royce Trent XWB-97 engines (97klb).

Launch A350-1000 customer, Qatar Airways, is scheduled to receive its first -1000 in the second half of next year. Airbus has 195 orders from 11 customers for the -1000, compared with 599 for the -900 and a remaining 16 for the -800. Asia-Pacific -1000 customers are Asiana Airlines (10), Cathay Pacific Airways (26), Etihad Airways (22) Japan Airlines (13) and Qatar Airways (37). ***By Dominic Lalk in Toulouse.*** ■

Airbus announces job losses as company's integration continues

The Airbus Group announced on November 29 that it would cut its 136,000 workforce by a progressive reduction of 1,164 positions. The job cuts "will mainly effect support and integrated functions as well as the CTO (Chief Technology Office) organisation", Airbus said.

The merger would conclude the company's headquarters move from Paris and Munich to Toulouse, which would be accompanied by the transfer of 325 positions, the manufacturer said. "At the same time, Airbus Group intends to create up to 230 new jobs "to secure critical skills needed for the company's way ahead in the era of digital transformation".

The group hopes to have an agreement with workers on the job cuts by mid next year. Voluntary departures, redeployments and early retirements will be part of the measures to be discussed the company said. Airbus will complete its integration in 2017, when "Airbus Becomes One" in a process that began in 2012.

Asia's top ten megahubs in 2016

Jakarta's Soekarno-Hatta International airport was the Asia-Pacific's most connected airport, reports air travel intelligence provider, OAG, in its annual report on the world's top 50 megahub airports.

OAG said the Jakarta airport ranked seventh worldwide, with North American airports taking the top six megahub positions. On its busiest day this year, the main gateway airport to Indonesia had 40,000 potential connections between flights within six hours that connected passengers to up to 71 destinations. Airports with strong domestic passenger traffic figured prominently in the Top 50 Megahub Index.

Earlier this year, the Indonesian government announced a five year multi-billion dollar upgrade of the airport, with the intention of turning it into an international ASEAN transit hub.

The top ten Asia-Pacific megahub connected airports are: Indonesia Jakarta (1), Haneda Tokyo (2), Sydney (3), New Delhi (4), Singapore (5), Mumbai (6), Hong Kong (7), Melbourne(8), Kuala Lumpur (9) and Beijing (10). ■

China Aircraft Leasing delivers to HNA Group low-cost carriers

HNA Group controlled low-cost carriers, Lucky Air and West Air, each took delivery of an A320 from Hong Kong-based Mainland lessor, China Aircraft Leasing Group Holdings (CALC), last month. The aircraft, part of Letter of Intents signed earlier this year for two A320s respectively, at the carriers, marked "the commencement of the official co-operation between CALC and HNA Group, said the lessor's deputy CEO and chief commercial officer, Winnie Liu.

"The rapid development of Chinese aviation translates into strong demand for civilian aircraft with a sound performance record from airlines based in western China," she said. Joint venture carrier, Lucky Air Company Ltd is controlled by HNA Group and the Yunnan provincial government. Chongqing-based West Air is owned by the HNA Group. ■

Indian court rules Kingfisher Airlines be wound up

In November, an Indian court ruled that V. J. Mallya's Kingfisher Airlines be wound up after the bankrupt airline failed to settle a US$6 million debt with U.K. component supplier, Aerotron. A few days later, the government attempted to auction off Mallya's private jet after attempts to sell it privately had been unsuccessful.

The High Court of Karnataka, sitting in the state capital of Bangalore, handed down its decision on November 18, in response to Aerotron's 2012 petition to wind up the airline. The ruling will pave the way for an official liquidator to take charge of the accounts and assets of the grounded premium domestic airline. Kingfisher Airlines never reported a profit in its operating life.

Liquor baron Mallya has refused to return from London, where he said he is living in "forced exile" to respond in person to the petition. From afar he has attempted to negotiate settlement of the billions in loans he owes to banks as well as unknown millions of dollars due to airports and governments in unpaid fees and taxes. So far, his terms have fallen far short of creditors' demands.

Kingfisher Airlines was launched in 2005 as India's supreme domestic carrier. Its flamboyant founder, the heir to a Indian drinks conglomerate, placed large orders for aircraft, including the A380, and bought struggling low-cost carrier, Air Deccan.

But the airline was not making money, especially as Mallya insisted continuing an expansion of the carrier's network as fuel prices went through the roof. In October 2012, the airline's staff took strike action. They had not been paid for months. Eight weeks later, Kingfisher's operating licence was suspended and its aircraft were repossessed by lessors.

The Economic Times of India said the airline's lenders, a 17-bank consortium, had taken control of the carrier's remaining assets: its Mumbai offices, the Kingfisher brand and its slogan "Fly the Good Times", Mallya's private jet and his 12,350 square metre Goa villa. All were used as collateral against loans. ■