Orient aviation

Vol. 26 No. 4 May 2019

orientaviation.com

A BOLDER VIETNAM AIRLINES

CEO Duong Tri Thanh favours SkyTeam membership to build U.S. market – for now

Orient aviation 25 YEARS

Boeing's battle to restore reputation

Airports plea for understanding as demands mount for more slots, terminals and ATM solutions

MAX woes "silver" lining for region's lessors

INDUSTRY INSIGHT REPORT

Leasing trends in the Asia-Pacific: an update

Orient aviation 25 YEARS

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

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

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

Asia Editor
Will Horton
Tel: (852) 2865 1013
E-mail: willhhorton@gmail.com

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

Photographers
Rob Finlayson, 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: (44) 7501 185257
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
ray@orientaviation.com

Follow us on Twitter @orientaviation

CONTENTS

Volume **26**, Issue **4**


VIENNA
WHERE CENTRAL EUROPE TAKES OFF
Where emerging markets are only a hop away:
Vienna Airport is the largest hub in the region and on leading position to Central and Eastern Europe. It boasts perfect connections into our catchment area with more than 150 daily bus and high speed train connections as well as direct highway links. Almost 12 million potential passengers in four countries are waiting in the wings for you. Start new business – take off in Vienna.

COMMENT

On the brink

It is often said the airline business is easy to enter and almost impossible to exit. Never has this been truer than in India in 2019. The Modi government has been trying, unsuccessfully, to get rid of government-owned Air India for years. More recently, it has been under pressure to save privately-owned and now grounded Jet Airways.

The government, in the throes of the longest election voting exercise in the world, appears prepared to stand aside as the former darling of Indian aviation mounts a last ditch effort for survival.

The odds are stacked against it. It has debts of US$1.2 billion and climbing, unhappy lessors, suppliers and lenders and a very wishy washy response from investors in assisting Jet's return to the skies.

At the turn of the month, media reported the government was considering allocation of the airline's foreign rights to fellow Indian carriers, failing Air India and LCCs IndiGo and SpiceJet. It was another blow to the airline's chances of resuscitation and would not be encouraging news for potential buyers.

For months Etihad, which owns 24% of Jet, has been nominated by the media as the carrier's White Knight yet there has been no definitive indication the loss-making carrier is making a deal to save Jet. Qatar Airways group CEO, Akbar Al Baker, visited Mumbai to stake out Jet but left empty-handed. Any rescue deal, if struck, would deliver a huge haircut to Jet's creditors, principally its bank lenders.

Jet's bleak future is a stark lesson for today's airline industry. Full-service carriers that fail to meet the multiple challenges of the new economic age cannot expect investors to throw good money after bad. Jet's possible demise should not surprise anyone.

In one of the fastest growing markets in the world, Jet continued to live in the past. In the last decade, it has misjudged the market and constantly changed its leadership. Most particularly, it failed to recognize the threat of India's emerging LCCs to its business.

Ferocious and fruitless fare wars, the failure of its own LCC, India's onerous fuel taxes and foreign exchange losses have not helped Jet as it struggled to keep flying.

The airline's founder, Naresh Goyal, has been an industry icon, building Jet Airways into a full service international carrier within a decade of its launch. His March departure from the chairmanship of Jet was a sad end to a career of great achievement in aviation.

But like Pan Am decades ago and India's Kingfisher Airlines in more recent times, Jet has no God given right to exist if those who manage it fail to adapt to the contemporary realities of running an airline. Sadly, Jet may be too far gone to be turned around. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

Asia-Pacific remains weakest air freight market

In its latest air freight market analysis, the International Air Transport Association (IATA) has reported air cargo volumes rebounded in March, but that the Asia-Pacific was the only region to record cargo volume below that of a year ago.

"Despite a sizeable improvement this month, international FTK (Freight Tonne Kilometres) flown by Asia-Pacific airlines are still 3.8% lower than their levels of a year ago. With the region accounting for around 32% of global FTKs, this weakness is the main contributor to the soft industry wide outcome," IATA said.

"As the world's main manufacturing and assembly hub, the slowdown in world trade combined with the slowing in the Chinese economy in the second half of 2018 and the ongoing trade tensions between China and U.S. have all weighed upon the annual air freight performance for the region."

IATA cautioned however that "freight data are particularly volatile over the opening months of the year, making it difficult to interpret the month-to-month movements".

Averaged worldwide, air cargo volume declined 1.5% over March 2018, with the Asia-Pacific being the main contributor to the global average decline. Since its most recent peak in August 2018, FTKs are down by approximately 4%, IATA said.

Despite the immediate short-term cargo business decline, findings from the association's most recent Business Confidence Survey indicate the industry is relatively optimistic about the air freight outlook for the coming 12 months.

Taking into account capacity is still outpacing demand, 54% of respondents expected the freight business to increase in the coming year with only 13% forecasting an industry fall off. Industry wide, capacity, measured by Available Freight Tonne Kilometres (AFTK) increased by 3.1% year-on-year in March compared with 6%-7% previously.

Generally, IATA said, "freight volumes to and from Europe are growing, but a double digit decline for the North American market and a solid fall for the Asia-Pacific highlight the challengers for the region's carriers".

Hong Kong International Airport is the Asia-Pacific's busiest air freight airport. In 2018, it handled 5.1 million tonnes of air cargo. In recent years, it has established cargo depots at strategic locations in the Pearl River Delta to facilitate the flow of goods from supply chains in China to HKIA air cargo operators.

For the month, the Asia-Pacific's share of the total air freight market was 36.1% followed by Europe (23.4%), North America (23%), Middle East (13.2%), Latin America (2.6%) and Africa (1.7%). ■

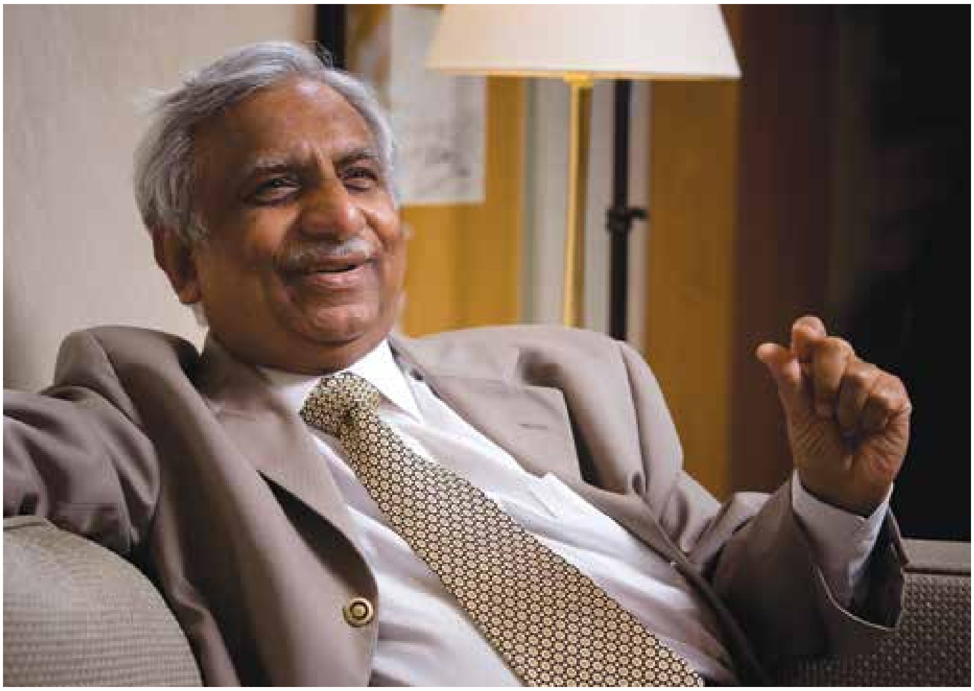
Broke and grounded

Once the country's leading carrier, Jet Airways' long fall from grace has culminated in a desperate attempt to find an investor who will return it to the skies. Associate editor and chief correspondent, Tom Ballantyne, reports on the rise and threatened collapse of India's first privately owned premium carrier.

Jet Airways may be down but it's not quite out. That was the message from the carrier's CEO, Vinay Dube, to Indian media last month when the airline was grounded after lenders refused to inject US$143.29 million into the carrier to keep it temporarily afloat.

With debts of $1.2 billion, no money for fuel, 20,000 direct and contract staff owed months in salaries and lessors taking back aircraft as payments lapse, the airline's fleet ground to a halt on April 17. The final flight, for now, returned to its Mumbai base on April 18.

In a statement, the airline thanked its loyal customers for more than 25 years of loyalty and said it "sincerely and profusely apologizes for the disruption to the travel plans of all its guests. Since no emergency funding from lenders or any other source is forthcoming, the airline will not be able to pay for fuel or other critical services to keep the operations going".



Since mid-April, various investors have submitted Expressions of Interest in the airline. Most recently, a group of the airline's employees wrote to the carrier's lead lender, the State Bank of India (SBI) and asked that a consortium of staff and "outside investors' be allowed to take management control of the Mumbai-headquartered carrier.

The consortium leaders, the Society for Welfare of Indian Pilots and the Jet Aircraft Maintenance Engineers Welfare Association, said airline employees would contribute to the revival of the airline from their future earnings and increased productivity, Indian media reported.

It is generally viewed that a management buyout will not be able to compete with a shortlist that is reported to include, at one time or another, private equity firm, TPG Capital, aviation investor Indigo Partners and India's National Investment and Infrastructure Fund. At press time, it was rumoured some of the cited firms had withdrawn from the process.

Etihad Airways, a 24% shareholder in Jet, is frequently mentioned as a potential Jet savior, but given its previous experiences with bankrupt airberlin and Alitalia and the fact it has reported losses of $2.8 billion in the last 24 months, investing in Jet would be an extremely high-risk venture.

Despite these views, senior Etihad senior adviser and former Jet CEO, Cramer Ball, has been seen on several occasions in Mumbai in the last month where he has been leading negotiations between the two airlines.

Jet CEO, Vinay Dube, an ex-Delta senior executive who is credited with keeping the airline going until its grounding said last month the management is "constantly" engaged with the government and lenders to seek a resolution to the debt crisis and that they will "not leave any stone unturned" in attempts to revive the airline.

"We are in constant touch with the lenders about getting a debt resolution done in a manner that makes sense for them and makes sense for us. I would like to think a flying Jet Airways makes definite sense for them [banks] because it preserves their value

> I suspect there are not that many brave souls out there who would come in, eyes wide open and be willing to assume the liabilities. In my view, it's over
>
> **Shukor Yusof**
> Endau Analytics founder

as well. We are not talking about anything that does not make good economic sense for the lenders. This is not charity for the sake of it," he said.

In another blow for Jet, Indian aviation regulators are planning to allocate the airline's take-off and landing slots to other carriers on a "temporary" basis. India's civil aviation secretary and former Air India chairman and managing director, Pradeep Singh Kharola, told a press conference in Delhi in late April that at least 280 slots were vacant in Mumbai and 160 in Delhi.

In response, Dube said the government had assured the airline this was a temporary move and the slots would be protected for Jet when it recommences flying. "While we have a combination of aircraft that are being deregistered or early terminated, the majority of them have not left the premises," Dube said, and added they would be available to the airline when it re-started flying. Elsewhere, it is being reported other airlines, including state-owned Air India, have been talking to lenders about leasing some of Jet's grounded fleet.

Senior management has been in talks with several companies in attempts to provide its staff with alternative jobs if a rescue does not eventuate.

They also have written to all employees to say the airline has no funds to pay employees medical insurance. Most of Jet's work force has not been paid since January.

Apart from approaching airline rivals to ask them to take on Jet staff, the carrier's chief people officer, Rahul Taneja, has met with Amazon and several non-aeronautical companies to offer them ex-Jet workers.

Full service joint venture carrier, Vistara, is reported to have hired 400 cabin crew and 100 Boeing pilots and is said to be negotiating the lease of 10 planes that are being deregistered by Jet.

Low-cost carrier Spicejet is signing contracts with up to 1,000 ex Jet staff and Air India has said it intends to hire 250 cockpit and cabin crew from its rival airline.

It was reported three senior Jet executives - general counsel Ashok Barimar, vice president planning Abhijit Dasgupta and senior vice president engineering and maintenance Adam Voss – have resigned and that the cargo and products bosses are on leave.

Perhaps the saddest figure of all in Jet's demise is founder Naresh Goyal, who was forced to resign as chairman of the airline in March after he fought a long battle to retain control. "For the past 25 years, Jet Airways has been a way of life for me," he told customers in an email message after stepping down. "I would be lying if I said this was not an emotional moment for me."

Born in Punjab's Sangrur in northwest India, Goyal began his working life in 1967 as a cashier earning $33.40 a month in the travel agency owned by his maternal uncle, Seth Charan Das Ram Lal. After graduating with a commerce degree, Goyal won the General Sales Agent (GSA) contract for Lebanese International Airlines and in 1969, aged 20, he was appointed public relations manager of Iraqi Airways.

He moved to ALIA Royal Jordanian Airlines as regional manager in 1971 and then to Middle Eastern Airlines' Indian branch, where he learnt the intricacies of 1970s style airline ticketing, reservations and sales.

In 1974, with £500 from his mother, he set up his own GSA, Jetair, that represented top tier airlines including Air France, Austrian Airlines and Cathay Pacific, in India. A year later, he added regional manager of Philippine Airlines to his CV. Before starting Jet, he was GSA for 17 foreign airlines in India, a business that was much more influential than travel agencies at the time.

In 1993, Goyal seized the opportunities offered by the opening of the Indian economy and the launch of an Open Skies Policy by the Indian Government to set up Jet Airways, initially as an air taxi operator. A year later, using his Middle East connections he sold a 20% share in fledgling Jet to both Gulf Air and Kuwait Airways. Both carriers later sold out.

Jet launched international services in 2004 and listed successfully on the Mumbai Stock Exchange a year later. The carrier's share price has never recovered from its IPO peak. After Jet went public, Forbes magazine listed Goyal as the sixteenth richest person in India, with a net worth of $1.9 billion. At its peak,

with 22% of the market, Jet operated more than 120 aircraft that flew 600 daily domestic and international flights.

What went wrong? Some analysts point the finger at Goyal's extremely hands-on approach to his airline. They said it created tensions with a number of expatriate CEOs, including Australians, Cramer Ball and Gary Toomey, and Greek-American Nikos Kardassis, all of whom attempted to turn around the airline. In the space of a decade, the airline also had three acting CEOs, Ravishankar Gopalkrishnan, Gaurang Shetty and Amit Agarwal.

Another major contributing factor to Jet's decline was the 2006-2007 purchase of Air Sahara for $500 million in cash, a decision Goyal took against the advice of associates. They said he was paying too much.

At the same time, India's LCC industry was gaining momentum with budget carriers IndiGo and SpiceJet pouring capacity into the market and forcing a fare war Jet could not afford. High oil prices, hefty fuel taxes and a weak rupee added to the pressure on Jet's bottom line. The fates, it appeared, were not being kind to Jet.

As the Global Financial Crisis (GFC) unfolded, Jet was in the process of a major expansion phase using wide bodies. The GFC shredded the market for premium air fares and oil prices began to rise. The airline had to lease its aircraft to other carriers to survive the fuel shock. Then, as it began to recover and retrieve its planes, oil rose again to its highest level in years, sparking another fuel shock.

After protracted negotiations, Etihad Airways paid US$379 million for 24% of Jet when James Hogan was running the Abu Dhabi airline. An Etihad team arrived in Mumbai to fix Jet and introduced a more structured management plan to take the carrier into profit. Within 18 months they exited the revolving C-Suite door unable to persuade Goyal to re-structure the airline.

The result: Jet posted losses in nine of the last 11 years and struggled to pay down its debt, which had risen to $1.6 billion at the end of March last year. If the carrier finds a White Knight and returns to the sky, the future Jet Airways has to be a very different airline to survive. ■

Boeing's battle to restore reputation

The timing of the return to service of Boeing's 737 MAX remains in doubt as regulators from around the world closely study the fix Boeing has developed for the jet's anti-stall system. However long it takes, the impact of the type grounding is hitting Boeing hard, reports associate editor, Tom Ballantyne.

When Boeing disclosed last month that its first quarter financial results had slumped 13%, the news was the first indication of the impact on the company's bottom line of the global grounding of its B737 MAX jet: an estimated US$1 billion since the fleet was taken out of operations on March 13.

That, however, is the tip of the iceberg. The sum only pertains to an increase in production costs for the aircraft. It does not include the predicted compensation Boeing is expected to pay to the families of the 346 victims of the Lion Air and Ethiopian Airlines fatal crashes and to the airlines with grounded jets. To be added to the bill will be the indefinable damage done to the Boeing brand and a potential loss of orders to Airbus by airline customers. The final cost will be billions more.

On May 1, Boeing announced it had appointed its general counsel, J. Michael Luttig, to "manage all legal matters associated with the Lion Air flight 610 and Ethiopian Airlines Flight 302 accidents". The Chicago-headquartered company said Luttig will advise its chairman, president and CEO, Dennis Muilenburg, and the Boeing board of directors.

In Australia, the new CEO of Virgin Australia, Paul Scurrah, last month deferred delivery of the first of its 737 MAX order, an -10. The first MAX 8 aircraft will arrive at VA in 2025. In late March, Garuda Indonesia announced it had asked Boeing for cancellation of its order for 49 737 MAXs. Garuda Indonesia was the first airline in the region to defer 737 MAX planes, a fleet revision it had been considering for several months.

In the meantime, it has become clear Boeing has adopted a slow and extremely cautious approach to convincing authorities the 737 MAX is safe to fly. It did not, as expected at the first quarter results announcement, provide a date for its submission of the type's update to the Joint Authorities Technical Review (JATR), the committee of nine aviation regulators that will review the changes to the aircraft's automated flight control system. When Boeing does submit the documentation it will take at least three months to complete the review, likely grounding the MAX until August or September, at the earliest.

"Across the company, we are focused on safety, returning the 737 MAX to service and earning and re-earning the trust and confidence of customers, regulators and the flying public," said Boeing chairman, president, and CEO, Dennis Muilenburg.

After the production of the MAX was reduced from 52 to 42 a month deliveries of all civil aircraft during the quarter fell to 149 units, a 19% decrease compared with the same quarter last year.

While Boeing profits remain healthy, at $2.1 billion compared with the same three months last year, revenues of $22.9 billion were down 1.98%. The planemaker said its backlog remains substantial at over 5,600 airplanes valued at $399 billion.

Meanwhile, the JATR, made up of the FAA, the European Aviation Safety Agency (EASA) and regulators from China, Australia, Brazil, Canada, Japan, Singapore and the United Arab Emirates (UAE) commenced their joint examination of the MAX update on April 29. The review is being chaired by former U.S. National Transportation Safety Board (NTSB) chairman. Chris Hart. "The team will evaluate aspects of the 737 MAX automated flight control system, including its design and pilots' interaction with the system, to determine its compliance with all applicable regulations and to identify future enhancements that might be needed," the FAA said.

The review began after Boeing completed an engineering test flight on April 16 with the updated maneuvering characteristics augmentation system (MCAS). The software has been implicated in the two fatal accidents. Boeing test pilots completed 120 flights of 203 hours of airtime with the software solution. The manufacturer said more than

> In December 2018, Boeing convened a Safety Review Board (SRB) to consider again whether the absence of the AoA (Angle of Attack) Disagree alert from certain 737 MAX flight displays presented a safety issue. The SRB confirmed Boeing's prior conclusion that it did not. Boeing shared this conclusion and the supporting SRB analysis with the FAA (Federal Aviation Administration)

85% of the 50-plus MAX operators around the globe also had the opportunity to see the update in action during simulator sessions.

During the final test, flight control of a MAX was handed to FAA pilots to test the design enhancements. Boeing said the system will never again overwhelm flight crews, as it did in the two crashes.

Facing criticism it is too close to Boeing, the FAA has invited global regulators to a meeting in Washington DC on May 23 about the MAX as it works to restore public confidence in its oversight. At the forum the agency will outline its process for returning the MAX to service, an FAA official said.

On May 15, the U.S. house Transportation and Infrastructure Committee will hold a hearing on "the status of the Boeing 737 MAX", Reuters reported, and the FAA's aircraft certification program. U.S.Senate commerce committee chairman, Roger Wicker, told the news agency he plans to call Muilenburg to testify at a future date. "I think he will want to," Wicker told Reuters.

Muilenburg , speaking at Boeing Field, south of Seattle last month, with MAX aircraft as a backdrop, said he had been a passenger on a demonstration flight and watched the final update to the MCAS software "operating as designed across a range of flight conditions".

The upgrade is designed to make the anti-stall system less aggressive and prevent the repeated nose-down commands that overwhelmed flight crews flying the Lion Air and Ethiopian Airlines MAXs.

In addition, the MCAS will no longer be triggered by a single erroneous sensor reading as has been indicated in the two accidents. Muilenburg said Boeing's ultimate goal is "to make the 737 MAX one of the safest airplanes to ever fly". ■

AIRPORTS PLEA FOR UNDERSTANDING ON EXPLODING INFRASTRUCTURE DEMANDS

Airport leaders gathered in Hong Kong last month for the World Annual General Assembly committed to closer co-operation with industry peers to hasten infrastructure expansion. Associate editor, Tom Ballantyne, reports from Hong Kong.

When Singapore Changi Airport CEO, Lee Seow Hiang, addressed delegates at Airports Council International's (ACI) World Annual General Assembly (WAGA) in Hong Kong last month, he took pains to point out the Asia-Pacific contributed significantly to global GDP amounting to $2.7 trillion of economic impact.

"Our region has been a key driving force in contributing to world air traffic growth for the past decade. Emerging and developing economies will account for more than 60% of all passenger traffic and much of this growth will come from our region. In fact, of the ten fastest growing countries for passenger traffic from today to 2040, eight out of ten will be in the Asia-Pacific," he said.

But with growth comes tremendous challenges, he said. "Developing infrastructure to keep up with this demand will require substantial investment by all airports. In the Asia-Pacific and the Middle East alone, airports have planned to invest more than US$420 billion in new and existing airports, but it remains to be seen if this level of investment will accommodate the growth of aircraft fleet forecast by Airbus and Boeing," said Lee, who also is ACI Asia-Pacific president.

It was a theme underscored by ACI director general, Angela Gittens, who said collaboration between all those involved is the key. At the assembly, delegates agreed unanimously to increase airport engagement with the International Civil Aviation Organization (ICAO) on capacity building, policy development and environmental protection.

As ICAO plans for its 40th Triennial Assembly from September 24 to October 4 this year, the ACI Assembly confirmed the importance of ACI alignment with the objectives of ICAO to advance a safe, secure, and sustainable air transportation system. In a resolution it recognized the value of working directly with regulators and policy makers to influence decisions at the ICAO level.

It also supported private investment in airports as one option for funding airport construction.

"We recognize at ACI there is no one formula for how we manage, fund or invest in our airports," said Lee. "We believe that with sound regulatory measures privatization is a viable way to finance many of these infrastructure projects."

He pointed to several projects underway in the region, including Navi Mumbai (India) and Western Sydney (Australia) and the major expansion of Hong Kong International Airport as examples of airports and governments responding to airline demand. Beijing's second airport, Daixing, which will open in September, was built to handle 100 million passengers a year.

Gittens said airports continue to serve economies as growth engines and critical contributors to global trade. "At the same time, airport operators face capacity constraints and, with our global medium-term forecast showing almost 30% growth in passenger numbers from 2017 to 2022, many national governments face the predicament of surging air transport demand that is outstripping available airport infrastructure," she said.

"If we are to continue to keep pace with this demand airports must be able to invest, improve and grow. Charges for services rendered to airport users and non-aeronautical revenues are the major sources of funds for airports to invest in infrastructure and service improvements and efforts to irrationally restrict or regulate these things should be avoided"

Angela Gittens
ACI director general

"Generating a positive economic return depends on sound, strategic planning with appropriate financing mechanisms. There is no one size fits all approach and airports must take a long-term perspective to their business and ensure capacity improvements."

Concerns about the pace of infrastructure development came as the latest monthly figures for January were released. They showed little let up in the pace of growth.

Passenger traffic across the Asia-Pacific rose 5.6% for the month, with China overtaking India in the top spot with an 8.1% increase in air passenger demand over the month a year ago.

Domestic and international sectors experienced strong growth, possibly enhanced by the China Lunar holiday cycle. The three airports with the biggest increases in passengers handled were Shanghai Pudong (+8.8%), Guangzhou (+8.6%) and Beijing (+5.8%).

In India, air passenger demand rose 6% over January a year ago but is trending downwards across both domestic and international networks. The bad news persisted on the freight front with air cargo in the Asia-Pacific declining 1.7% amid uncertain global economic conditions and the China/U.S tariff conflict.

In its preliminary report on world airport traffic rankings released in parallel with the Hong Kong conference, ACI said passenger traffic was estimated to reach 8.8 billion for the year, an uplift of 6% compared with 12 months ago.

This increase is above the 4.3% compound annual growth rate for passenger traffic from 2007 to 2017. Again, the air cargo market did not fare as well with a year-end growth figure of only 3.2%.

Reports highlights included:

* Beijing Airport surpassed the 100 million passenger mark in 2018, growing by 5.4% and holding onto second spot after the U.S's Atlanta-Hartsfield-Jackson Airport (more than 107 million passengers) in the top ten global airport table.
* Hong Kong Airport remains the largest air cargo centre in the world, handling more than five million metric tonnes of cargo in 2018, a 1.4% increase over 2017.
* Shanghai Airport was third, with a decline in cargo volumes in 2018 of 1.5%. Shanghai grew by 11.2% in 2017 but this decline indicates demand has softened.

"It is heartening to see global passenger traffic growth has remained resilient in the face of an increasingly tense and challenging geopolitical climate," said Gittens. "However, the protectionist rhetoric that has swept through several Western countries will continue to restrain growth in the efficient flow of people, goods and services."

In other significant findings, India became the world's third largest domestic air passenger market in 2018, after the U.S. and China. India's move towards a more liberalized aviation environment and the nation's strengthening economic fundamentals contributed to its upgraded status.

Keynote speaker at the Hong Kong conference, ICAO secretary general, Dr Fang Liu, said: "Whether we're focused on the increasing prevalence of drone operations or commercial space transport, ICAO has been grateful for the proactive inputs from ACI, governments and other air transport stakeholders as we seek to anticipate and close the gaps that might constrain future air transport growth and innovation."

Remarking on the sector-wide trend of increasing digitalization, she said ICAO must constantly work to be ahead of industry change. As a standards-setting body it is beholden upon ICAO to anticipate and facilitate aviation innovations," she said. "A key challenge this digital revolution poses for us is to find convergent global solutions which can practically apply to divergent local challenges and developments."

She said the exponential growth forecasts for global fleets and passenger volumes and increased cybersecurity risks from aviation's increasing reliance on digital automation, were examples of the necessity of rapid responses from the industry.

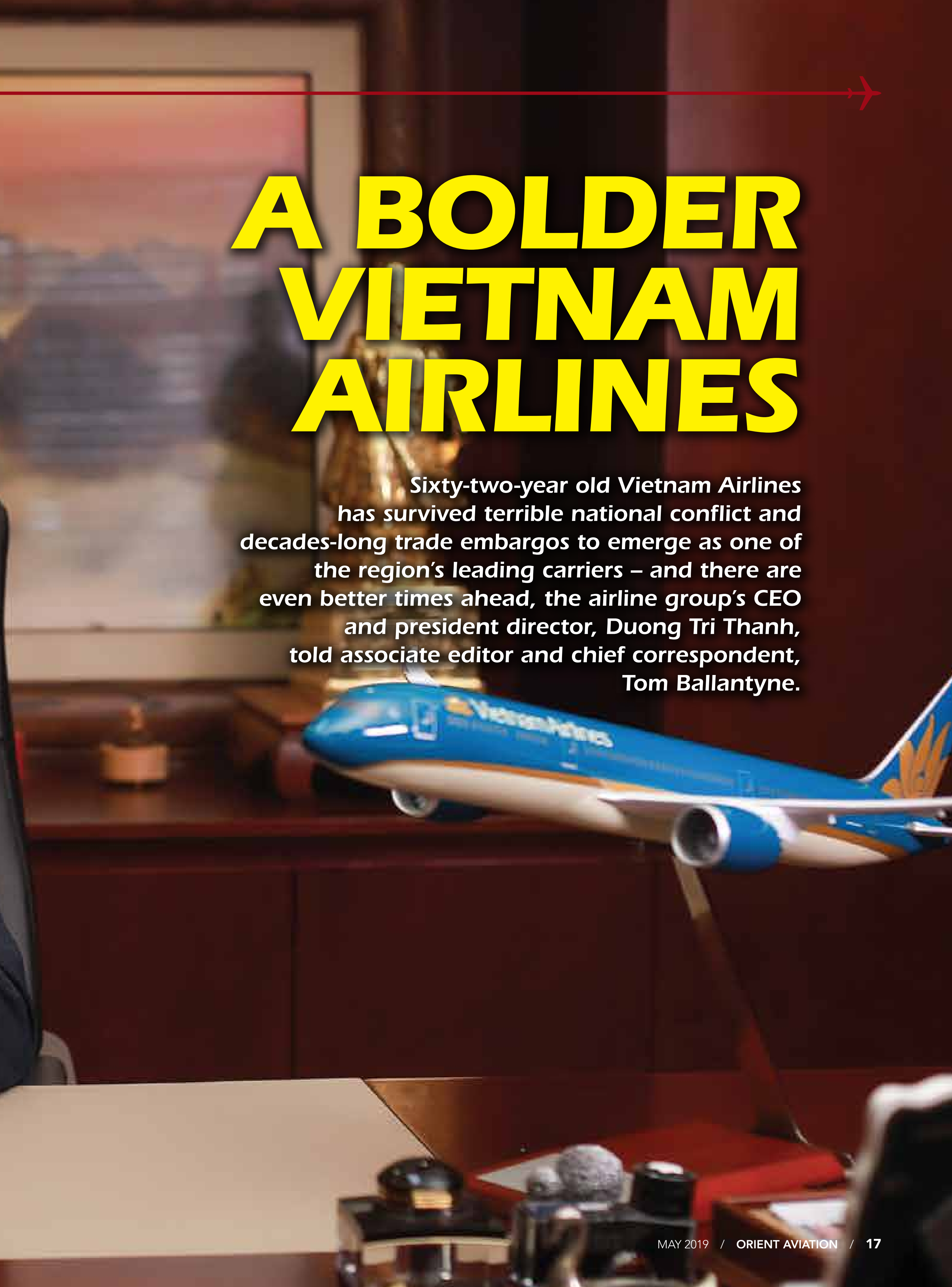
Dr. Liu said ICAO's role was not to be overly prescriptive and therefore to restrict innovation, but to approach the challenges of a digitized air transport sector by establishing "a comprehensive sectoral architecture which will provide a secure core foundation for sustainable air transport digital interoperability".

At the Hong Kong Assembly, hosted by Airport Authority Hong Kong, ACI released several key products and services to promote airport excellence. They included a Cybersecurity for Airport Executives Handbook that recommends critical actions that need to be taken at board level to address cybersecurity.

Other guides on offer are an Airport Business Continuity Handbook that lists best practices when airport operations are disrupted and the Addressing Insider Threat Handbook, which details a combined series of actions that form a robust multi-layered system in line with ACI's risk-based approach to security. ■

A BOLDER VIETNAM AIRLINES

Sixty-two-year old Vietnam Airlines has survived terrible national conflict and decades-long trade embargos to emerge as one of the region's leading carriers – and there are even better times ahead, the airline group's CEO and president director, Duong Tri Thanh, told associate editor and chief correspondent, Tom Ballantyne.



When the U.S. Federal Aviation Administration (FAA) awarded a Category 1 safety rating to Vietnam in February, clearing the way for the first non-stop flights between Vietnam and the United States in aviation history, it was a decision a long time coming.

"This is a great achievement for us as the process spanned more than ten years," Vietnam (VNA) Airlines CEO and president director, Duong Tri Thanh, told Orient Aviation last month. Despite welcoming the breakthrough, Thanh is not about to launch VNA metal across the Pacific any time soon.

Firstly, the carrier does not have aircraft that can make the journey non-stop. Secondly, he realizes one-stop services present a major commercial risk. So, while waiting for suitable planes, the plan is to significantly expand codeshare arrangements with Skyteam Alliance partner, Delta Air Lines.

The approach is a reflection of the measured attitude the quietly spoken, thoughtful 58-year-old has taken since becoming head of VNA in June 2016. The U.S.-Vietnam non-stop opportunity will be developed, but only when the time is right, he said, conceding the Ho Chi Minh City to Los Angeles and San Francisco markets may be among the world's largest unserved non-stops.

At present, passengers travelling between Vietnam and the U.S. must travel via a third country hub, a requirement that has significantly benefitted foreign carriers.

In 2017, Vietnam-U.S. traffic totaled 700,000 passengers with an average growth rate of 8%. Estimates point to traffic increasing by 18%-20% when VNA launches a direct U.S. route. There are an estimated 1.4 million Vietnamese-born residents in the U.S. They make up the sixth largest foreign born group in the country.

"In terms of one-stop, there are about 20 airlines competing in this growing market with convenient transit times via Northeast Asia and Southeast Asia hubs," Thanh said. "Several other factors, including technical complexity and aircraft also have to be taken into consideration when deciding if the Vietnam-U.S. route is commercially viable.

"For the time being, while traffic levels are sufficient, it will be hard to overcome high operating costs and intense one-stop competition given the price sensitivity of leisure passengers.

"We are cooperating with Delta to have codeshare flights from Vietnam to airports in Japan, like Narita, and via Frankfurt to 15 destinations in the U.S. The codeshare products of VNA and Delta will be greatly expanded."

At present, VNA holds an estimated 38% of the domestic market. It is a dramatic decline from a peak of close to 80% eight years ago when LCC Vietjet entered the market. The privately-owned budget carrier, which is expanding like wildfire across the region, holds 48% of the local passenger market.

VNA said careful management, fleet modernization, network expansion and a focus on inflight service have contributed to its improved financial results. Last year, the carrier and its subsidiaries, the 70/30 joint venture Jetstar Pacific with Qantas, and the take up on its domestic carrier, Vietnam Air Services Company (VASCO), earned consolidated revenue that exceeded $4.35 billion for the first time.

> **All the viable commercial opportunities for the direct route are being considered carefully. We have been accelerating the preparation process for potential Vietnam-U.S. flights, but there is still much work to do concerning legal procedures, commercial activities and aircraft resources. In the meantime, we will continue to expand codeshare cooperation with the American carriers until we have suitable aircraft**
>
> **Duong Tri Thanh**
> Vietnam Airlines CEO and president director

Pre-tax profit for the group hit $121.7 million, 15% above forecasts. In 2018, VNA carried more than 22 million passengers on 142,000 flights and shipped 350,000 tonnes of cargo. Its average on-time-performance (OTP) was 90%.

Thanh said last month: "Vietnam Airlines' strong earnings performance capped another year of extraordinary achievement, including surpassing the $87 million mark in profit. We made significant progress on several key initiatives in 2018, including improved human resources management, building an enhanced product portfolio and achieving a higher ranking on the OTP index."

The carrier maintained its profit momentum in the first quarter of this year with a 4.3% increase in revenue to US$1.05 billion. Consolidated profit before tax was already 45% of the forecast plan for 2019.

At press time, the Ho Chi Minh Stock Exchange (HoSE)announced the listing and the first tradind day, May 7, for 1.4 billion shares in Vietnam Airlines. All of the airline's shares were moved from the Unlisted Public Company Market. HoSE listed the airline's value at 14 trillion dong (US$602 million).

Vietnam's domestic market is one of the fastest growing in Asia, where VNA is pitted against ambitious VietJet, and recent arrival, hybrid carrier Bamboo Airlines. Both these airlines have their sights set on long-haul routes.

VNA said it is well positioned to compete with rivals as it is ready to sign off its 2021-2025 fleet development plan. It has a vision strategy in place to 2030, is incorporating new digital industrial technology, Industry 4.0, into the airline and is synchronizing its IT systems and digital business into operations.

"There is increased competition not only in the domestic market, but in the international market because of the presence of new airline models (Ultra LCC, LCC, hybrid).

There is over-capacity and a decrease in average fares. However, it [competition] helps boost demand for the industry and motivates full-service carriers, including us, to improve service quality to compete better," Thanh said.

VNA has implemented its own dual brand model, using the mainline airline, Jetstar Pacific and domestic VASCO to maintain its market presence in both the full-service and low-cost sectors. "Jetstar Pacific learns from the Jetstar Group's low-fare airline model to better compete in the low-fare segment. Both airlines utilize resources such as aircraft and pilots for international and domestic network expansion with convenient schedules. They co-operate in marketing and sale activities," he said.

Thanh told Orient Aviation "we have been fast expanding our network in destinations, frequencies and capacity as well as through joint ventures and code-share cooperation with 26 airlines including Air France, Aeroflot, All Nippon Airlines (ANA), Korean Air, El Al Airlines, Garuda Indonesia, Bangkok Airways and the like. This helps to enhance passenger convenience and boosts VNA's presence in foreign markets."

VNA operates 11 787-9s (with eight more to come) and 14 A350-900s. Its fleet also includes 57 A321-200s, seven A321neo (13 more to come) and three ATR 72-500 turboprops.

"We are the first airline in Vietnam and Asia and also the second worldwide to operate both of the latest new generation aircraft, the A350-900 and the 787-9. Now our focus is our narrow-body fleet strategy. It has just been started with the delivery of some A321neo from an order of 20 aircraft that will be received from now until the end of 2019," Thanh said. "We have almost completed the transformation of our wide-body fleet as we receive more aircraft from the orders we have made."

"Deliveries of the A350s and 787-9s have enabled VNA to phase out its 777s and A330s, which gives us one of the youngest wide-body fleets in the region. These aircraft are flying on the Hanoi-Ho Chi Minh City domestic trunk route and to destinations in Europe, Northeast Asia, Southeast Asia and Australia.

"New generation aircraft such as the A350 and B787 are our game changers. "The A350 fleet is completed, while delivery of the eight 787-10s starts from July 2019 until early 2021. The -10s will allow us to further up-gauge high-demand international and domestic routes.

"By the end of this year our fleet will expand with 12 more A321neo and three 787-10s.

"For the next 5-10 years, we have enough wide-body aircraft and are now shifting focus to a narrow body, fuel efficient type."

VNA expects to supplement its fleet with 50 firm orders, with 50 options, for new generation narrow-bodies to meet market demand from 2021- 2025. As for those non-stop U.S. flights,

Aviation lifer

Aviation has been a lifelong career for Duong Tri Thanh, (58), culminating in his appointment to the top job in June 2016. After he graduated from Vietnam's Foreign Trade University in 1983 he joined the Vietnam Air Traffic Management Corporation of the Civil Aviation Administration of Vietnam as a coordinator controller and then studied at the Vietnam Aviation Academy in 1985.

He was recruited to Vietnam Airlines in 1990 and completed a Master of Science program of Air Transport Management at Cranfield University in the UK in 1994. He was made general manager of the airline's southern branch in 2004 and moved up to executive vice president in 2008, a position he held until he was appointed CEO and president eight years later.

As president and CEO, Thanh has set specific targets for the airline's next five-year plan of safety, quality and efficiency as well as building the partnership with VNA's foreign strategic shareholder, ANA HOLDINGS INC.

Thanh said VNA is examining suitable aircraft to economically operate routes to North America. They include the 777-8X and the A350-1000, with their arrival in Hanoi planned from 2022 once the fleet order is finalized.

While new aircraft are the lynchpin of VNA's expansion, the carrier is intensifying the introduction of technology and digitalization in its operations. "In the fast-changing air travel industry it is vital to improve our digital abilities and create a competitive edge. We aim to become a digital airline by 2020," said Thanh.

"We are the first airline in Vietnam to incorporate wireless streaming complimentary entertainment into our aircraft. Passengers can use their personal electronic devices to connect to the onboard network. It adds competitive edge to Vietnam Airlines' operations." Wi-Fi onboard is being tested on the new A350 fleet and will be launched in the coming months.

The carrier believes it must constantly update its mobile applications to reach its customers and is applying the automated Commercial Analytics tool provided by cloud platform, Salesforce. It provides insights, predicts outcomes, finds recommendations and allows the carrier to act quickly on a complete, AI-powered analytics platform.

It also has enhanced its strategic cooperation with technology solutions provider Sabre. "We incorporated Sabre AirVision Inflight to drive cost savings of up to 10% of the total catering budget. Sabre's Passenger Service System identifies increased revenue opportunities [for us] by tailoring offers and experiences to meet the needs of every traveler," Thanh said.

Social media is not being ignored. "We have a strong base of nearly two million followers on Facebook, with 15 sub-pages in different languages and nearly 90,000 followers on Instagram as well as a presence on Twitter, YouTube and WeChat. These are the most effective channels to communicate with customers both domestically and internationally," he said.

The heart of the carrier's focus is the country's culture. Vietnamese roots and backgrounds are "at the very core of what we are in terms of image, hospitality, inspiration, creativity, innovation and making travel more relaxing but yet still professional", Thanh said.

This includes the traditional Ao dai uniform of the cabin crew, the Lotus brand logo and the signature drinks and seasonal fruits served inflight. "Vietnamese cultural touchpoints are greatly embedded in our products and services," he said.

Like his airline peers across the region, Thanh faces the challenges of airport and air traffic infrastructure shortfalls, congestion and the need to attract pilots to crew an expanding fleet.

"Rapidly growing passenger numbers may spell good news for carriers including VNA, but airspace capacity and airport infrastructure are under unprecedented strain, which results in lower on time performance. VNA is unable to get more slots, especially during peak periods," he said.

"In Ho Chi Minh City, the airport can provide 44 slots per hour in daytime, but demand is 50-55 per hour. In China, VNA has a lot of difficulty when applying for slots at most of airports, especially in Beijing and the Eastern Region, including Nanjing, Qingdao and Shanghai.

"Some 4%-5.3% of VNA flights are affected due to Air Traffic Control, causing many actual flight times to be 40 minutes longer than scheduled. Compared with 2016, the Hanoi-Ho Chi Minh City flight time has increased by about 20-25 minutes per flight," he said.

Relief is on the way but it will be some time coming. Construction is progressing on an international airport at Long Thanh, 40 km east of Ho Chi Minh City with operations scheduled to commence in 2025. It will have four runways, three terminal buildings and is planned to handle 100 million passengers a year.

"Until then," said Thanh, "we will have to accommodate ourselves to the situation." Four other international airports, at Cat Bi, Phu Bai, Vinh and Chu Lai, are being renovated to tackle the surge in demand."

On the network front Thanh said: "We want to maintain our position and market share in markets where we have strong presence. While there is a lot of room for growth, congestion in our main hubs, especially Ho Chi Minh City, results in crowded terminals and outdated facilities, making it impossible for us to increase frequencies except at night.

New listing to reduce government equity

A recent critical development has been the April announcement that the Ho Chi Minh Stock Exchange (HOSE) has approved a listing of 1.4 billion VNA shares on the Southern Vietnam bourse, marking the latest step in the government's plans to reduce its ownership in the flag carrier to 51%.

The carrier's shares were traded on the Unlisted Public Company Market (UPCoM). VNA is 86.1%-owned by the country's Ministry of Transportation. It had an IPO in 2014 when it sold a 3.48% equity stake. VNA shares are traded on UPCoM at around VND 40,900 each (US$1.77), valuing the company at around $2.5 billion.

Listing on HOSE is expected to improve VNA's corporate transparency, standardize management practices and provide greater investor access to the group. In 2016, All Nippon Airways (ANA) spent $108 million for 8.8% of VNA becoming VNA's first foreign investor. . Foreign ownership of Vietnamese airlines is capped at 30%. It is expected the imminent share sale will attract another private investor.

"The Government of Vietnam decided it would reduce its share in Vietnam Airlines to 51%. It would mean from here to a few years [ahead] the government would divest more than 35% of its shares. The way to do that is the combination of the government selling its shares or we issue new shares so the dilution would give way to more investors, a new airline or strategic partner," said Vietnam Airlines CEO and president director, Duong Tri Thanh.

"We want to add domestic routes to meet increasing tourism as well as enhancing connectivity between the country's large economic zones, hence boosting regional economic development."

Internationally, VNA will add flights on existing routes to Europe and review the possibility of launching routes. "It is hard for international arrivals to reach 19% growth, as was the case in 2015-2018, because of infrastructure constraints. As well, key markets like China and Korea have hit their limits. We will consider launching more services connecting tourist destinations in Vietnam with North and Southeast Asia."

Thanh pointed out the advantages of its SkyTeam membership, which allowed VNA to "reap the benefits" of an extensive global network of 14,500 daily flights to 1,150 destinations in more than 175 countries. Additional benefits from the alliance are SkyPriority, SkyTransfer, SkyTeam Rebooking and Round The World ticketing.

"Through code sharing with SkyTeam members, we have extended our global network to 60 offline routes to 45 destinations to which VNA does not operate. We also have better access to loyal customers thanks to the cooperation of FFP programs among SkyTeam members.

"We are encouraged to improve our product and service quality and raise technical standards to international levels to fully enjoy the benefits that the alliance offers and create a seamless travel experience to our customers with SkyTeam carriers." ■

Proud record of local pilot training

"Nearly 75% of VNA pilots and 95% of A350/B787 pilots are Vietnamese, showcasing that we stay true to our heritage," said Duong Tri Thanh.

"We take great pride in VNA's ability to master advanced technology. We believe this is a valuable asset to our company. It is useful to have exposure to aircraft technology from both Europe and North America.

"From having to hire up to 50% of expat pilots in 2010, by 2018 the percentage of local pilots accounted for nearly 75%. We have medium and long-term strategies for pilot increment in line with market growth."

VNA established the joint venture, Viet Fly Training Company, with Airbus and ESMA to promote cadet training. "We provide world-class training with the launch of the first flight simulator complex in Vietnam, in partnership with CAE, one of the world's leading civil aviation training organizations. The facility provides programmes for A320/A321/A350 and 787 aircraft, a milestone in VNA's training investment," he said.

"We are focusing on improving the quality of instructors and examiners. VNA has developed an income plan as well as additional benefits for better long-term financial management for pilots. VNA's compensation and remuneration levels for pilots are comparable to those of major regional airlines."

AFI KLM E&M signs deals with three airlines across region

AFI KLM E&M has brought new customer, **Virgin Australia**, into its fold and extended its partnerships with **Air Tahiti** and **Gulf Air**.

Australia's second largest carrier, Virgin Australia (VA), and Paris headquartered AFI KLM E&M have agreed to a component support contract for the airline's five 777-300ERS that covers flight hour repairs, access to the spares pool and provision of on-site stock at Los Angeles. The component support program is jointly operated by the MRO with Boeing, offering VA the combined expertise of an MRO and an airframe manufacturer.

Across the Pacific, Air Tahiti has chosen the global MRO to provide component support and line maintenance services for the airline's four 787-9s. The new contract is an extension of the relationship between the airline and the MRO that began with support of the Polynesian carrier's A340-300s.

Air Tahiti executive vice president operations. **Raymond Topin**, said the technical and operational know-how developed by AFI KLM E&M for 787 support was the compelling factor in clinching the new agreement between the two parties.

In the Middle East, Gulf Air broadened its commercial relationship with the MRO with the signing of a long-term agreement for servicing component support for its APUs. Gulf Air will have access to the MRO's predictive maintenance solution, **PROGNOS for APU**, which was launched in 2017. The analytics tool also is available for engines and aircraft. The Big Data technology predicts faults in airlines' APUs that rationalize MRO decision-making, avoid excessive shop visits and assist in cost control. Including Gulf Air's 787, PROGNOS for APU monitors more than 600 APUs worldwide.

Gulf has been a customer of AFI KLM E&M for its CFM56 engines for several years. The airline also is a client for the company's component support on its A320 and A330 fleets.

On April 29, the Bahraini carrier finalized an agreement to purchase 65 LEAP 1A engines to power the airline's new fleet of 17 A320neo and 12 A321neo, confirmation of a commitment Gulf made for the engines in November 2017.

Gulf Air CEO, Kresimir Kucko, said "we have been operating CFM engines for three decades and we are excited to introduce the LEAP engine into our new fleet of A320neo family aircraft. This state of the art combo will definitely be a key asset of our sustainable growth".

The LEAP engine entered commercial service in 2016. It has more than 100 airline customers worldwide. It offers a 15% improvement in fuel efficiency, matching emissions reductions and lower noise and NOX emissions. ■

New Maldives carrier selects ATR for maintenance

Republic of Maldives domestic carrier, **Manta Air**, has contracted a Global Maintenance Agreement (GMA) with **ATR**. The five-year agreement covers repair and overhaul of Line Replacement Units, propeller maintenance and onsite leased stock of spare parts for the three-year-old joint venture airline.

Air Manta COO, Edward Alsford, said: "Air Manta's aim is to raise the standards of the domestic aviation industry by providing the best flying experience for our passengers and increased connectivity in the Maldives.

"As a tailor-made maintenance package, the ATR GMA responds specifically to our needs and ATR's expertise will ensure our brand new ATR 72-600s fly as much as possible. Our passengers depend on reliable service and ATR's GMA is a valuable tool to help us deliver this."

"In an increasingly competitive market, initial parts provisioning, anticipation of spares requirements, parts reliability, repair management, maintenance cost optimisiation and stock management are some of our operators crucial challenges," **ATR senior vice president programs and customer services, Tom Anderson**, said. ■

MTUPlus Intelligence Solutions unveiled

Global engine MRO, **MTU Maintenance**, has launched **MTUPlus Intelligent Solutions** to better meet the specific needs of its 200 airline customers worldwide.

The four categories in the MTUPlus portfolio are PERFORMPlus, SAVEPlus, VALUEPlus and MOVEPlus as well as a service cluster, SERVICEPlus for single and adhoc requests. They have been developed in response to customer demand for tailor made solutions across the life cycle of an aircraft engine to control and optimize cost.

MTU Maintenance senior vice president MRO programs Martin Friis-Petersen said: "It is our job to spot market trends and ensure our portfolio is meeting the customer requirements of tomorrow. As an independent service provider, our focus is going that extra mile for customers." ■

Offloading capacity in a nervous market

Global economic factors, including higher fuel costs and varying tax and legislative regulation, are mitigating the expansion of aircraft leasing in the Asia-Pacific.

Topping the list of concerns are contradictory forecasts about the strength of GDP growth worldwide and the impact of U.S. president Trump's trade and foreign policy rhetoric on consumer sentiment. Many pundits are tipping a global recession by year end.

Additionally, there is over-capacity in the airline industry across the Asia-Pacific. Before the 737 MAX grounding on March 13, aircraft manufacturers were scheduled to deliver more than 800 aircraft to Asia-Pacific airlines this year with almost 80% of those planes destined for four LCC groups.

The forecast increase in capacity will force fares down as airlines compete to fill their planes in a market where consumers' number one priority when buying an airline ticket is price.

It is a tough operating environment. The region's airlines, as a rule of thumb, need to achieve a load factor of above 68% before they earn a cent.

All these factors are attracting several airlines in the region to sale and leaseback deals for their new aircraft and encouraging lessors to speedily offload excess capacity at rates with very low margins.

Additionally, all airlines whether full service, LCC or a hybrid, are re-configuring their fleets away from wide bodies as new generation aircraft are fundamentally re-shaping networks. What then can be done with these airplanes, as the A380 has demonstrated, that are losing their appeal to airline network and revenue management planners.

In a study earlier this year, Reuters forecast the aircraft leasing market would record a compound annual growth rate (CAGR) of 4.75% to 2023. The Flight Ascend consultancy said the leased aircraft portfolio increased by 629 airliners, to 8,109, in 2018. One hundred new names have entered the aircraft operating lease sector in the last decade, it added, including several Chinese banks present in both the domestic and international sectors of aircraft leasing.

The 2019 Airline Economics Aviation Industry Leaders report said there are 60 plus leasing companies in China with many of them considered to be unsustainable in the longer term. Consolidation is inevitable, analysts forecast.

Key aircraft leasing trends

- Downturn forecast but mild with industry cycle peaked, but globally airlines are in good shape after a several years of profits
- Global political tensions adding to volatility created by rising oil prices, uncertainty about interest rate trends and foreign currency fluctuations
- Concern increased Asia-Pacific airline presence in the leasing sector is a risk as operating costs rise, especially fuel and interest rates, with weaker carriers vulnerable to downward global macro-economic trends
- Sale and lease back market saturated with too much money chasing too few deals, but more airlines increasingly favour them as a means of increasing working capital
- New lessors continue to enter the market. At the same time, more mergers and acquisitions are forecast for the industry
- Airlines are seeking lease periods as short as six years rather than the past norms of 10-12 years
- Margins are low because of over supply, with banks finding it difficult to make money
- Unsecured debt for weaker carriers an increasing practice

"Mainland Chinese banks are very active although they are primarily focusing on their domestic market plus a handful of selected international carriers and lessors," said NordLB's Frank Wulf in the Airline Economics Aviation Industry Leaders Report.

"Asian banks outside of China also are fairly active, especially the Japanese who are being very aggressive in pricing in order to win new business."

Other trends in the sector include rising demand for wet leasing, where several new airlines are customers in this space, and an increasing airline practice of buying aircraft, selling them to banks and then leasing them back, Reuters said.

The Asia-Pacific is the second largest aircraft leasing market in the world after Ireland, which holds close to 50% of the industry's business. Dublin is "the headquarters" of global leasing.

However, in the Asia-Pacific there is no shortage of banks seeking to support lessor deals. For airlines with the necessary funding, having your aircraft owned by a lessor reduces depreciation costs and reduces tax.

Asia-Pacific lessors do have an issue – a lack of skilled lessors or "soft power' staff to match the competence levels and industry experience of Dublin and, to a lesser degree, North America.

To overcome this obstacle to expansion Hong Kong and several mainland universities are developing aircraft lessor specific graduate programs in collaboration with recognized global tertiary institutions to equip the Asia-Pacific industry with the skilled workforce necessary to achieve success in the industry. ■

MAX woes "silver lining" for region's lessors

Boeing's 737 MAX has yet to become a large component of the region's airline fleet, although Asia-Pacific airlines and China-funded lessors have ordered hundreds of the type.

Across the region, lessors generally viewed the grounding of the MAX as a welcome respite from the pressures of placing aircraft in a period of over-capacity in the industry. An "enforced delay may not be a bad thing", a source told Nikkei Asian Review.

With so much uncertainty surrounding the date the MAX will re-enter service, lessors are revising their strategies to accommodate delivery delays of the MAX beyond the stated date of next September.

Approximately 350 MAXs were flying in the region when the type was grounded worldwide on March 13. Boeing had been struggling to ramp up production to meet delivery deadlines. Now, in the aftermath of the global regulatory decision, Boeing announced it would aim to produce 42 and not 52 MAXs a month.

In mid-April, China Aircraft Leasing Corp. (CALC), which has ordered 100 of the type plus 50 options, said the grounding would delay deliveries but it did not intend to change its MAX order or stop payments to Boeing. The lessor is 100% owned by Mainland conglomerate, the China Everbright Group.

CALC spokesman, Winnie Lo, told the Nikkei Asian Review "we have no plans to change our order. We also believe Boeing will deliver a resolution in the next three to five months given the manufacturer's record".

Singapore headquartered BOC Aviation, a 100% subsidiary of the Bank of China, also said it would not change its order for 87 of the type. It already has introduced seven MAXs into its portfolio.

Other major MAX lessors in the region are SMBC, which has five owned, three managed and 110 orders for the type, and HNA Group controlled Avolon and minority partner, Orix. The joint venture has nine MAXs on its books and orders for 132 of the aircraft.

Goshawk, controlled by Hong Kong's New World group, is scheduled to receive 20 737s from 2023. CDB Aviation, a subsidiary of China Development Bank Financial Leasing Ltd, has ordered the MAX and is a launch customer for the -10.

In an April statement, Hong Kong listed ICBC Leasing Co. Ltd, said it had delivered "a small number" of MAX 8s to its clients and that "currently all the aircraft leasing contracts are implemented normally. We will follow the issue closely and keep timely communication with related parties", it said. The lessor, wholly owned by the Mainland's ICBC Financial Leasing Co. Ltd, opened for business in Hong Kong in March 2018.

In an April report, Fitch Ratings said that on the day the 737 MAX was grounded almost two months ago, between 10%-15% of the fleets of four privately-owned Asia-Pacific airlines were flying the type. They were Fiji Airways, Lion Air, SilkAir and Spicejet.

State-owned Air China, China Eastern Airlines and China Southern Airlines, privately held Hainan Airlines and some of the respective subsidiaries of the four Mainland groups also have had to remove their 737 MAXs from their fleets.

The 737 MAX has been critical to the expansion strategy of these carriers and others in the region, particularly VietJet, which has ordered 200 737 MAXs, including 80 -10s. ■