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SEASONED AVIATION HAND

Managing volatility is the name of the industry's game says AAPA boss Andrew Herdman as the region's airlines navigate political and economic upheaval

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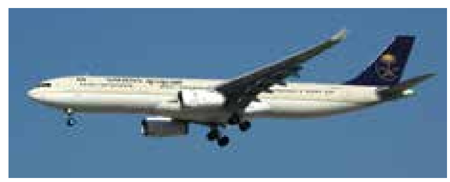

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Asia-Pacific airlines 'old hands' at dealing with industry volatility

As the year comes to a close, several challenges persist for Asia-Pacific carriers that are peculiar to the region.

Top of the list are ways to counteract the negative impact of the Sino/U.S. trade war on airline profitability.

There is some optimism the global economic giants will reach a partial solution to their trade conflict in coming weeks. In the meantime, the present stand-off has inflicted plenty of economic pain on the air freight business, a major contributor to the profits of several Asia-Pacific carriers. A separate political dispute between Japan and Korea has contracted passenger numbers at airlines which earn significant income from their networks across North Asia.

Also critical to the operations of several airlines in the region will be the circumstances surrounding the re-entry to service of the globally grounded MAX 737 fleet.

In our cover story this month, AAPA director general, Andrew Herdman, said it would be very hard to coordinate a simultaneous recertification and re-entry into service of the aircraft type to all its operating airlines.

Even after the software modifications and revised training regulations are approved, implementing these changes with multiple airlines across the world and then returning hundreds of aircraft to flying is a logistical mountain to climb. Airlines also will have to persuade the travelling public the MAX was safe to fly, he said.

Beyond these complex issues, there is the ever-present need for more aviation infrastructure to be built and at a faster rate. There also must be improved integration of ATM systems across the region, especially as passenger numbers are forecast to increase to eight billion a year by 2038.

There is one other industry challenge that attracts focused attention from the region's airlines. Despite outstanding industry results in reducing greenhouse gases from flying, the message has not made it to the people who count: present and future airline passengers.

It is unlikely the latest wave of European climate change movements calling for people to stop flying will take hold in the Asia-Pacific, a region utterly reliant on air travel.

Herdman correctly pointed out aviation has a good story to tell about CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), but so far, no one has successfully converted the technical and political strategy into digestible messages that engage the general public.

Ask the International Air Transport Association (IATA) and the Air Transport Action Group. For more than a decade, they have been tireless in their efforts to spell out the industry's goals of being carbon neutral from next year over 2005 figures and achieving a 50% reduction in CO_2 by 2050.

IATA is launching a campaign to counter "flight shaming" that is impacting on passenger bookings in several European countries. "It is difficult to measure and beyond European borders we have seen nothing, but it will come [to other regions]," said IATA director general and CEO, Alexandre de Junaic. We have been warned. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

Pain continues for Hong Kong's aviation industry

The latest monthly statistics for Hong Kong airlines, to September, show Cathay Pacific Airways passenger numbers declined by 7.1% for the 30 days reported with inbound passenger numbers plummeting 38%. The worsening situation, as anti-government protests continue into a sixth month, has put the full-service carrier on course to a full-year loss, for the third time in four years.

The dramatic drop-off in passenger and cargo traffic in the Special Administrative Region of Hong Kong has prompted the International Air Transport Association (IATA) to ask the Hong Kong government to offer financial support to the industry because of the "significant impact" the protests have had on passenger traffic.

"Maintaining aviation connectivity is critical to Hong Kong," IATA said. "The government should consider financial relief measures to support the 330,000 jobs and 10.2% cent of GDP (Gross Domestic Product) dependent on the aviation and tourism sector." IATA's call followed a similar plea from the Hong Kong Board of Airline Representatives which asked that fees and services be reduced to help airlines make it to the other side of the downturn.

All carriers operating to Hong Kong are suffering from reduced demand into Hong Kong. They have reacted to the long months of protests, and often riots, by reducing frequencies or cancelling routes. Airport Authority Hong Kong said the decline in passenger numbers is worsening. In September the airport handled 12.8% fewer passengers, or 4.9 million travelers, 710,000 fewer passengers than a year earlier. In August, the decline was 12.4%, or 851,000 fewer passengers than in the same month in 2018.

Swire Pacific, which holds majority equity in Cathay Pacific, issued a profit warning early this month and said underlying profit was expected to be lower in 2019 compared with 2018, primarily because of a worse-than-expected performance from the full-service airline group.

Cathay Pacific's interim profit this year was HK$1.35 billion against a loss of HK$263 million for the same months a year ago. The airline is in the final year of a 36-month transformation.

In October, the carrier said it was experiencing a significant drop in inbound bookings for the rest of the year, especially from China and other Asian markets. The fall-off will have a serious impact on the financial performance of its 100%-owned regional subsidiary, Cathay Dragon.

Rival Hong Kong Airlines has cancelled 6% of its schedule and is planning to terminate Hong Kong-Los Angeles next February. It confirmed it was adjusting its schedules to Vancouver, Bangkok, Osaka, Tokyo, Okinawa, Sapporo, Seoul, Haikou and Nanjing.

IATA said the trend is "almost unprecedented" for major markets. "While passenger numbers were impacted directly by the temporary closures of the airport [on August 12 and 13], more broadly, demand for travel to Hong Kong as a final tourism and business destination and a connection point has softened," it said.

Singapore Airlines CEO, Goh Choon Phong, told Hong Kong's South China Morning Post early this month that the SAR's civil unrest had left "only a relatively minor dent' in SIA's financial performance. "Of course, there was a decline in demand and it has stabilized," he said. In contrast, the Qantas Group said it had recorded a US$17.1 million drop in earnings because of the long-running unrest. ■

Joyce plans re-fleeting, Project Sunrise decision and a leaner head office for Qantas

Qantas Group CEO, Alan Joyce, told Australian media early this month the airline group would decide on a replacement for its domestic short-haul fleet of 75 737s by December next year. Industry analysts price the order at US$5 billion.

Joyce said the replacement aircraft would not be needed until the end of the next decade and that contenders were the A320, A321, 737 MAX and Boeing's New Midsize Airplane (NMA) or 797. Boeing has not decided if it will build the NMA, a 250-seat twin aisle plane.

"We're looking at the second largest city pair in the world, Melbourne-Sydney, and there are no more slots at Sydney in peak times. The market will grow as the two cities are growing. At some stage you want bigger aircraft," Joyce told the Sydney Morning Herald.

Separately, Qantas has informed staff jobs will go at the group's head office after human resources boss, Lesley Grant, retires in December. Qantas said her position would not be filled and her staff would be absorbed into other departments at the airline.

"We recently confirmed our group executive committee would be reduced by one and there would be consolidation of some corporate roles where it made sense to do so," Qantas said.

Three months ago, new Virgin Australia CEO, Paul Scurrah, also took the axe to the headcount at the airline. He said 750 jobs would go from the carrier's office staff, a decision he estimated would save the airline $75 million. ■

AirAsia Group going back to basics for intercontinental expansion

Launch of long-haul low-cost flights to Europe and U.S. will focus on underserved destinations, AirAsia Group CEO, Tony Fernandes, told associate editor and chief correspondent, Tom Ballantyne, from Tokyo last month.

Plans by Malaysia's long-haul, low-cost AirAsia X and its Bangkok based sister, Thai AirAsia X, to fly to Europe and the U.S. west coast are "firming up very well", Fernandes said.

The expansion of the largest LCC group should be underway next year after some of its airlines begin taking delivery of more of their ordered 78 A330-900neos. When 30 A320 XLR (extra-long range) jets start arriving at AirAsia in 2023, there will be opportunities to add long-haul destinations to the network, Fernandes said.

Already flying to Honolulu, which was launched in 2017, AirAsia X is awaiting fifth freedom rights clearance and studying the viability of flying to Los Angeles and San Francisco from its Southeast Asian bases. At some point, Fernandes said, the carrier would like to serve the U.S. east coast.

Scandinavia and several destinations in Eastern Europe, including Prague, Budapest and Vienna, are on its European agenda, he said. Lessor Avolon delivered its first two Rolls-Royce powered A330-900neo to Thai AirAsia X in August. As more arrive at the carrier, it is intended to expand the carrier's network to Australia, Japan and South Korea.

The Malaysian-headquartered long-haul LCC operates 24 A330-300s and Thai AirAsia X flies 10 A330-300s and two A330-900neo. Despite market skepticism about the viability of the long-haul, low-cost (LHLC) model, Ferrnandes fully supports it, although AirAsia X has reported deeper losses to date this year over 2018.

In its second quarter, to June 30, AirAsia X's net losses increased to US$49.5 million from a loss of $13.7 million in the same period a year ago. Revenue declined from $253.3 million to $241.4 million.

Said Fernandes: "I think we are unfortunate in that the long-haul market is subject to ridiculously unfair competition and most of it is state sponsored. The model is very good, but when an airline is losing billions of dollars yet can compete with us on airfares it's very obvious what is happening.

"That's coming to an end so we see a very positive light for AirAsia X. The model works. It obviously has had higher costs than it should have had because it's being funded by us. We have a couple of expensive lease planes in there. Once we sort that out with the new A330neo and when competition becomes rational, it's a very powerful model."

Fernandes said the trick of creating a sustainable LHLC operation was a combination of the right equipment, the ability to squeeze ancillary revenue from customers and cutting costs by investing in technology.

"We were the pioneers in it, but because the kit was not there, we became a medium-haul carrier – six or seven hours," he said. "Today, profitable LHLC operations are more viable because the A330neo and the 787 are available.

"Budget airlines will continue to expand in the region's short-haul markets," he said. "But the majority of traffic and the majority of revenue, if you look at global aviation and within the region, are still with the full-service airlines. They remain the dominant business model serving medium and long-haul routes.

"Many network carriers have set up dedicated low-cost subsidiaries or are selling a certain proportion of economy seats at very aggressive prices. They are facing the fact there is intense competition from low-cost carriers.

"But low-cost carrier results are similarly mixed. They are not immune to the same competitive pressures [as full-service carriers]. They are not just competing against each other. The full-service carriers also are competing [with LCCs] by putting a lot of aggressively priced economy seats on their routes within the region."

Fernandes also had some words of advice for Malaysia Airlines (MAS), which is seeking a majority investor to revive its fortunes.

"MAS had not really impacted on AirAsia," he said. "In the past few years, we have gone our own way. We think MAS needs to realize it has too much capacity. It should cut its capacity to serve the market that would pay a higher price for its product rather than trying to compete at all ends of the market.

"It is going to struggle with this because we have a substantially lower cost base. But I think a sense of reality is coming on." ■

IATA'S NDC "once in a generation opportunity" for airline industry

By associate editor and chief correspondent, Tom Ballantyne

Airlines are facing disruption driven by technology and customers, said Singapore Airlines' (SIA) senior vice president of sales and marketing at an industry conference in Bangkok last month.

"It is not a European story. It is not an American or Asian story. It is an industry story. It is not going away. And it is why SIA considers the transformation from being an airline to being a retailer is critical," Campbell Wilson said.

Outlining SIA's approach to tackling the adoption of the International Air Transport Association's (IATA) NDC, or New Distribution Capability standard, he described it, together with IATA's One Order initiative, as a "once in a generation opportunity".

"NDC addresses some of the industry's current inventory distribution limitations, creating a more agile and efficient distribution system by extending the capabilities of third party channels to match those of the airline's websites, improving offerings for customers, including greater personalization and accessibility, and with ONE Order, paving the way for digital transformation of airline legacy systems and processes for improved efficiency and customer experience," he said.

"SIA has become a regional leader in NDC adoption. It announced its first connection, with booking site, Skyscanner, in May last year and has since linked with numerous other players.

"The Asian consumer has embraced e-commerce at an unprecedented and unparalleled pace. Asia is spawning new platforms that are not yet seen in the West, such as WeChat and Grab, and others like banks, which are establishing retail platforms that are fragmentating the old distribution order.

"The explosive growth of LCCs, which operate more than 50% of intra-Asian seats, has educated the market to prioritize price, stimulating full-service airlines to find better ways to avoid commoditization. Customer expectations are being set by their experiences with companies in other industries that dwarf us all in size, resources and ambition."

Wilson, who was the founding chief executive of SIA LCC, Scoot, was speaking last month at the International Air Transport Association (IATA) Airline Industry Retailing Symposium, formerly the World Passenger Symposium, held this year in Bangkok.

Where is SIA now? he asked. It is "an IATA NDC Leaderboard member, NDC Level 4 Certified, close to satisfying the requirements of NDC@Scale, integrated via NDC with entities in the categories of Travel Management Companies, Online Travel Agencies, Metasearchers, new-generation aggregators, traditional GDS and services such as BSPlink, 3DSecure payment and fraud detection systems".

"We have recently gone to market, starting with our home market of Singapore, but soon to expand, with a clear statement that from April 1, 2020 we will be rolling out content that can only be delivered via NDC," he said.

Wilson said the interest and reception has been very encouraging. "The focus has rightly been on the opportunities modern distribution technology can bring to enable new products, to improve personalization, to democratize access to information and functionalities and to allow companies to innovate," he said.

"We'll be rolling out to key markets other than Singapore in fairly short order and our in-country teams already are deeply engaged in the education process."

Wilson did express some disappointment with the Asian region's pace of adoption of the sector's new technology. "Sadly, there's no hiding the fact Asia is lagging some others. With some isolated exceptions, the region's airlines have not been fully engaged in the transformation of distribution through new technology, including NDC," he said.

"Frankly, it is very disappointing. The industry's adoption and promulgation of new technology benefits everyone. Or at least those who elect to embrace it."

The relative inaction is understandable, he said. "Some have more pressing problems. It is no secret many of the region's airlines are loss-making or just trying to keep afloat. It's hard to embark on a difficult, multi-year project when you're just trying to keep the lights on."

There also was an absence of a clear driver, whether revenue or cost. "The region's organic growth means the focus may be on maximizing revenue. With revenue comparatively easy to come by, does one really need to go to the effort of retailing?" Wilson asked.

He also pointed out local GDS costs in some Asian markets, a legacy of previous ownership, are comparatively low so savings on offer may not support the investment in NDC from a cost-savings perspective alone.

> **At Singapore Airlines, we have developed the technical capability, concluded agreements and connections with GDSs and commenced full rollout [of NDC] both directly with trade partners and via intermediaries. Our deployment and content differentiation plans are aggressive and will only accelerate**

He said to "effect what is, by most airlines' historical standards, quite radical transformation many areas needed to work in concert and unless there was strong executive sponsorship and alignment across functions, progress is all but impossible".

Alignment was required in multiple areas, including product philosophy and strategy, IT strategy, micro-services and API and distribution strategy, not to mention pricing, merchandising and ancillary strategies, he said.

Additionally, there were concerns [about change] among different players. "Travel agencies are worried about losing the GDS incentives they've become accustomed to and if their existing tech partner is capable of delivering the content others are enjoying," he said.

"GDSs do not want to lose business or margins, but realize they can't charge the same rent in a world of democratized technology and content access. Airlines want to regain some control over how their product is distributed and to better meet the demands of their customers, but are worried their NDC strategies may cause loss of agency support.

"These are real concerns. But the disruption we face is not going away. If we're to avoid even greater discomfort later, we must embrace some discomfort now. All parties need to work collaboratively and in a concerted manner, notwithstanding the discomfort, with the collective aim of ensuring we can meet the customer expectations of today and the future."

As for SIA, Wilson said although some parts of Asia and the travel ecosystem may be lagging [other regions in the world], "some of us are not standing still and indeed are among the global NDC and ONE Order leaders". ■

Japan Airlines prefers Malaysia Airlines joint venture to equity

As the Malaysian government moves closer to identifying the chosen investor in Malaysia Airlines (MAS), from a reported list of four candidates, Japan Airlines (JAL) told Orient Aviation it was not interested in part ownership of the flag carrier. MAS and JAL are oneworld alliance members.

"Japan Airlines and Malaysia Airlines have filed an application through the relevant authorities to form a joint venture on flights between Malaysia and Japan,"an airline spokesperson said.

"If approved, the carriers believe the partnership can increase passenger traffic and reciprocally strengthen their international networks.

"These are our main strategies going forward."

Separately, Singapore Airlines (SIA) CEO,Goh Choon Phong, recently told regional media that in the absence of acquisitions he believed SIA's new partnership with MAS would make SIA more profitable. SIA is a member of oneworld rival alliance, Star.

"We observed the consolidation taking place elsewhere. I am not holding my breath in our part of the world owing to various considerations.

Many of the airlines involved are national carriers," he said.

"Until the regulatory environment in this part of the world allows more liberal consolidation, this will be a good solution."

The SIA-MAS partnership involves revenue sharing on flights between Singapore and Malaysia, co-ordinated schedules, code-share ticket sales and reciprocal frequent flyer benefits. It is subject to regulatory approval.

SIA reported a first half profit of US$151.3 million, to September 30, marked by a strong second quarter.

JAL's first half profit, also to September 30, fell 30% to US$470 million. The airline said investment in adding international flights from Tokyo Haneda, trade tensions and rising costs were among the factors weighing on the results. ■

Airlines will pay price for punitive new tariffs

A 15-year legal battle between unrepentant rivals, Airbus and Boeing, is developing into a bare knuckle trade war with one definite outcome – more expensive aircraft. Associate editor and chief correspondent, Tom Ballantyne, reports.

Last month, the U.S. introduced import tariffs on $7.5 billion of European goods. They included a 10% duty on commercial aircraft manufactured by Airbus, Boeing's principal competitor. The imposition of the tariffs followed a World Trade Organization (WTO) ruling that Airbus had received discounted European government loans for its big jets, most notably the A380.

And that will not be the end of the matter. In an earlier decision, the WTO decided Boeing also had received illegal subsidies. In early 2020, it will announce tariffs Europe can impose on the U.S. as a result of the WTO ruling on Boeing.

French economy minister, Bruno Le Maire, warned the U.S. action would have serious repercussions. "Europe is ready to retaliate, of course in the framework of the WTO," he said.

"These decisions will have very negative consequences from both economic and political points of view. Coming on top of the ongoing trade war between the U.S. and China, this new skirmish adds difficulty to an already fragile global economy, including those in Asia."

The Airbus and Boeing legal battle began in 2004 when the U.S. accused Britain, France, Germany and Spain of providing illegal subsidies and grants to support the production of Airbus products. A year later, the European Union (EU) alleged that from 1989 to 2006 Boeing had received US$19.1 billion in prohibited subsidies from various U.S. government agencies.

In the largest and longest running case the WTO has handled, the U.S. has sought permission to apply tariffs on nearly $11 billion of EU goods. Brussels is arguing for tariffs approaching $10 billion on American goods. The U.S. tariffs go beyond aircraft. They also have been applied to French wine, Scotch whisky, handbags and cheese.

Wine from France, Spain and Germany will attract tariffs of 25%. Germany's chancellor, Angela Merkel, said the decision would weigh on the European aviation group, one of the country's largest industrial employers.

For crisis-ridden Boeing, European retaliation for the U.S.tariff decision means its aircraft will be more expensive. Additionally, the EU has opened an "in-depth investigation" into the U.S. group's 80% acquisition of Brazil's Embraer commercial aircraft business. The investment is intended to eliminate an important threat to Boeing, the world's biggest planemaker.

The deal with Embraer is planned to conclude in early 2020, but it could be delayed by this new scrutiny. EU regulators can influence mergers and often can force companies to sell part of their businesses to eliminate anti-trust concerns.

The EU is worried the deal would "remove Embraer as the third largest global competitor" to both Boeing and Airbus, which "may therefore result in higher prices and less choice" for airline customers.

Boeing's takeover of Embraer's commercial jet and services business is aimed at widening it's appeal in the regional jet market via Embraer's E-Jet family. Importantly, the investment improves its competitive position after Airbus took majority control of Bombardier's CSeries aircraft, now known as the A220.

European authorities said they did not see any potential rivals from China, Japan or Russia that could replicate Embraer's competition with Airbus and Boeing in the next five to 10 years. They added the Brazilian company was a "small but important competitive force" for bigger 100-225 seat aircraft. "Despite Embraer's comparatively small market share, it seemed to exert some price constraint on market leaders, Boeing and Airbus, even beyond the boundaries of the lower 100-150 seats segment," the EU said.

On the wider U.S.-Europe tariff front, in July EU officials offered to call a truce on subsidies for the airplane makers if both sides would admit fault and curtail state aid. Washington rejected the olive branch. ■


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SEASONED AVIATION HAND

He has been at the helm of the Association of Asia Pacific Airlines for close to 15 years and for the airline body's director general, Andrew Herdman, the challenges never cease. Despite the many issues facing his member airlines, he says the Asia-Pacific industry's future is bright. Associate editor and chief correspondent, Tom Ballantyne, reports.

A stuttering global economy, trade wars, social unrest and extreme weather events. For Association of Asia Pacific Airlines (AAPA) director general, Andrew Herdman, and his member carriers, they are part and parcel of the volatility of daily airline operations.

But with U.S./Sino negotiations dragging on, the dispute between Japan and South Korea festering and protestors becoming more violent in Hong Kong, optimism must be hard to come by?

Herdman said: "The overall picture is people are still travelling in record numbers and we are still seeing growth in passenger numbers. The last six or seven years have been particularly buoyant with passenger traffic growth rates above the long-term average. It's been a very strong period and that's globally, not just in Asia.

"Volatile oil prices, geopolitical risks, weather events and disruptions. These are all part of the challenge of running an airline. The industry is set up to be resilient and responsive to whatever happens and to adapt.

"It's very hard to predict the nature of these things, particularly geopolitical risks. Trade disputes have spilled over and in some cases are affecting consumer sentiment. They are affecting passenger travel plans. We are seeing that between Japan and Korea. At least airlines are in a position to manage capacity."

Catastrophic flooding affecting airports around the region have become an issue for airport planning, but typhoons are a fact of life for airlines, Herdman said. The industry is adjusting to them with pre-emptive cancellations and quicker recovery and restoration of service after a typhoon has passed.

There are few people with a better understanding of the issues airlines face in the Asia-Pacific than Herdman. A BA (Hons) Oxford graduate with a post-graduate BPhil in management studies, Herdman spent much of his pre-AAPA life in top management aviation roles at companies in the Swire group. His CV with the trade to property and transport conglomerate includes managing director of Cathay Pacific Catering Services, managing director of Hong Kong Aircraft Engineering Company (HAECO), chairman of Xiamen-based TAECO and general manager of Cathay Pacific Cargo. He also ran Swire Pacific corporate communications for several years.

Since he took charge at the Kuala Lumpur-based AAPA in 2004, Herdman has raised the association's profile by addressing regional and global policy issues affecting Asia-Pacific carriers and working closely with regulators and industry associations to foster sustainable civil aviation expansion.

"Strong profitability peaked about four years ago," he said. "North American carriers have been the main beneficiaries of this and they are still doing very well. Asian carriers' margins have been squeezed by intense competition, although the picture varies from one carrier to another.

"Some airlines are doing relatively well within the region, but others are feeling the pressure from being loss-making. They are in the midst of, or embarking on, restructuring efforts to remain competitive, regardless of the business model being pursued.

"We don't publish or have access to detailed yield information, but it is evident intense competition leads to pressure on fares, which is good for consumers but depresses margins from an airline's point of view."

On another current crisis impacting the industry and many carriers in the region, the Boeing MAX groundings, Herdman is quick to point out safety is always the industry's number one priority and the AAPA monitors the industry's record closely.

"However," he said, "We all operate under global standards promulgated by the International Civil Aviation Organisation (ICAO), but they are implemented nationally by each country, that is 193 member States.

"The interplay between them and the processes different countries use to certify aircraft, or allow operations within their airspace, has a degree of complexity familiar to those in the industry, but it makes it more challenging to explain the workings of the international regulatory framework.

Mixed results for long-haul low-cost carriers

Budget airlines will continue to expand in the region's short haul markets, he said. "But the majority of traffic and the majority of revenue, if you look at global aviation and in the region, is full-service carriers still operating the dominant business model by serving medium and long-haul routes. There are attempts by some LCCs to expand into low-cost, long-haul. They have had very mixed results," said Herdman.

"Many network carriers have set up dedicated low-cost subsidiaries or are devoting a certain proportion of economy seats that they are selling at very aggressive prices, facing the fact there is intense competition from low-cost carriers.

"But the low-cost carriers' results are similarly mixed. They are not immune to the same competitive pressures. It's not just them competing against each other, but the full-service carriers are also competing by offering a lot of aggressively priced economy seats on routes within the region," he said. (*See AirAsia Group going back to basics for international expansion, page 7.*)

Air cargo: bleak and bleaker

“For almost a year, the cargo side has been very weak. The market has shrunk, which is consistent with stagnant global trade. Air cargo benefits in a global economic upswing and now we are seeing a global economic slowdown, so year-on-year you are looking at negative growth in air cargo demand,” AAPA director general, Andrew Herdman, said.

As the world’s biggest air freight operators, he said, Asian carriers were feeling the effects of the global slowdown. “It reflects the weak trade position. It reflects uncertainty about trade disputes and the lack of progress in resolving them,” he said.

“The uncertainty affects business investment decisions and disrupts global supply chains. Combined it creates a very weak air cargo market. For cargo, there is no escaping the fact it has been a prolonged downturn. And even though we are in the busy time of the year there is no sign of any upturn in air freight demand.”

“If and when things have been found to have gone wrong or misjudgments have been made it means the number of parties involved is much larger than simply looking at it from a single country point of view.

“At some point, the Federal Aviation Administration (FAA) and other regulators will certify the aircraft as airworthy again and it will re-enter service.

“The industry faces some significant challenges, including ensuring the travelling public will fly on the aircraft with confidence.”

The recent ICAO conference in Montreal attracted plenty of attention with protests led by teenage climate activist, Greta Thunburg, and criticisms repeated by China, India and Russia that some of the content of the industry’s CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) emissions mitigation strategy was unfair to emerging economies.

Herdman said: “The outcome was fair enough. It reaffirmed support for CORSIA, which has been implemented. It also was agreed to explore a long-term aspirational goal for reducing emissions.

“Disagreement about the scheme from China, Russia and India was expected,” he said. “They were putting forward views they had expressed at previous assemblies. The question is did the CORSIA deal, determined in 2016, strike the right balance between the different views? It was a compromise agreement and the design of the scheme reflects that.

“At this assembly, the big issue was to decide to reopen discussions about the design of the scheme. There was a very strong majority view that to do so would risk undermining the entire scheme and that would be not desirable.

“It was why the final vote, a vote put [forward] by China, Russia and India to delegates, determined by a strong majority not to change the scheme.

“There are provisions in CORSIA for reviews. I think the first review is scheduled for 2022. There is a mechanism to review the nature of the scheme as it is implemented. The debate will continue, but key points are that even those countries [objecting to some terms of CORSIA] are implementing it for all international airlines and the scheme is going ahead.”

At every AAPA assembly, it is inevitable that progress or lack thereof, of sufficient ATM and airport infrastructure will be close to the top of the discussion agenda.

Still not enough is being done, said Herdman. “We continue to focus on it. Even though growth rates are moderating this year ensuring infrastructure expansion keeps pace with demand is as important as ever.

“The new Beijing Airport just opened. There is a lot of other airport infrastructure under construction in Hong Kong, Singapore, Vietnam and Indonesia. And the green light has been given to a new Manila airport. It’s a constant focus on managing future growth.”

Overloaded ATM systems are another perennial Assembly topic. “It’s easy to come up with a slogan like

Where we are today?

- **Air Traffic Management**

“Essentially, ATM is not an automated business. You have got ground-based air traffic controllers using the latest technology, but it is still very labour intensive. It relies on processes and procedures.

“The integration is not so much about technical integration but the organizational and institutional factors around collaboration across different Flight Information Regions.”

- **Emissions reduction battle**

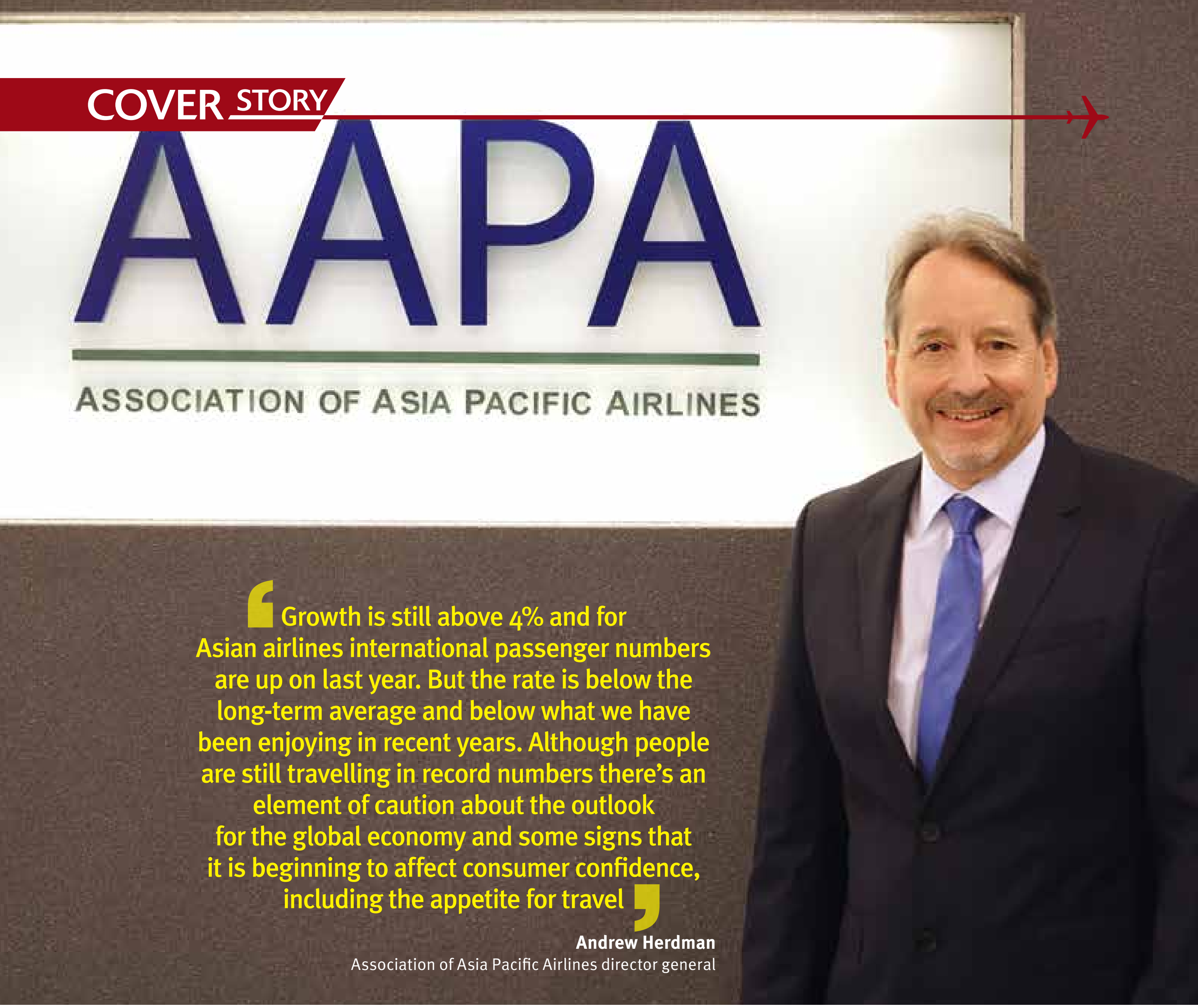
“Climate change is a global challenge and needs a global response. The debate among developed and developing countries has to continue to reach agreement about the most appropriate global response to climate change in all sectors, not just aviation.”

- **Aviation infrastructure**

“Although growth rates are moderating this year, the longer term outlook is bright so the challenges of ensuring infrastructure keeps pace with growth are as important as ever.”

- **MAX return to service difficulties**

“I have always been of the belief it will be very hard to co-ordinate a simultaneous recertification and re-entry into service for the MAX. Even after all the modifications and training requirements are completed, implementing them across the world with multiple airlines returning hundreds of aircraft ready to fly is a logistical challenge.”



> Growth is still above 4% and for Asian airlines international passenger numbers are up on last year. But the rate is below the long-term average and below what we have been enjoying in recent years. Although people are still travelling in record numbers there's an element of caution about the outlook for the global economy and some signs that it is beginning to affect consumer confidence, including the appetite for travel
>
> **Andrew Herdman**
> Association of Asia Pacific Airlines director general

'Seamless Asian skies'. It sets the way forward as a common goal. Delivering on it, as we learnt in Europe, is much more challenging," Herdman said.

"Efforts to update systems are continuing, but the pace of progress has been disappointing and that has been acknowledged. Longer term, the challenges will be to cope with double the capacity of today, modernize ATM infrastructure to do that and improve co-ordination between different ATM providers. The technology only takes us so far. There are different organizational and institutional factors around collaboration across different FIRs (Flight Information Regions).

"From an airline point of view, it's clear what we want. In practice, no matter whether you are in North America, Europe or the Asia-Pacific, modernizing ATM is challenging."

In the end, while airlines will continue to confront existing and unpredictable challenges, Herdman said: "Airbus and Boeing have just updated their annual market forecasts for the next 20 years. We study them closely for any changes in perceptions. But overall the picture remains bright, with continued growth. This means discussions about sustainability and the environmental impact of aviation must have high priority.

"Attitudes towards climate change and appropriate responses to it vary between regions. Particularly, as signaled in Montreal, in large developing countries where there is more focus on economic and social development. Environmental impact is a factor for them, but it is not a dominant factor. It has to be weighed against other economic and social development objectives for developing countries.

"Their position contrasts with the debate in Europe in particular, and certain countries in Europe where green movements are pushing very hard for more ambitious efforts to curb CO_2 emissions, not just from aviation but from power generation, ground vehicles, agriculture and so on.

"It comes back to the fact climate change is a global challenge and it needs a global response. The global debate amongst developed and developing countries has to continue about the most appropriate responses to it in all sectors.

"The industry has a good story to tell but it's a complicated one given the number of technical issues and other factors involved. It's an important debate. Asian airlines and Asian governments need to be active in discussing the best approach to mitigating climate change." ■

SAUDIA'S LONG HAUL TO PROFIT INCLUDES ATTRACTING PILGRIMS FROM ASIA

The sleeping giant of the Middle East is waking up. Saudi Arabia's loss-making flag carrier, Saudia, is re-inventing itself after years in the commercial doldrums. And Asia's religious pilgrims are planned to be part of its recovery. Associate editor and chief correspondent, Tom Ballantyne, talks to CEO Jaan Albrecht.

When Mexican-born Jaan Albrecht, former head of the Star Alliance, became chief executive of Saudia three years ago, his new employer told him the flag carrier "must grow, grow, grow".

Rejuvenation of the airline was critical to Vision 2030, which aimed to reduce the country's dependence on oil and attract more foreign investment to the Kingdom, his government bosses said.

There were formidable obstacles to overcome if the "grow, grow, grow" targets were to be reached. At the time, Saudia was drowning in losses, despite being heavily subsidized, and had a bloated and complacent workforce of 42,000.

Fresh from rescuing Lufthansa-owned Austrian Airlines in a remarkable six-month transformation, Albrecht believed he had the right formula to turn around the airline group.

"When I arrived in Saudi Arabia, to my surprise, the name of the game was a little different," he explained to Orient Aviation. Slashing staff numbers and shrinking the carrier to cut costs were not options. As well, the airline had ordered 72 new aircraft.

Warning employees they would be fired if they did not perform could not be used as leverage to increase productivity. Saudia's workers knew its government owners would never allow the carrier to be shut down.

"Typically, in my previous turnaround exercises, you downsize, you shrink, you clear out a lot of legacy issues. But here, that was not possible. Here it was a combination of growing and making the company profitable," he said.

As the first foreign CEO of the carrier, Albrecht essentially reversed his engineered strategy. He supported the government by expanding the airline's passenger and cargo businesses with a focus on the important pilgrim traffic to the Kingdom during the Hajj and Umrah.

Albrecht also discovered the airline only had a 24% market share of the millions of pilgrims who travel each year to Saudi Arabia. "If we did our homework well, we should have been aspiring to a 50% market share. Perhaps this lack of strategy and vision were reasons why Emirates (Airlines), Etihad (Airways) and Qatar (Airways) were given an opportunity to grow to where they are today, the big three Gulf carriers," he said.

Albrecht said there are 1.8 billion Muslims worldwide who have to perform the Hajj and the Umrah pilgrimages at least once in their lives. Many were travelling to the holy sites via Istanbul, Cairo, Abu Dhabi or Dubai. "This is why I use the term sleeping giant for Saudia because we were missing out on this traffic. If you have subsidies and you have a comfortable life, there is a lack of aggressiveness or hunger to get this traffic back," he said.

From day one, Albrecht's primary goal was to win more pilgrim traffic. "From 24%, three years later we have a 38% market share. To gain one per cent market share from your competitors is not easy. We have generated 14% growth. It goes hand in hand with the vision of the government," he said.

Several developments are helping to turn the tide in

Saudia's favour. Firstly, the government has ended subsidies to the carrier. Albrecht said: "After losing our fuel subsidies, we are standing on our own feet. Secondly, the government radically altered the visa application system. By the end of this year, citizens from 49 countries will receive their visas more speedily and cheaply online. In five years, the government wants to double the number of visas issued and triple that figure in ten years."

A third impediment to growth was antiquated airport infrastructure, particularly Jeddah, a key destination for pilgrims. With a third world terminal it was incapable of handling the increasing volume of traffic demanded by the government's growth targets.

"We cannot do more than eight flights per hour because there are only eight gates and all of them are remote gates where passengers have to be bussed. There is not a single jet contact gate. So, to try to build a hub where there is a maximum eight flight arrivals and departures an hour, you can't do it," he said.

This is about to change with the opening of a new airport complex in Jeddah. "It is a fantastic state of the art terminal with 48 contact gates and three parallel runways. It will be fully operational by the end of this year. We operate most of our domestic flights from there and the whole operation of Saudia will move too," he said.

"Once that happens, we are not only growing traffic but shifting traffic with our own hub structure. It is the first time Saudia will have a hub and spoke system in Jeddah in its 75-year history."

Saudia has a fleet of 61 A320 and A321 types, 38 A330s, seven 747s, 40 777s and 21 787s. It has ordered 30 A320neo, five A321neo, 15 A321LR (long range) and 15 A321XLR (ultra-long range). Albrecht said: "With these (ultra-long range) aircraft we will be able to reach any destination in Europe, even the Scandinavian countries non-stop from Jeddah and Riyadh. So, yes, there are growing market opportunities and we will start developing them from the end of next year. The aircraft will be introducing a totally different game for Saudia, not only by flying to those countries but also being able to fill our empty seats with sixth freedom traffic."

The Saudia group operates a budget subsidiary, Flyadeal, headed by Australian Con Korfiatis, a former CEO of defunct Viva Macau. The LCC began flying in 2017 and has 11 A320s operating 80 flights a day on 14 routes to eight domestic cities. Last December, it ordered 50 737 MAXs that were meant to start arriving at the LCC from this year.

After the MAX grounding, Flyadeal replaced its 737 order with 30 A320neo and 20 options. Deliveries will begin in 2021. Albrecht said Flyadeal operates at arm's length from Saudia. "Their headquarters are two miles from Saudia's HQ. They are basically running their own life. It is a good concept. The only way we co-ordinate is between Con and me," he said.

"We sit together. We define the strategy. We understand very well what he needs and he understands very well what we need. We don't mix cultures or the business models. We were very conscious we were going to be cannibalized.

"We agreed for them to go onto those routes that were the most profitable for us in the domestic market and not fly into airports and routes where we were having trouble. We promoted this cannibalization because, at the end of the day, it is stimulating the market.

"This formula has been agreed for the time being, but when they start receiving new aircraft a more intermodal model will evolve. They will start feeding our hub for our long-haul and medium-haul international flights."

Saudia has 11 business units, including MRO, catering, cargo, ground handling, crew training and the operation of the Royal fleet. For instance, does it have to give its MRO business to the group's MRO division? "We were required, but not now. Most of the heavy checks, after receiving 72 aircraft in the last two years, are in to the cycle for the first heavy check, the C1 check. We are doing a lot of this in Abu Dhabi and with Lufthansa Technik," he said.

"It's an open market and competitive. It is a wake-up call for MRO, for catering and the ground handling units," Albrecht said.

Magnet of Mecca for Asian pilgrims

With a fully operational new hub in Jeddah, Saudia will begin targeting destinations with large Muslim populations, particularly in the Asia-Pacific, including Indonesia, Malaysia and the Philippines, Albrecht said.

"We are very much present there today, but we know we can increase our market share and increase our flights into these countries. Yes, we are restricted with the slots at some airports. And yes we are restricted with the traffic rights. But the opening of the new Jeddah hub, the focus of the government on generating more pilgrim traffic and the faster visa approval process are giving us leverage," he said.

"The government is supporting us by applying for new traffic rights, new destinations and more frequency. We are engaged in this exercise with the authorities. You can expect Saudia to show up, perhaps next year in Hong Kong, as a continuation of our flights to Manila. We will extend it to Hong Kong. There is a lot of cargo traffic. We operate 12 dedicated freighters – B747s – which fly to Hong Kong, but now we will start generating the combination of cargo with passengers."

Although not a primary objective, increasing tourist traffic is on Albrecht's radar. Huge investments are being made in hotels and tourism infrastructure across the country. In 2017, Saudi Crown Prince Mohammed bin Salman announced a US$500 billion investment in a greenfield mega-city, Neom, now being built in the northwestern province of Tabuk bordering the Red Sea.

The smart city, which its planners said would be 33 times the size of New York City and be fully functioning by 2025, is intended to revolutionise Saudi society and turn the country into a technology hub.

"Look at all the investment in tourism to capture all of these nice tourists on this side of the Red Sea. Already, they are on the Egyptian side, the western side. But the east side of the Red Sea is perhaps an even better tourism attraction than the western side. That is part of government's grow, grow, grow plan," Albrecht said.

On the international front, Albrecht is making a major change. Saudia is a SkyTeam Alliance member, but he was surprised to learn the airline did not fly into any hubs of its alliance partners.

"We were part of this fitness club. We were paying our monthly and annual fees, but we were not going to the fitness club. After paying the fees and not going to the club you ask yourself: why are you not fitter? Well, you have to go there to get fit," he said. He appointed a vice president alliances to negotiate code-shares and set up relationships not only with SkyTeam members but with non-aligned carriers.

"I would say participation with SkyTeam is 100% bigger than three years ago. In March next year we will start operating to Amsterdam with the full support of partner KLM. Today, Saudia is a very active member of this fitness club. We are participating in meetings, strategy meetings and working groups, so it's a different story," he said.

Employee numbers have dropped marginally to 41,000 through natural attrition. But the expansion of the fleet has allowed the carrier to absorb talent and raise levels of productivity. Albrecht has introduced a performance management system and insists on KPI (Key Performance Indicators) reporting.

"In the first year, everybody was rated as outstanding because they did not manage performance management. Now, after two or three years, they are rating people that are underperforming. It's a more natural way to make sure people start to perform. It's a process that certainly did not happen overnight," he said.

Changing the culture of the airline has been his biggest challenge and is not yet done. "It's a combination of factors: trying to communicate with staff and convincing them the game is changing. Then have measures to pressure and make people aware this is a serious transformation," he said.

"The challenge is to make our staff aware the government expects us to play a significant role in the country. For a company that has been protected in a subsidized environment, it is a challenge to make people aware they need to be part of the change."

As for local competition - Saudi Arabia approved the launch of more airlines five years ago - Albrecht said Saudia was handling the competition well. "Until that time, Saudia was a monopoly. Now there are three additional domestic airlines flying in the country and they have started to fly internationally," he said.

"It is starting to be competitive for Saudia. We lost about 15% market share, going down from 100% to 85%, but that is still a prominent position. Today, these other carriers are the meat in the sandwich between full-service Saudia and ultra-budget Flyadeal. They are starting to feel the pinch."

One rule will remain unchanged. "I don't think Saudia will serve alcohol, probably never. I don't believe the loosening of this alcohol issue will happen any time soon in the country," Albrecht said.

A more pressing issue is regional tension, most recently inflamed by Iran's alleged missile strike on Saudi's critical oil production plant. "It is unfortunate, but there are always external factors. Oil prices go up and down, the ecosystem, the global trade situation we are entering. We are used to this. In this industry, you learn to cope with volatility," Albrecht said.

"I think we are doing a reasonable job in adapting to capacity and putting capacity where there is opportunity. Hopefully, there will be no escalation in political tension, but we will be ready to adapt to this." ■

Saudi Kingdom's "huge domestic market" advantage over Gulf competitors

As for the big three Gulf carriers, Emirates, Etihad and Qatar, Albrecht said he has an advantage they do not have - a huge domestic market. "Saudia is an airline which will continue transporting about half of the 34.1 million passengers in the domestic market. It is something competitors don't have. We will continue focusing, to a high degree, on our pilgrim traffic," he said.

"It is a key advantage on a non-stop flight against our competitors. We will continue being focused on the labor market from India, Pakistan, Bangladesh and Africa to and from Saudi Arabia.

"Then we will do a little bit of sixth freedom traffic, which has been the formula for success and growth for Emirates, Etihad and Qatar. We will take away a little bit of their share, but it is not a priority. We will not be the fourth Gulf carrier.

"We will be different, a big, efficient growing carrier based on these traffic flows. We do not pretend here to overtake Emirates or the other carriers. The sleeping giant was a term I used because Saudi Arabia is a country with 34.1 million people and 28 airports, with huge domestic traffic transported in sub-optimal ground transportation and infrastructure.

"Air transportation is critical to development and communications in the country. These are totally different environments. Yes, there is wealth there (in the other Gulf countries) but they have a zero domestic market versus the huge domestic opportunity in Saudi Arabia."

Region's air cargo business doing it hard

Mixed messages. That was the outlook for the Asia-Pacific's battered air cargo market as a U.S.-China trade deal appears more likely. The latest statistics reveal air freight traffic remains depressed, but they have improved over earlier results this year and the long-term market is strong, reports associate editor and chief correspondent, Tom Ballantyne, reports.

At the world's biggest cargo hub, Hong Kong, one of the industry's major air freight operators, Cathay Pacific Airways, last month revealed a hint of optimism in its latest freight statistics. Cathay and its subsidiary, Cathay Dragon, carried 172,637 tonnes of cargo and mail in September, a drop of 4.4% over the same month last year, but it was better than the overall 6.8% decline in tonnage for the nine months to September 30.

"As anticipated, our cargo business showed signs of improvement compared with August as we stepped into air freight's traditional high demand season," said Cathay's chief customer and commercial officer, Ronald Lam.

"Most markets saw a better month-on-month performance and we mounted a number of charter operations on top of our scheduled services to meet added demand for air freight coinciding with the release of new electronic products.

"However, the overall market remains challenging and competitive with tonnage carried and load factor for the year to date still significantly below the same period last year."

Hit hard by five months of anti-government protests in Hong Kong, the airline is under no illusions about its short-term business prospects. "Our expectation is that the rest of 2019 will remain incredibly challenging for the airline and our second half financial results are expected to be below those of our first half," the airline said.

Dimming this glimmer of hope was a warning from the International Air Transport Association (IATA). It said: "the impact of the U.S.-China trade war on air freight volumes was the clearest indicator yet. Year-on-year demand fell by 3.9%.

"Not since the global financial crisis in 2008 has demand fallen for 10 consecutive months. This is deeply concerning. And with no signs of a détente on trade, we can expect the tough business environment for air cargo to continue. Trade generates prosperity. Trade wars don't. That's something governments should not forget," said IATA's director general and CEO, Alexandre de Juniac.

"Trade tensions are weighing heavily on the entire air cargo industry. Higher tariffs are disrupting not only trans-Pacific supply chains but also worldwide trade lanes." If these trends continued, he added, 2019 could be the first year since 2009 that the global air freight market contracted.

Figures for global air freight released by IATA last month showed demand, measured in freight tonne kilometers (FTKs), contracted by 3.9% in August compared with a year ago. At the same time, freight capacity rose by 2% year-on-year, meaning capacity growth has outstripped demand growth for the 16th consecutive month.

IATA said trade in emerging countries has been underperforming advanced nations most of this year. "This is due to higher sensitivity of the emerging economies to trade tensions, rising political instability and sharp currency depreciation in some of the key emerging markets," it said.

Global export orders continue to fall. The global Purchasing Managers Index (PMI) remains in contraction territory. Its tracking of new manufacturing export orders has pointed to falling orders since September 2018. And for the second month in a row, all major trading nations reported falling orders.

IATA said Asia-Pacific airlines reported demand for air freight contracted by 5% in August, compared with the same period in 2018. "The U.S.-China trade war and the slowdown in the Chinese economy have significantly impacted this region. The temporary shutdown of Hong Kong International Airport – the largest cargo hub in the world –added additional pressure. With the region accounting for more than 35% of total FTKs, this performance is the major contributor to the weak industry-wide outcome," it said.

Elsewhere in Asia, Singapore Airlines saw its freight loads drop 7.4% and cargo load factors decline by 5.6 points. In Korea, where there is trade uncertainty because of a dispute with Japan, Asiana Airlines and Korean Air (KAL) suspended some domestic freight services. Both carriers reported losses in the second quarter because of strong competition, general market conditions and the weakness of the Korean Won.

> The airports of Singapore, Incheon, and Hong Kong, Taiwan are supporting national carriers to expand air freight in ASEAN countries and also encouraging operators to increase services. With these initiatives, it is expected to reduce the trade with China and growth to be in some transfer cargo traffic in Taiwan from ASEAN
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> ResearchAndMarkets.com

Korean Air Cargo has changed its international freighter network to mirror a shift in production sites to Southeast Asia. It has re-launched cargo flights to Manila and added services to Bangkok, both with B777F capacity. The change was made because there has been a "continuous rise as global companies shift their production bases to Southeast Asia", said the airline. KAL said there was rising demand for items such as IT devices, automobile parts and hard disks.

In May, KAL inaugurated a freighter route on an Incheon – Xi'an – Hanoi rotation and increased freighter capacity on its Incheon – Hanoi – Delhi – Vienna – Milan service from three to four times a week. "The added frequency has expanded air cargo transportation on these routes, carrying items such as mobile phones from Hanoi to Delhi, garments from Delhi to Vienna and Milan and electronic devices from Xi'an to Hanoi," it said. "To cope with global economic uncertainties Korean Air will continue to strengthen its competitiveness in the cargo business by developing new markets and attracting new demand," it added.

In the longer term, analysts continue to forecast a strong recovery and bullish times for air cargo. In a report, "Asia Pacific Air Cargo Market to 2027", released last month by ResearchAnd Markets.com, the region's air cargo market accounted for $37.63 billion in 2018 and is expected to grow at 5.2% annually for eight years and reach $59.13 billion by 2027.

"The rapid growth of the e-commerce sector in the region and rising demand from temperature-sensitive products are the key drivers propelling the growth of the air cargo market. Moreover, airport infrastructure in Southeast Asian countries is supporting national carriers in expanding air freight, which in turn is expected to boost air cargo market growth in the forecast period."

It said air cargo stakeholders have a tremendous opportunity in Southeast Asian countries such as Singapore, Thailand, Indonesia, and others. Southeast Asian airports are the fastest growing airports in the world. In November 2018, The Association of Southeast Asian Nations (ASEAN) economic ministers signed an agreement to facilitate cross border e-commerce between ASEAN members. ■

Asia's record drop in freight traffic in September

Escalating trade tensions, geo-political and economic risk and weak new export orders shaped the air cargo market for the month of September, the International Air Transport Association (IATA) reported in its latest Air Freight Market Analysis.

"In seasonally adjusted terms, global freight tonne kilometres (FTKs) trended broadly sideways in the past few months," the analysis said. "Air freight capacity continued to grow modestly, up 2.1% year-on-year to September 30. Freight load factor is 3.2 percentage points lower than its level a year ago."

"Turning to the Asia-Pacific, the largest region for freight volumes, international FTKS were a substantial 5.9% lower in September than a year ago," IATA said. "This key global manufacturing and distribution hub has borne the brunt of the weakness in trade and air freight volumes in the last 12 months or so.

"The region was the first [in the world] to post a year-on-year decline in FTKs dating back to 2018. More recently, the disruption to airline operations in Hong Kong has created additional challenges for the industry in the Asia-Pacific."

ASIA-PACIFIC MRO AND COMPONENTS

AJW Group joint venture sets up in Hong Kong

Global specialist in management of aircraft spares, the **AJW Group**, has formed a joint venture with **Greavia Limited** to expand its market share in China.

The new company, **AJW Greavia Ltd**, is based in Hong Kong and headed by the retiring chairman of AJW London, **Randeep Grewal**. Greavia Ltd is owned by the Greran Group.

AJW Group president and CEO, Christopher Whiteside, said: "Having worked together for many years, I have every confidence Randeep, as leader of the Greran Group, and AJW will develop opportunities for the AJW Group in the Chinese region."

"China is a key driver of the aviation industry and AJW Group future operations. With the formation of AJW Greavia we look forward to playing a more active role in the Chinese market place," Grewal said. ■

AFI KLM E&M to recycle aircraft parts from new teardown subsidiary

Global MRO, AFI KLM E&M, will establish an aircraft disassembly plant to improve its supply of component and engine spare parts.

Since 2018 the company has purchased two 777200ERs and used engine parts, after checks, for equipping AFI KLM E&M repair shops with components.

"As an airline MRO, the group has extensive visibility of the fleet plans of its customer airlines which enables it to source the investment opportunities opening up in the teardown market," a company statement said.

"The teardown activities can be done at KLM UK Engineering, which has approval for single aisle aircraft teardown, at Bonus Tech (in Miami) or with other partners for engines.

"Assets recovered are inspected, overhauled and recertified before supplying MRO shops and spares pools worldwide. Alternatively, they can be sold on the used parts market via our **AAF Spares** broking joint venture." AAF was established in 2013 between AFI KLM E&M and **Avtrade**. ■

Lufthansa Technik and Collins Aerospace sign A380 MRO landing gear agreement

Lufthansa Technik and **Collins Aerospace** are pooling their respective areas of expertise to provide A380 landing gear MRO services.

Collins Aerospace will contribute training, parts and proprietary repair services as well as access to technical publications to support the Germany-headquartered company to carry out MRO on A380 landing gear systems.

Collins Aerospace president landing systems, Ajay Mahajan, said: "This agreement will provide A380 operators with more options for their main landing gear MRO services from high quality centres." The agreement spans the life of the A380 program. ■

Mainland accredits CALC's aircraft disassembly joint venture

The China Aviation Administration of China (CAAC) has accredited MRO and aircraft part out joint venture, **FL ARI Aircraft Maintenance & Engineering Co. Ltd**, to undertake airliner disassembly.

It is the first company in the new industry sector to be certified under the CAAC's CCAR-145 civil aircraft maintenance organization certificate regulations.

The subsidiary of Hong Kong-based lessor, **CALC**, said the number of retired aircraft is growing in China and this trend has shifted the focus of the disassembly business to fleet upgrades for airlines.

The CAAC's new rules aim to improve the quality of materials from aircraft part outs and to upgrade the industry in China to conform with global standards.

CALC Group deputy CEO and CCO, Winnie Liu, said: "CAAC's introduction of standards and guidelines will definitely facilitate healthy development of the industry." Full government recognition of the industry is positive for its development, she said. ■

AAR trials MRO drone inspections at Miami shop

At AAR's Miami facility, fully automated drones are being integrated into the global MRO provider's operations in a 12-month pilot program.

Last month, **AAR** and French drone and automation company, **Donecle**, announced a technology agreement that will be extended to other AAR MRO facilities depending on the success of the Miami trials.

The pilot phase produced faster and more precise inspections, the MRO said. "With laser positioning, the drone can safely perform end-to-end visual inspections of 737 and A320 aircraft in an hour," it said.

Designed by Donecle engineers for MRO specifications, the drones are programmed to detect any aircraft structural damage, assess paint quality and markings and signs of lightning strikes.

One complete drone scan covers the equivalent of several maintenance tasks and staff, AAR said. ■

TP Aerospace adopts Ideagen software to enhance global expansion and its focus on the Asia-Pacific

Copenhagen-headquartered TP Aerospace, a leading aftermarket supplier of wheels and brakes to the airline industry, is adopting **Ideagen's Q-Pulse** quality management software to support the company's Green Sunrise global growth plan. The central quality and safety management system will support TP Aerospace's intention to be closer to its customers by establishing more locations worldwide.

Since TP aerospace launched its expansion strategy in 2018, the MRO has established shops in Thailand and Malaysia and set up a representative office in Shenzhen on the Mainland. ■

CFM signs engine MRO deal with Colorful Guizhou Airlines

During French President Emmanuel Macron's state visit to China early this month, **Colorful Guizhou Airlines and CFMI** finalized a 12-year Rate-Per-Flight-Hour (RPFH) Agreement for the LEAP-1A engines that will power the airline's future fleet of up to 35 A320neo, along with five spare engines. The agreement is valued at approximately US$1 billion at list prices.

"We are honored to expand our relationship with Colorful Guizhou Airlines. Our relationship with the Chinese aviation industry goes back nearly 35 years and this new agreement further strengthens these very important ties," said CFM International president and CEO, Gael Meheust.

Established in June 2015, Colorful Guizhou Airlines has developed routes to 31 cities across China. ■

TECHNOLOGY

All Nippon Airways parent developing outdoor Avatar robot

Airline industry leader, **ANA HOLDINGS INC. (ANA HD)** and **Agility Robotics**, a spinoff of Oregon State University in the U.S., are developing an outdoor-capable Avatar robot. The new avatars intended to be more rugged, resilient and capable of outdoor use, will be trialed from next year and are planned to be in service a year later.

Agility Robotics' latest model has a humanoid frame. Carrying objects, it can independently traverse outdoor terrain, climb stairs and select routes.

"By combining the research of Agility Robotics and ANA HD's Avatar platform and

core technology, we will enhance the Avatar capabilities of the robot , allowing it to be controlled from anywhere on the planet," the airline group said.

"Bringing these two principals together will result in a wider range of applications in fields such as tourism, entertainment and security and potentially emergency rescue and response." ■

PEOPLE

ATR adds Eric Segura to senior management team

With more than 30 years of experience in the Airbus group, **Eric Segura**, 55, is embarking on a new role as ATR senior vice president procurement and supply chain.

He is succeeding David Brigante, who moved across to senior vice president programs and customer service earlier this year.

ATR CEO, Stephano Bortoli said: "We are very proud to have Eric join the ATR team. His in-depth industry knowledge and strong expertise in procurement and the supply chain combined with a leadership style that fits the agile ATR culture and values will help put in place ATR's strategy of continuous product improvement and innovation and contribute to preparing for the future of the company." ■

Safran board selects future CEO, Olivier Andries

After a one-year transition, **Olivier Andries** will succeed **Philippe Petitcolin as CEO** of aerospace manufacturer, **Safran**, on January 1, 2021.

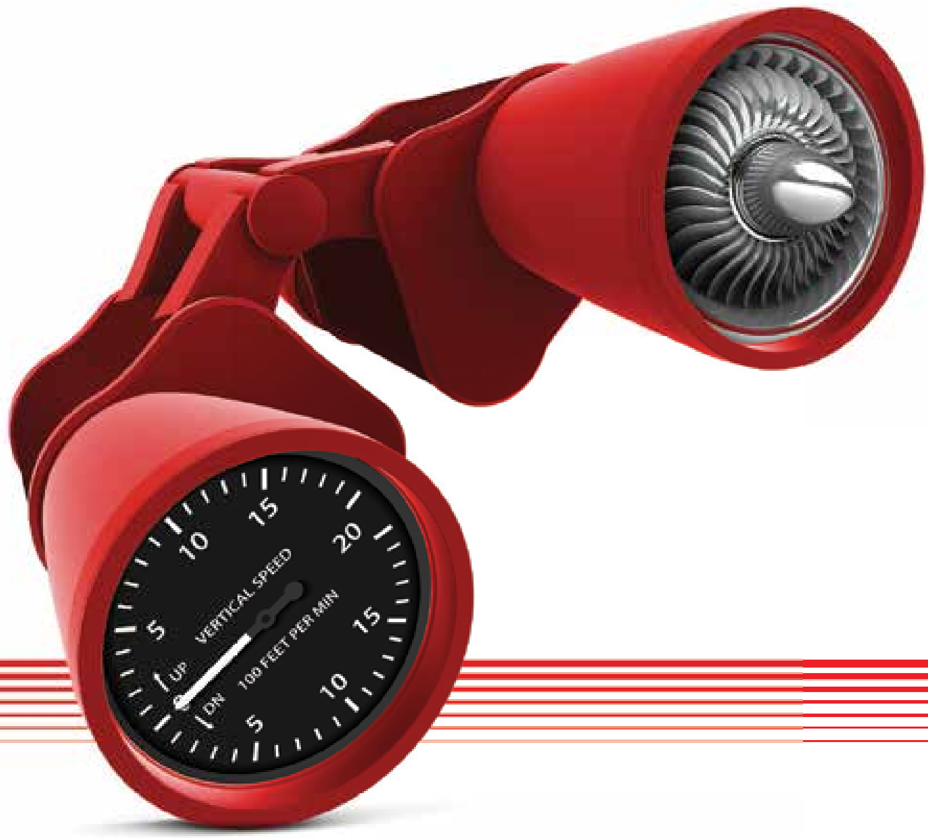
In the last decade, Andries has held senior management roles in the group's defence and security division and propulsion units, Safran Helicopter Engines and Safran Aircraft Engines.

The Paris-headquartered **Safran Group** is a defence and aerospace manufacturer and supplier of systems and equipment. It was established with the merger of engine maker, Snecma, and defence company, Sagem SA, in 2014. In 2018, it acquired **Zodiac Aerospace**, whose main business is the manufacture of aircraft cabin interiors. ■

BOC Aviation names CCO for Asia-Pacific and Middle East

Following the retirement of Gao Jinyue, 43-year old **Deng Lei (Lenny)**, is the new **CCO of lessor BOC Aviation** for the Asia-Pacific and the Middle East. Deng will be primarily responsible for aircraft leasing and sales in the two regions.

The lessor's CEO and managing director, Robert Martin, said "Deng's knowledge of global markets and banking and his experience in China will bring additional depth to the senior management team". ■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