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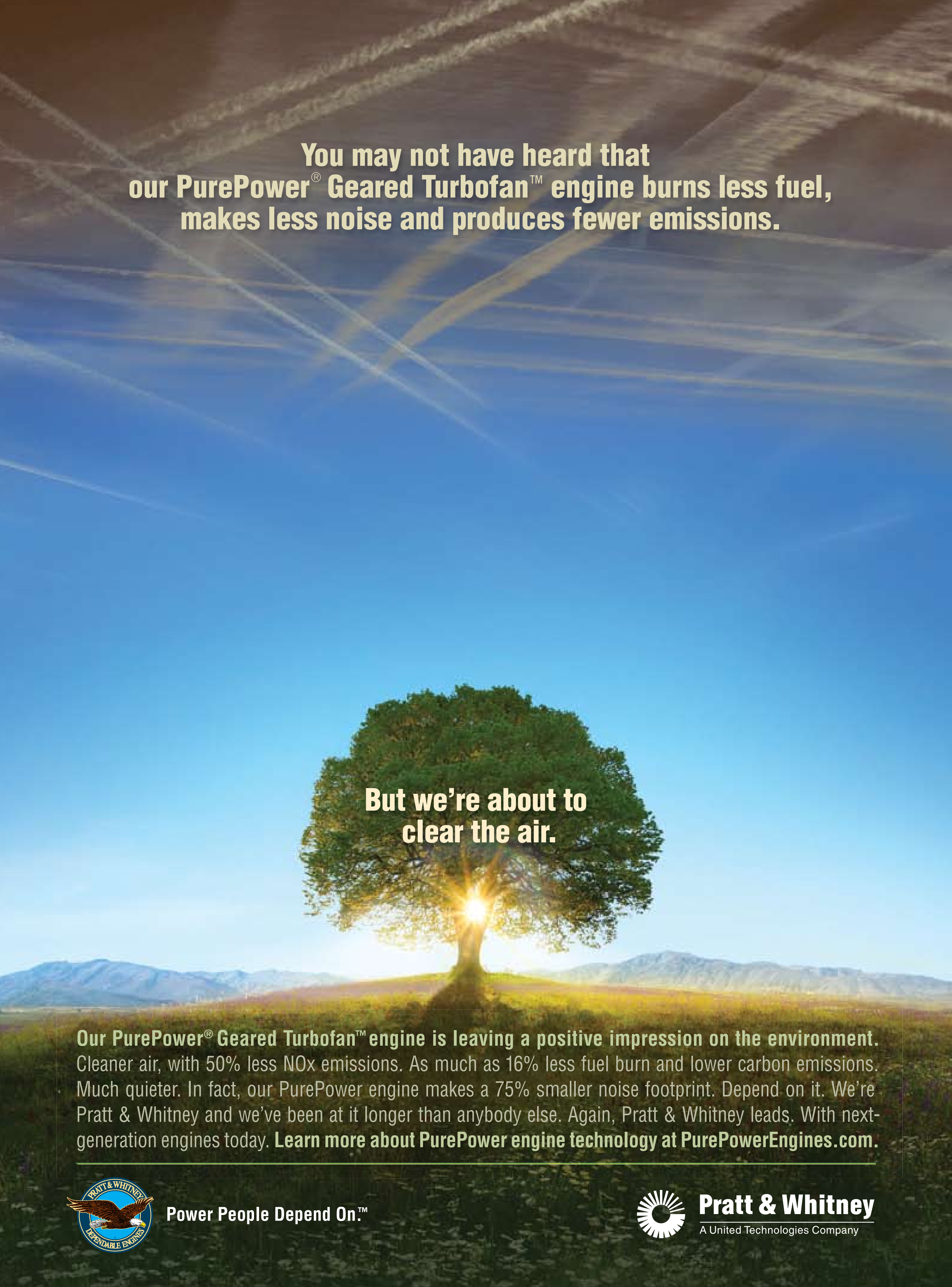
GAME CHANGER

Etihad Airways chief, James Hogan, shuns alliances and opts for cash stakes in carriers

Asia-Pacific carriers stand by Dreamliner

Door always open, says new Air NZ boss Luxon

Seamless skies goal as Asia-Pacific bids to beat ATM gridlock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BPA WORLDWIDE BUSINESS

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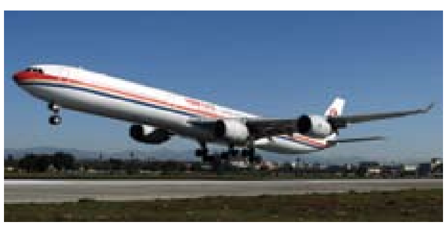


Better safe than sorry

There is absolutely no doubt that the voluntary decision of All Nippon Airways and Japan Airlines, and subsequently regulators in the U.S., Europe and India as well as other operators of the B787 Dreamliner to ground the fleet was correct.

For several days in January the global public was bombarded with headlines reporting incident after incident with the revolutionary new aircraft.

New generation lithium-ion batteries were overheating, a plane was making an emergency landing and fuel was leaking from another plane about to take off. It had become totally inappropriate to describe the events as "teething problems". These were safety issues with the potential to lead to a serious accident.

As yet, it is unclear how long the fleet will be grounded. It could be weeks. It could be several months. But while Boeing will almost certainly be facing demands for more compensation from airlines operating almost brand new aircraft that can't fly, the Seattle planemaker has already done what is right.

It has apologized both to its customers and their passengers and committed to working with the Federal Aviation Administration (FAA) in its review of the aircraft. What is important is that the review being conducted by the U.S. regulator is not simply going to look at individual incidents, which range from the battery problems and fuel leakages to a cracked windscreen and brake issues. It will examine the plane's critical systems and will include a review of the design, manufacture and assembly of these systems. It is vital to determine if there are some fundamental problems in the manufacturing process of the B787.

The Dreamliner is a highly advanced, complex piece of machinery which went through the most robust and rigorous certification process in the history of the FAA. Why then, did none of these issues, particularly the battery problem, show up during tens of thousands of hours of flight testing? It is a question that must be answered.

Boeing has expressed total confidence in the B787's design and production systems. Few in the industry doubt the issues will be resolved and that the Dreamliner will become part of aviation's bright, high technology future.

With this plane the designers have ventured where no-one has gone. Every effort has to be made to prove beyond doubt they got it right before the B787 flies again. ■

TOM BALLANTYNE
Chief Correspondent

Spring has high hopes for Hong Kong

China's only privately-owned carrier, Shanghai-based **Spring Airlines**, is expanding its services between the Mainland and Hong Kong as it prepares to launch a low-cost subsidiary in Hong Kong.

The airline is looking to raise about one billion yuan for fleet expansion. It will launch an initial public offering (IPO) on the **Hong Kong Stock Exchange** in the first half of this year. It is also expected to win approval to launch an IPO on the **Shanghai Stock Exchange**.

Spring has launched daily flights from Hangzhou and Xiamen to Hong Kong, four-times weekly flights from Nanjing and three times weekly flights from Chongqing to Hong Kong. ■

AirAsia 'no' to Singapore

AirAsia *has expanded like no other Asian low-cost carrier (LCC) since it was purchased by chief executive,* ***Tony Fernandes****, in 2001, with ventures in Malaysia, Thailand, Indonesia, the Philippines and Japan.*

At one stage, he had been talking about setting up a joint venture airline in Singapore, but in recent tweets and emails he has ruled this out. In an email to the Wall Street Journal *he said he had scrapped the Singapore plan because of high costs and weak market potential in the Republic.*

Until recently AirAsia was based in Kuala Lumpur, but Fernandes and his team have moved headquarters to Jakarta where he is establishing an ***Asean (Association of Southeast Asian Nations)*** *airline subsidiary.*

AirAsia CEO Tony Fernandes: concentrating on big domestic markets.

AirAsia also has joint venture airlines in Thailand, Japan, Indonesia and the Philippines.

"We are concentrating on markets which have big domestic markets and big populations and markets that are more liberal and market orientated," he told the Journal, "capital should go into those countries to maximise return."

AirAsia has more than 100 Airbus jets in service. In December, the carrier ordered 100 A320s, bringing its total order to 475 single aisle aircraft, 264 A320neos and 211 A320ceos. In the same month, AirAsia became the first operator of the fuel saving "sharklet" A320, 2.4 metre tall wingtips made of lightweight composites. ■

Four carriers in cross-strait alliance

Four ***Skyteam*** *members, Taipei's* ***China Airlines*** *and the Mainland's* ***China Eastern****,* ***China Southern*** *and* ***Xiamen Airlines*** *have joined forces to boost market share across the Taiwan Strait between China and Taiwan.*

For decades a political hot potato, with air transport and shipping forbidden from plying the direct route, airlines like ***Cathay Pacific Airways*** *made rich pickings over the years from traffic using Hong Kong as a China entry and departure point. The new alliance, called the "Greater China Connection", is seen as a major challenge to Cathay on what is a highly lucrative route.*

The four carriers announced in December a joint frequent flyer programme and airport lounge sharing arrangements for cross-strait flights.

The alliance services will account for half of the capacity of the high-yield routes between China and Taiwan with 270 round-trip flights a week. Another 280 round-trip cross-strait flights will operate through Hong Kong. There will also be almost 25,000 China domestic flights a week by the alliance members.

The routes are still government controlled and while restrictions have been relaxed in recent years demand still outstrips capacity.

China Eastern's senior vice-president alliances, ***Shan Chuanbo****, told the* South China Morning Post *that he expected the agreement to expand to code-sharing and scheduling alignment that would allow China Eastern to aid the movement of transit passengers from Europe and the U.S. to Taiwan via Shanghai.*

"We forecast that our international transit passengers in ***Pudong Airport*** *will increase to 10,000 a day this year from 6,000 last year." This would double in 2015, he added.* ■

China Eastern Airlines: looking for major returns from the "Greater China Connection" cross-strait alliance

SIA to release contract pilots

Singapore Airlines (SIA) has announced a "difficult" decision to bring forward the release of 76 pilots employed on fixed-term contracts as the airline addresses slow growth following the global financial crisis. Previously, pilots had only been released on completion of their contracts.

A statement issued by SIA said the airline had a surplus of pilots following the economic downturn of 2009-10, which had resulted in excess capacity and slower than expected growth.

The pilots are expected to be released by June 30. The carrier said it would assist them to find work either within the SIA Group or with other airlines.

SIA had earlier introduced voluntary no-pay leave and the suspension of cadet pilot recruitment to help ease the surplus. Pilots on fixed-term contracts make up about 4% of the airline's pilot workforce. ■

Qantas alliance has strings attached

There was good news and bad news for **Qantas Airways** when the **Australian Competition and Consumer Commission (ACCC)** recently released a draft ruling on the **Qantas-Emirates** airline alliance.

It gave the nod to the carriers to cooperate on passenger and freight operations across their networks, but the bad news was the ACCC proposed halving the airlines' request for a 10-year timeframe on the deal to five years.

The regulator is concerned about the impact of the alliance on airline competition between Australia and New Zealand. It warned that their main rivals, **Air New Zealand** and **Virgin Australia**, were "unlikely to sufficiently constrain the alliance in the event that the alliance decided to reduce or limit growth in capacity". This would result in rising fares on the trans-Tasman routes, said the ACCC.

The ACCC chairman, **Rod Sims**, said overall the alliance was likely to result in "material, although not substantial benefits" to Australian consumers. The regulator is expected to release its final ruling next month. ■

SHORTTAKES

AIRLINES: **Singapore Airlines (SIA)** has firmed up an order for 25 widebody Airbus aircraft, five A380s and 20 A350-900s. SIA currently has 19 A380s in service. Taiwan's **China Airlines** announced in December that it is to order six new B777-300ERs and lease another four from **GE Capital Aviation Services (GECAS)** as part of a fleet renewal and expansion plan. The first of the planes will arrive in 2014. **Malaysia Airlines (MAS)** has ordered 36 ATR 72-600s for its regional subsidiaries, **Firefly** and **MASwings**, in a deal worth US$980 million. Currently, Firefly has 12 ATR 72-500s and MASwings 10 similar aircraft. MAS chief executive, **Jauhari Yahya**, said Firefly was expected to grow rapidly in the next five years. Japan's **Starflyer** has taken delivery of the first of three A320s. They will be powered by CFM56-5B4/P engines. **Fuji Dream Airlines**, of Japan, has signed a contract for two Embraer 175 jets in a deal worth $81.6 million at list price. The aircraft will join six other Embraers in Fuji's all E-jet fleet.

CODE-SHARES: **Garuda Indonesia** launched services to six destinations in December as a result of a newly-signed code-share agreement with **Etihad Airways**. Through its partnership, Garuda will serve London, Manchester, Paris, Moscow, Athens and Muscat. As part of the agreement Garuda has moved its international hub from Dubai to Etihad's headquarters, Abu Dhabi.

ENGINES: **Rolls-Royce** has signed a $1 billion contract (at list prices) with Japan's **Skymark Airlines** for Trent 900 engines to power six A380 aircraft. The aircraft will enter service in 2014. Skymark has also signed a Letter of Intent for Trent 700 engines to power up to 10 leased A330s, the first in its fleet, and also to begin delivery in 2014. Both deals include long-term TotalCare service support.

LEASING: **AWAS** delivered a third B737-800 to Japan's **Skymark Airlines** last month, its 28th aircraft. The carrier received the first two B737-800s last year. Meanwhile, AWAS delivered an A320 to **Qantas Airways** for use by its **Jetstar Asia** subsidiary. It is the first of three A320s being delivered to Qantas by AWAS in the first quarter of 2013 to be flown by their Singapore and Australian Jetstar operations.

INFLIGHT: **Cathay Pacific Airways** wholly-owned subsidiary, **Dragonair**, is to spend "hundreds of millions" of dollars on improving the cabins of its fleet. Chief executive, **Patrick Yeung**, is playing his cards close to his chest, but said the investment would be "much higher" than the HK$195 million (US$25.5 million) spent on a 2003 upgrade. Dragonair's fleet has almost doubled in that time to 38 aircraft. The improvements will include wider business and economy class seats, a video-on-demand inflight entertainment system and a new uniform for the growing number of flight crews and cabin staff. When the airline starts its service to Da Nang, Vietnam, next month, it will be Dragonair's 12th destination launched or resumed in the last 12 months. **Singapore Airlines** is investing almost S$95 million (US$76.9 million) to refit 10 B777-200ERs with new long-haul cabins.

ROUTES: **Dragonair** is to launch a three times weekly service from Hong Kong to Da Nang in Vietnam late March. The carrier currently flies 10 times a week to Hanoi while its parent carrier, **Cathay Pacific**, operates 16 services a week between Hong Kong and Ho Chi Minh City. **Singapore Airlines**' low-cost subsidiary, **Scoot**, launched its eighth and ninth routes - to Chinese cities Qingdao and Shenyang - last month. The Singapore-Qingdao-Shenyang service will operate three times weekly. Scoot also flies to Tianjin in China. Its network includes Sydney, the Gold Coast (Australia), Bangkok, Tokyo and Taipei. **Korean Air** is to launch three times weekly services between Seoul and Colombo, Sri Lanka and on to Male in the Maldives from March. **Singapore Airlines (SIA)** is to increase services to Australia, Asia and Europe during the northern summer (March 31-October 26). A fourth daily flight to Melbourne (up from three) and 12 flights a week to Adelaide (up from 10) will raise the number of services to Australia by SIA and subsidiary, **SilkAir**, to 121 a week. Within Asia, SIA will increase flights to Japanese cities Fukuoka (from five a week to daily) and Osaka (from 11 a week to twice daily). Between May 20 and August 11 the Singapore-Moscow-Houston frequency will increase from five flights a week to daily. Services to Copenhagen will rise from three flights a week to five from March 31.

TRAINING: **Singapore Airlines (SIA)** has signed Memoranda of Understanding (MoU) with three local polytechnics related to cabin crew recruitment and training. The MOUs with Nanyang Polytechnic, Republic Polytechnic and Temasek Polytechnic also will cover other areas of potential cooperation such as curriculum development related to service, operations and safety and security. Singapore's **ST Aerospace Academy (STAA)** has won a contract to train pilots for **Xiamen Airlines**. The first group of 30 cadet pilots will begin their 60-week training course next month at STAA's flying school in Ballarat, Australia. The intake for subsequent courses is expected to take at least 50 cadets. **ATR** inaugurated its new Singapore training centre for pilots and maintenance crew at the **Seletar Aerospace Park**, in December. It has the capacity to train more than 600 pilots and maintenance personnel a year. Its Full Flight Simulator enables training for the ATR 42-600 and ATR 72-600 variants. ■

PEOPLE

There have been changes at the top at **Airbus China**. **Eric Chen**, formerly senior vice-president commercial and external affairs and one of the aircraft manufacturer's pioneer salesmen in China, has succeeded **Laurence Barron** as president of Airbus China.

Barron, who held the position for nine years, has been promoted to chief executive and chairman of Airbus parent, **EADS China**.

Also, **Rafael Gonzalez-Ripoli-Garzon** has been appointed Airbus China chief operating officer. He was previously head of **Airbus'Centre of Excellence** Empennage/Aft Fuselage in Spain.

Promotions: Airbus China president, Eric Chen

EADS China chairman and CEO, Laurence Barron

Chen's role as head of Airbus China includes business development, commercial activities, customer services and industrial cooperation.

He joined Airbus in 1994 as area sales director and since that time has seen the Mainland's in-service Airbus fleet grow from 6% to around 50% today for aircraft over 100 seats.

All the appointments came into effect on January 1. ■

*Leasing company, **AWAS**, has appointed **Marlin Dailey** as chief commercial officer. He will lead an integrated sales, trading and market development organization within AWAS.*

*Dailey previously had a 32-year career with **Boeing**. Most recently he was President, Boeing Germany, Northern Europe, EU and Africa. Prior to that he was executive vice-president sales and marketing for **Boeing Commercial Airplanes**.* ■


EMBRAER 175

Asian carriers back troubled B787

By Tom Ballantyne and Barry Grindrod

As investigators on two continents try to solve the problems of Boeing's grounded B787 Dreamliners, Asia-Pacific airline chiefs have voiced support for the beleaguered jet.

The 49 aircraft in service were grounded last month after incidents on board Japan's two international carriers All Nippon Airways (ANA) and Japan Airlines (JAL), involving high technology lithium-ion batteries.

ANA (17) and JAL (6) have almost half of the B787s in service, but both carrier carriers have expressed they still have confidence in the B787. Korean Air (KAL), Thai Airways International (THAI), Singapore Airlines subsidiary, Scoot, and Qantas Airways said they too are standing by the aircraft they ordered. Over 30% of the 848 B787s on order are bound for the Asia-Pacific.

The support was welcomed by the president of Boeing Commercial Airplanes, Ray Conner. He told *Orient Aviation*: "We sincerely regret the impact this has had on our customers in Asia and around the world. I can't stress enough the importance we place on the safety of our passengers and crew members.

"This has and will always be our number one priority. We are working around the clock with the investigating authorities in both the U.S. and Japan to understand the root cause and return the Dreamliner to service. We have devoted an incredibly talented team and resources to assist in this effort."

It was an emergency landing by an ANA B787 on a January 16 domestic flight, which proved the final straw. An alarm had sounded focusing on the batteries. The incident followed a battery fire on a JAL aircraft parked at Boston's Logan International Airport on January 7. ANA voluntarily grounded its Dreamliner fleet. JAL quickly followed suit.

In the next 24 hours, regulators in the U.S., Europe and elsewhere followed Japan's lead, putting the future of some $11 billion worth of the most advanced jet aircraft flying on hold.

ANA's chief executive, Shinichiro Ito, said the groundings would not impact on the remaining 49 B787s it has on order.

At press time Ito told *Orient Aviation*: "We are confident that Boeing will respond appropriately to make the 787 a safe aircraft. We will take steps to ensure customers can fly with peace of mind."

JAL chairman, Masaru Onishi, said: "We have given no thought to cancellations." Speaking to *Orient Aviation* in Kuala Lumpur where Malaysia Airlines was being welcomed into the

Catalogue of incidents

A string of incidents has led the Dreamliner to be the focus of worldwide attention since it entered service in late 2011. What were initially described as "teething problems" have developed into significant safety issues.

On January 8, a JAL B787 aborted its take-off, also from Boston, and returned to the gate because of a fuel leak. On January 11, a cockpit window on an ANA B787 cracked during a domestic flight and a separate ANA B787 suffered an oil leak from one of its engines.

On January 13, the JAL aircraft which leaked fuel in Boston, now back in Tokyo, was again found to be leaking fuel during an inspection at Narita International Airport.

After ANA's emergency landing thought to have been caused by a battery overheating, Japan's transport ministry said it considered the incident "highly serious".

The only other commercial jet using lithium batteries is the A380, but they provide power only for emergency lighting. However, Airbus is planning to make more extensive use of them in its new A350, which will be a direct competitor to the B787. It is not scheduled to enter service until mid-2014.

"We are not in a situation where we should change the strategy we have been pursuing"

Shinichiro Ito
President & CEO
All Nippon Airways

oneworld alliance, he added: "It will still be a great plane when the issues are fixed."

He said JAL had been able to fill the gap with a combination of its spare aircraft, through its joint agreement with American Airlines across the Pacific and with the help of other oneworld members.

It was a similar story elsewhere in the Asia-Pacific. A spokesman for Korean Air, which has 10 of the planes on order, said: "Problems are bound to occur when new aircraft are developed and put into operation. Recent problems involving the B787 are no different."

THAI has eight B787s on order. Its president, Sorachak Kasemsuwan, said the first aircraft was not due for delivery until the end of 2014, which meant there was plenty of time for Boeing to solve the aircraft's problems. Scoot, with 20 on order, said it was "confident" Boeing would resolve the issues.

Qantas Airways has 14 B787s on order for its budget subsidiary Jetstar, which are scheduled to start arriving later this year. Chief executive, Alan Joyce, said the airline was in daily contact with Boeing. It always built contingencies around its plans and made sure there was flexibility to deal with any unexpected events, he said. Qantas has purchase rights on 50 additional B787s.

The chairman of China's Hainan Airlines, Chen Feng, which has 10 Dreamliners on order, said the delays had hampered expansion plans. "Frankly, it's a little disappointing the aircraft has been delayed so many times. But we still think it's a good aircraft," he said.

Three Chinese airlines have firm orders for the Dreamliner. Three of China Southern Airlines' (CSA) order of 10 B787s are parked on the delivery line awaiting developments. A fourth carrier, Xiamen Airlines, has announced it wants to buy six, but is awaiting its government's approval.

"We are working around the clock with the investigating authorities in both the U.S. and Japan to understand the root cause"

Ray Conner
President
Boeing Commercial Airplanes

Nevertheless, as *Orient Aviation* went to press there was growing concern the grounding could be far longer than anticipated.

Boeing chairman, president and CEO, Jim McNerney, said last month it was "business as usual" on the production lines at Everett, Washington, and North Charleston, South Carolina. Deliveries, however, had been suspended.

"I can't predict an outcome," he said. "We don't have a root cause yet."

The U.S. National Transportation Safety Board (NTSB) said late last month that back-up protections in the aircraft's lithium-ion batteries and electronics systems failed, although the agency had not reached a conclusion on the root cause of the fire that occurred on the JAL aircraft in Boston.

"These events should not happen. As far as design of the aircraft, there are multiple systems to protect against a battery event like this. Those systems did not work as intended … the redundant safety systems installed by Boeing did not work," said NTSB chairwoman, Deborah Hersman, during a briefing in Washington.

Analysts have suggested the fix could cost anywhere between $350 million and $625 million. That figure does not include the millions of dollars in compensation that will have to be paid to airlines.

ANA said it expects to raise its profitability by more than $110 million annually once its fleet of 55 B787s is in place by 2017. However, because of the grounding, 459 domestic and international flights were cancelled in January, which the ANA Group said would amount to 1.4 billion yen (US$15.4 million) of decreased revenue. Forecasts for the fiscal year remain unchanged.

By mid-February it will have cancelled 838 flights, affecting nearly 83,000 passengers. Nine international routes have been suspended, including flights from Narita to San Jose, California, Seattle and Seoul's Incheon International Airport, and from Tokyo's Haneda airport to Frankfurt and Gimpo International Airport in Seoul.

Goldman Sachs estimated the hit to ANA's annual operating profit could be up to $40 million by the end this month.

Federal Aviation Administration (FAA) technical experts logged 200,000 hours testing and reviewing the plane's design before it was certified in August 2011.

Six test planes flew 4,645 hours and Boeing conducted over 1.3 million hours of testing before deciding the lithium-ion batteries were safe to use. The company had to satisfy additional rigorous tests to be granted a "special condition" by the FAA to use the batteries. ■

In service

In addition to the 24 aircraft with ANA and JAL other carriers with B787s in their fleet are: United Airlines (6), Qatar Airways (5), Air India (5), Ethiopian Airlines (4), LAN Airlines (3) and LOT Polish Airlines (2).

ATM: Asia-Pacific heads for seamless skies

Over more than two decades Europe's painful progress towards single skies has become the butt of industry jokes. In the Asia-Pacific, seamless rather than single skies is seen as the answer to bringing maximum efficiency to the fast-growing and geopolitically complex air traffic management systems in the region.

TOM BALLANTYNE reports

Rob Eagles, the International Air Transport Association's (IATA) Montreal-based director infrastructure implementation, has no illusions about the potential outcome for airlines if steps are not taken to prepare the air traffic management (ATM) system for the thousands of new aircraft that will be flying the region's already congested airways in coming years. The result, he said, would be gridlock.

To underline the point, he cited China, where congestion and flight delays are a major cause of passenger angst.

Speaking during a briefing at IATA's Geneva offices, Eagles showed a simulation of predicted traffic movements at China's five major airports to 2020 - Bejing, Shanghai Pudong and Hongqiao, Guangzhou and Shenzen - when traffic would be double today's level.

> In Asia, each country has its own plans. You've got to try and coordinate that and establish some common vocabulary
>
> **Andrew Herdman**
> Director General
> AAPA

If nothing was done flight delays could be close to two hours per flight. "Obviously, this is a concern," said Eagles.

China isn't the only challenge. IATA traffic forecasts show airlines worldwide expected to welcome some 3.6 billion passengers annually by 2016, 800 million more than the 2.8 billion passengers carried in 2011.

The Asia-Pacific would add 380 million in the same period. Three of the world's biggest domestic markets would be in Asia: China with 415 million passengers, India 107.2 million and Japan with 93.2 million.

Boeing and Airbus predict more than 12,000 new aircraft will enter Asia's skies by 2030, more than a third of the world's total. Huge aircraft orders from the region's carriers, particularly low-cost operators, are in place. They will arrive as airports, even relatively new facilities, are operating at full capacity.

The problem for the Asia-Pacific, unlike the U.S., which has the Federal Aviation Administration (FAA) and Europe, which has Eurocontrol, is that it has no single regulator.

Instead, the region's airspace is handled by some 40 separate Air Navigation Service Providers (ANSPs), which will need to forge an unprecedented level of cooperation and coordination if the avalanche of rising traffic is to be handled efficiently.

Failure to cope will have grave consequences, not only for airlines, but for national economies. It would lead to serious environmental consequences with aircraft flying longer, using more fuel and spewing out more emissions.

For the airlines pressing for more efficient ATM the big issue was fuel, said Association of Asia Pacific Airlines (AAPA) director general, Andrew Herdman. It represents around a third of costs at present.

"This is not so much about the charges by the ANSPs. The big issue from the airline perspective is fuel burn. If you are held in stacking patterns or taking non-direct routes, the fuel burn is a huge factor," said Herdman.

"Then, of course, there are the emissions. That's far bigger than any direct savings in terms of aeronautical charges. That's why the airlines are always urging more rapid progress."

In Europe, a study by Booz Allen Hamilton, a strategy and technology consulting firm, found the cost of a failure to have integrated services and ATM was around $16 billion annually, with the inefficiency of extended flight paths aircraft had to fly, because of the lack of integration of ATM providers, at about $4 billion. No similar figures are available for the Asia-Pacific, although IATA is conducting an economic analysis to find out.

Not only is the Asia-Pacific a region of highly independent nations with differing cultures that are extremely protective of their airspace sovereignty, it also includes both developed and developing countries with ATM systems that vary significantly. The answer, said IATA, was seamless rather than single skies.

Can the Asia-Pacific outdo Europe in maximizing the efficiency of the region's ATM and can it do it in time to cope with the projected demand?

The prognosis is surprisingly bright. According to Eagles "it may not be as far off as we think". IATA has agreement in principal between the states in the International Civil Aviation Organization (ICAO) to look at the seamless Asian skies initiative.

How far down the track the initiative has moved became clear last month during an exclusive briefing for *Orient Aviation* from IATA's Singapore-based regional director safety, operations and infrastructure, Ken McLean.

> Airlines have invested millions of dollars buying modern aircraft. But in many places much of the latest avionics equipment can't be used because the ATC facilities aren't equipped for the aircraft upgrades

A suggested regional ATM road map will be presented to ICAO's Asia-Pacific Seamless ATM Planning Group (APSAPG) in June this year, he disclosed. "We are deliberately calling this Seamless Asian Skies as opposed to one single sky, looking at the most efficient operation possible between the airspace areas. They can keep their own airspace, we just have to work more efficiently together," said McLean.

It is a key juncture in the process, which has taken a surprisingly short period of time to move forward. While the issue of rising air traffic demand was widely recognized, IATA presented a paper on behalf of airlines to a conference of the region's air regulator's director generals in 2009.

"We clearly said the Asia-Pacific needed to start working on seamlessness as opposed to a single sky. The director generals agreed and asked ICAO's regional office in Bangkok to consider how we might do that," said McLean. APSAPG was set up a year later.

There will be challenges. "The problem, as we learned from NextGen [the new U.S. ATM system] and Single European Skies, is that it is easy to construct a road map, the difficulty is implementation and coordination of the different parties involved," said Herdman.

"In the U.S., at least you have a unified structure under the FAA. The problems in Europe are largely political in nature … we have seen the tussle between the [European] Commission threatening to bring enforcement action because the ANSPs in the individual member states are not living up to their side of the commitments that were made.

"In Asia it's a different problem.

> Today, ATM faces its biggest challenge – the future. It remains utterly fragmented

Geoff Poole
Director General
Civil Air Navigation Services Organization

Rob Eagles, IATA director, infrastructure implementation: Asia-Pacific airways will face gridlock without an ATM overhaul

Each country has its own plans. You've got to try and coordinate that and establish some common vocabulary."

IATA is convinced the 40 states that make up the region are well on the way to doing just that. "There was recognition from the states that something needed to be done. Everybody sees the numbers and it doesn't take a rocket scientist to figure out the economic impact," said McLean.

"The planning group first met in January 2011. The target was to deliver a seamless ATM plan by the middle of 2013. That will happen."

It has been recognized that no region can formulate its ATM approach in isolation. The Asia-Pacific seamless skies are being designed to fit with ICAO's own road map for the development of global ATM.

This involves a series of "block upgrades" to be incorporated into its global air navigation plan, which allows for "blocks" of technology to be implemented in a harmonized way by states to ensure ATM improvements can move forward incrementally.

Air traffic control upgrades can no longer be based on national and domestic considerations, said Roberto Kobeh Gonzalez, president of the ICAO Council.

Without consensus the global aviation system would not be able to effectively handle growth projected to climb to six billion passengers a year by 2030, compared with the current 2.7 billion a year.

In that period, ICAO expects the number of annual flights to double to 60 million. Gonzalez said more advanced traffic management techniques would be essential to head off potential gridlock and increased delays in fast-growing regions.

Jeff Poole, the director general of the Civil Air Navigation Services Organization (CANSO), has also called on the international aviation community to embrace change to achieve a globally harmonised air navigation system.

"Today, ATM faces its biggest challenge – the future," he said, adding that ATM "remains utterly fragmented". The fragmentation impacted on safety, operational and cost efficiency, capacity and had adverse effects on the environment, said Poole.

Said IATA's McLean: "We [in Asia] have been fortunate because we have been able to draw on everything that is happening globally. The timing is fantastic. ICAO has been wrestling for a number of years with how to harmonize NextGen and CESAR (Single European Sky ATM Research) programmes.

"That's where they came up with the aviation block upgrades, which are a methodology of implementing this capability that we need to manage the traffic in a structured way across the world.

"The theory is if you have a consistent road map and all of the states around the world refer to it, then you'll start to get some harmonization."

Herdman believes ICAO and IATA are playing strong roles in pressing the shift from individual "brand names", such as NextGen and Single European Skies. This will mean more focus on the underlying technologies, which can be used "as a tool, regardless of which region in the world, so the individual countries, or whoever's managing the airspace, can move ahead knowing that it will all fit together," he said.

Herdman also pointed to recent moves by ICAO and IATA to strengthen their teams of experts in locations such as Bangkok, Singapore and Beijing. "That's good because you need the resources and experts available to enable the discussion to move from talking about road maps to making definite steps along the way," he said.

While details of the draft road map for Asian seamless skies have not yet been released it is likely to prioritize areas where initial action is required. "The ICAO Asia-Pacific region includes China and Mongolia, India and the Pacific. Unlike Europe and the U.S. where traffic is concentrated in a smallish area, the Asia-Pacific has pockets of airspace which are very densely flown, but vast areas where nothing much happens," said McLean.

"If you look down the spine of Asia-Pacific, from China through Japan, the South China Sea, the Philippines, Indonesia, Singapore and Thailand, that's where the growth is going to come. It is possible the seamless ATM plan will say let's focus on where we think the greatest problem will arise in future."

> The problem for the Asia-Pacific, unlike the U.S., which has the Federal Aviation Administration and Europe, which has Eurocontrol, is that it has no single regulator

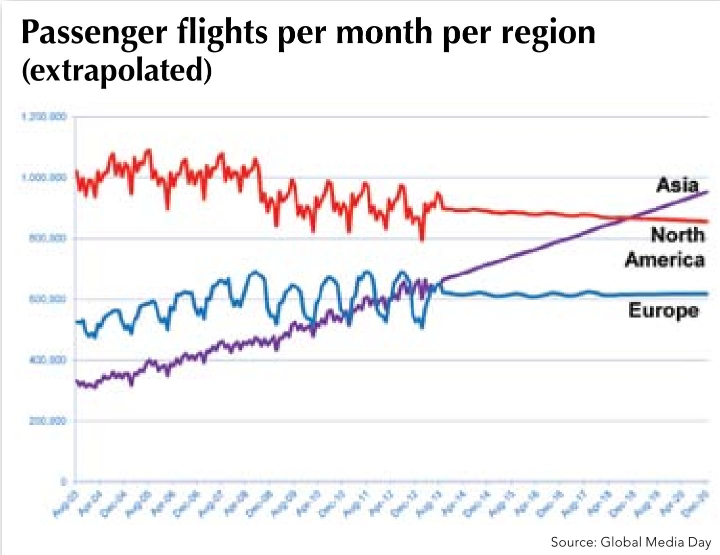
In addition to IATA and ICAO, CANSO is also heavily involved in the project. IATA has been briefing the Asia-Pacific Economic Cooperation group (APEC) and the

Association of South East Asian Nations (Asean), which is heading for a single aviation market in 2015.

Airports are involved because seamless air traffic operations are impossible without sufficient airport infrastructure on the ground to support it.

McLean said Asia needs a central flow management unit, or CFMU, similar to the system in Europe. It takes all the state data, looks at it and decides where the problems will be. But the states still manage the traffic, not the CFMU.

"That's what will happen in Asia-Pacific in the first instance," said McLean. While separate from seamless skies, it is a key component of a future system. IATA has run sessions on such airport collaborative decision-making across the region, including India, the Philippines and Indonesia.



Source: Global Media Day

Indeed Singapore, Hong Kong and Thailand have an agreement for coordinated Airport Collaborative Decision Making (A-CDM) between airport locations. Primarily linked to surface management – providing departure information to airlines – the plan is to expand into the airspace structure.

IATA wants to see Japan, Malaysia, Indonesia and Vietnam involved. The Civil Aviation Administration of China and its Air Traffic Management Bureau have plans to implement a nationwide air traffic flow management system to accommodate that country's rapid traffic growth.

Ultimately, one huge benefit from seamless skies and technology upgrades will be the resolution of a long-term airline issue. They have invested millions of dollars buying modern aircraft with the latest avionics, but much of the equipment can't be used because, in many places, the ATC facilities aren't equipped for the aircraft upgrades.

"When you operate a smart phone, you turn it on in Dubai, Delhi, Berlin or Buenos Aires and it works," said McLean.

"But when you buy a $200 or $300 million aeroplane with all its sophisticated equipment you can't use it at many of the ANSPs because they don't have the capability enabled. It depends on whether the government has invested in the ground capability.

"You have sophisticated countries [in Asia] which have the agenda, the knowledge, the technology, the background drivers and good traffic management infrastructure where everything will work fine.

"Then you cross a border somewhere and the next one doesn't. You go from a six-lane highway to a two-lane bridge. You are delivering traffic to the traffic jam, the same as on a motorway.

"Our focus is to enable most of this capability across the Asia-Pacific, using all that capability consistently."

The AAPA's Herdman said: "In the past, we've had situations where the airlines were ahead of the game in terms of new equipment on aircraft and new technology. But as the ANSPs didn't match the pace of implementation with ground-based equipment, airlines were stung. Essentially, a lot of the equipment on board the plane was never used effectively.

"From our point of view, we want harmonization and standardization so they can equip aircraft and operate anywhere in the world. We don't want contradictions between the U.S. approach, the European approach and what happens in Asia."

But overall, IATA's Eagles said the key to success was doing it in a managed way "with key stakeholder engagement, working to pre-defined targets and technology upgrades".

"It has got to be a complete, co-ordinated effort that includes airline planning and scheduling, air space capabilities to cope, collaborative decision-making, flow management and airport capacity capability," he said. ■

"We are deliberately calling this Seamless Asian Skies as opposed to one single sky, looking at the most efficient operation possible between the airspace areas"

Ken McLean
Regional Director, Safety, Operations & Infrastructure Asia-Pacific
IATA

GAME CHANGER

The president and chief executive of Abu Dhabi's Etihad Airways, James Hogan, has a strategy that is turning the concept of airline-to-airline co-operation on its head. It is helping the fast-expanding, nine-year-old Gulf carrier extend its global reach in a rapidly changing aviation world.

By Tom Ballantyne in Abu Dhabi

James Hogan
President & CEO
Etihad Airways

Etihad Airways' string of investments in partner airlines, with reports of more to come, has intrigued its competitors.

But the airline's Australian-born president and chief executive, James Hogan, is making no apologies for the millions of dollars spent securing stakes in carriers around the globe. "We are being very selective about who we invest in," he said.

Hogan insists Etihad's equity stakes are not about seeking control. "They are about cementing a partnership. Partnerships that will deliver growth in a constrained and challenged global landscape," he said. In 2012, Etihad's partnerships in the region delivered 20% of its total revenue, said Hogan.

Today, the Abu Dhabi-based operator, which was launched less than 10 years ago, has substantial equity in four airlines: Germany's airberlin (29%), Air Seychelles (40%), Virgin Australia (10%) and Ireland's Aer Lingus (2.9%). Hogan suggested more investments were a possibility.

However, when *Orient Aviation* interviewed the airline chief at his headquarters near Abu Dhabi's international airport, he refused to confirm Etihad was in discussion with another potential offshore airline partner.

It has been widely reported that Etihad was in talks with India's Jet Airways. Indeed, Jet told the Bombay Stock Exchange in a statement last month that "various structures are being explored by the legal and commercial teams".

How long these discussions might take, and whether they would ultimately succeed, remained to be seen. Unconfirmed reports from Indian sources said a 24% stake in Jet was on the table for a sum in excess of US$300 million. Jet founder and 79.99% shareholder, Naresh Goyal, is known as a tough negotiator.

Etihad had a stellar year in 2012. It carried more than 10 million passengers, a 22% increase on its 8.41 million passengers in 2011. The airline took delivery of seven new aircraft, three A320s and four B777s, which increased its fleet to 71 aircraft. By 2017, Etihad expects to have 120 aircraft.

Six new routes were launched in 2012: Tripoli, Shanghai, Nairobi, Basra, Lagos and Ahmedabab. They increased Etihad's global network to 87 passenger and cargo destinations, together with an additional 245 code-shares. This effectively gives Etihad more reach than United Arab Emirates neighbour, Emirates Airline, in Dubai.

Etihad first flew in November 2003. Today, it has 10,000 employees, made up of 125 nationalities. The airline has 74% of all travellers passing through Abu Dhabi. With its equity partners, Etihad carries more than 74 million passengers.

Last year, Bangkok was the carrier's busiest route with nearly 691,000 passengers, a 38% increase on 2011.

Etihad is making money at a time when many airlines around the world are struggling to maintain profitability.

"We earned $5 billion in revenues [for 2012]," said Hogan. At press time, it announced a profit of US$42 million for the 2012 year. In 2011, Etihad made a profit of $14 million.

This year also looks bright. Last month, Etihad launched direct flights to Amsterdam, its ninth European destination. Also scheduled for this year are three new global routes - Washington DC in March, Sao Paulo in June and Ho Chi Minh City in October.

Fourteen aircraft will join the fleet this year; four A320s, one A321, one A330 freighter, two B777 freighters and six B777-300ERs. The signs are that Etihad will not have any trouble filling the new planes. On January 5, it set a record for passengers carried across its worldwide network in a single day - 33,802.

The Gulf carrier has 100 aircraft on firm order, including 41 B787-9s, 12 A350-1000s and 10 A380s.

But what are the benefits of a cash stake for Etihad that it can't get from a code-share or co-operative agreement?

Hogan is in no doubt. Scale. "A code-share is effectively about two things, network and frequent flyers. With equity investment you also have the ability to start looking at areas that include joint procurement, aircraft programmes and centres of excellence," he said.

Etihad Airways: has firm orders for 100 aircraft

"A year ago, we announced we would raise our stake in airberlin to 29%. Etihad has already recouped its initial investment of US$105 million," he said.

"More than 300,000 additional passengers flowed into the networks of both airlines in 2012. That figure is set to increase considerably in 2013 as the impact of closer cooperation across almost every division of each carrier comes to fruition."

The partner airlines have also announced they will integrate their B787 Dreamliner programmes which will incorporate 56 aircraft. Millions of dollars will be saved by sharing infrastructure, pooling maintenance, developing joint training programmes and streamlining purchasing for engines, rotables, avionics and inflight entertainment systems.

Aircraft utilization has become critical for increased efficiency among the partners. "We're starting to use their metal to fill gaps or take advantage of aircraft sitting on the tarmac. So, with Virgin Australia, which flies to Abu Dhabi three times a week, we use the ground time to do a Kuala Lumpur rotation. We wet-lease their B777 and it operates to Malaysia and back with their crew," said Hogan.

There is a similar arrangement with Air Seychelles, which now hubs through Abu Dhabi and next month will begin flying on to Hong Kong on behalf of Etihad, helping develop the China market. Airberlin flies to the Gulf from

Dusseldorf and Berlin, then on to Phuket in Thailand waving the Etihad flag.

More cost savings have been achieved through rebates on information technology systems through joint deals with Sabre, as well as on engine purchases.

"Airberlin took GE engines for their B787s on the back of our deal, a deal they would never have got because it's another 15 aircraft. It also gave us a further benefit. We are all getting considerable advantage of scale in unit cost reduction," said Hogan.

Etihad has been able to centralize some of the operations of its partners, eliminating duplication and, again, fostering big savings.

Air Seychelles, he pointed out, lost $25 million in 2011, but will break even for 2012. The airline reduced staff numbers by 400. Its revenue management, pilot and cabin crew training were all moved to Abu Dhabi. Etihad is extending its simulator centre and airberlin will train its B777 pilots there. "We are creating centres of excellence," said the Etihad boss.

In December, Etihad acquired 70% of the airberlin topbonus frequent flyer programme for more than $260 million. "That's step one of setting up a separate company, which will initially manage the Air Seychelles, Etihad and airberlin programmes," said Hogan. It is expected the new company could eventually manage the frequent flyer schemes of all the partner airlines.

He said the acquisition is part of a strategic evolution to create a "house of brands" loyalty management company with global scale. "The loyalty programme sector is a faster growing and higher margin business than the airline industry," said Hogan. "The new company provides an attractive vehicle for other airlines looking to generate further revenues from the fast-growing loyalty management sector."

> [Equity stakes] are about cementing a partnership. Partnerships that will deliver growth in a constrained and challenged global landscape
>
> **James Hogan**

Etihad's strategic direction is occurring at a time of industry change.

Once regarded as "stand alone" operators who eschewed alliance membership, the Gulf carriers have all shifted direction. Doha-based Qatar Airways is joining oneworld. Emirates has forged a major partnership with Qantas Airways.

"What is common to all of us is that the more we spotlight the Gulf as a transfer point, the more good it does us. That's where it stops though. We all have our own targets and we have different strategies," said Hogan.

"We are obviously the smaller of the three carriers. We won't join one of the alliances. We will stay non-aligned as it gives us scale from a network perspective.

"We are seeing differing strategies for Qatar and Emirates. But all three can survive. What we are seeing is a Gulf crossroad, like the Asia crossroad in the 1970s and 1980s, especially Singapore: a global city, small population, but growing a first class airline. That's what we are doing."

It is part of Etihad's strategy of tackling a changing aviation world, he added. "People outside the Gulf forget that within three hours flying time from Abu Dhabi we have the GCC [Gulf Co-operation Council countries], the Middle East and the Indian subcontinent and that's a market the size of China," said Hogan.

But not everything is perfect. "It's a market that is heavily regulated, a market that is bilaterally constrained, but it's a market where people are travelling and that is our home market. When you start putting all these things together, we are very bullish about the way forward with our strategy," he added.

Hogan knows there will be problems ahead. He said the global economic crisis had changed economies, industries and businesses. "We have all felt its impact. We've all had to react to new economic realities," he said.

Etihad operates in a fragile part of the world. "We face issues running airlines every year, whether it's a volcano or tsunami or the Arab Spring. You've got to be flexible to adjust and we are adjusting to differing times," said Hogan.

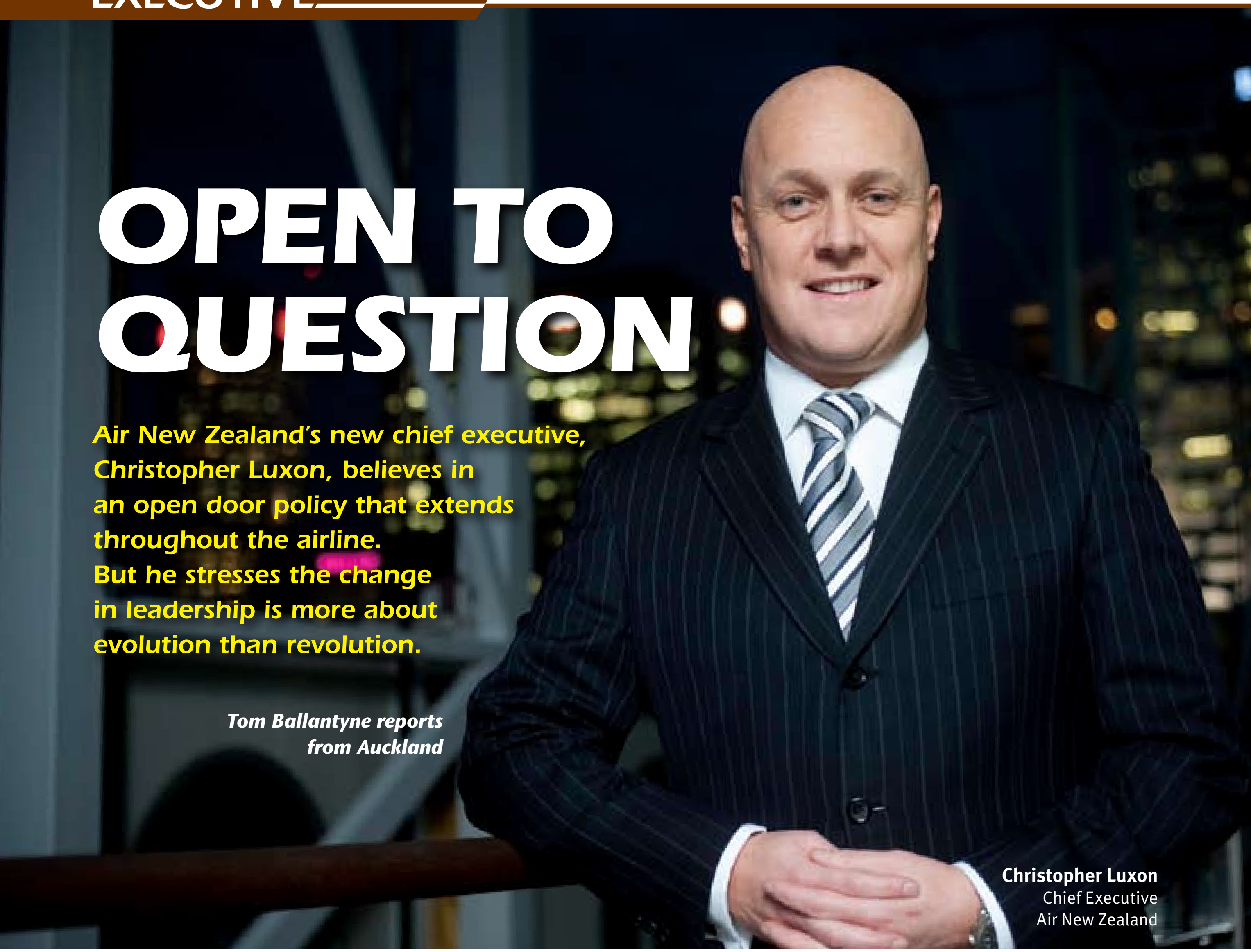
"Any airline CEO has to keep a firm focus on economic and political factors outside your control. For example, we were one of the first carriers to come out of Damascus [Syria]. The flip side is that Australia is doing well. Southeast Asia and the Americas are doing well.

"We go into South America this year. We will be flying to six continents so how we balance our network and work with partners is vital. You never know what is round the corner."

As for India, Hogan left no doubt the partnership scenario was on his agenda.

"It's a huge market," he said. "Some 40 million Indians travel a year and that's growing at 10% per annum. Around 2.6 million a year go to the U.S. and 4.8 million go to Europe," he said.

"The Gulf and India has a historical relationship that goes back centuries. There's a big Indian population here." It would be hard for Etihad to ignore that. ■



OPEN TO QUESTION

Air New Zealand's new chief executive, Christopher Luxon, believes in an open door policy that extends throughout the airline. But he stresses the change in leadership is more about evolution than revolution.

Tom Ballantyne reports from Auckland

Christopher Luxon
Chief Executive
Air New Zealand

In his past life as boss of Unilever's Canadian division, Christopher Luxon, would spend one week a month on the back of an ice cream truck or filling shelves in a supermarket.

"That's how you gain the real knowledge and a feel for what's going on in the organization," said the 42-year-old recently appointed Air New Zealand (Air NZ) chief executive. "I love getting out and about."

And he has wasted no time in doing just that in his new role. Like his predecessor at the airline, Rob Fyfe, Luxon has been on the shop floor working hand-in-hand with staff.

"It has enabled me to get more familiar with various parts of our business; our holiday stores, or technical operations, the regional airlines. I've visited them all. I have been out on the ramp baggage handling," he said.

"I need to hear it straight. I don't want to be in a command and control mentality where someone can't get into my office."

Luxon may be relatively new to the airline business, but he has had one major advantage over most other CEOs taking over a national flag carrier: a six-month transition period.

The Christchurch-born executive, who took over from Fyfe in January, honed his airline skills running Air NZ's international arm after he joined the carrier in May 2011 from Unilever.

"The transition has been valuable in the sense that one, it gives me a chance to get out and see more of the business. Secondly, it has given me a chance to see more of the industry and our key partners around the world and, thirdly, it has enabled me to really think about the future and our strategy in the next five years," said Luxon.

He and his team are starting from a high base. "We are an airline that is successful. The question is: how do we go beyond where we've come from? That's why I'm calling it the 'Go Beyond Plan'," said Luxon.

"We can be very proud about the journey we have been on in the last 10 years, but we're not going to be complacent. We are going to think about how we reframe and take the bar higher in all dimensions of the business."

Luxon worked alongside Fyfe during the transition, but he also spent time with Fyfe's predecessor, Ralph Norris, who led the carrier out of near-bankruptcy after the New

Zealand government took over the airline a decade ago.

"I am trying to see all the past CEOs because that's how you learn and don't repeat mistakes. Between Ralph, Rob and myself we understand [the industry] is about people. There's a common thread about the kind of leaders we are," he said.

> "In my old life, I spent one week out of four on the back of an ice cream truck, or filling shelves in supermarkets, because that's how you gain the real knowledge"
>
> **Christopher Luxon**

Luxon said his challenge was to keep enhancing "the good stuff" Air NZ has built in the past 10 years. "I keep saying to staff that it's a bit like the All Blacks [rugby team]. They were a winning team 20 years ago and 10 years ago, but they play the game very differently today than 10 years ago.

"We're an airline that is different from 10 years ago and different to five years ago. We should be different in five years time," he said.

He is full of praise for his predecessors. Norris was "a key catalyst" for re-setting the business. "Rob then stepped in and did an outstanding job opening up and building the business into a much more customer-centric place.

"That's really important. If you don't realize that our business is all about people then that's a big, big problem. We have 11,000 employees. We have 40,000 passengers every day and you have to understand the interaction of 11,000 employees and 40,000 customers. Each morning we start a new show," said Luxon.

Luxon believes the big opportunity for Air NZ is its position on the edge of the Pacific Rim. "We are fortunate the world's moving to the Pacific Rim region. You have more opportunity in the Americas, in Asia and a lot more opportunity in Australia and Australasia. Between those three geographies we can build out a business," he said.

"New Zealand wants to be more successful economically and our connectivity with the region is improving a lot. That helps promote New Zealand's advance and Air NZ," he said.

With New Zealand high on the "to do" list of many world travellers – a position expected to receive a huge boost from the success of the movie, *The Hobbitt, an Unexpected Journey* – Luxon said Air NZ would put a strong focus on opening up and developing markets.

But what Luxon won't do is accept that New Zealand's location "at the end of the world" is a barrier. "I hear that a lot in this industry. People use natural disasters, fuel, economic crises, competition and geography as excuses and I don't buy that logic," he said.

"They are uncontrollable for sure. The big question is: can you behave better in the moment of changed circumstances than your competitor? If you have built a culture that is more nimble and innovative, you can respond.

"I can tell you that in my tenure there will be, sadly, more natural disasters, more economic meltdowns and a lot more competition. I suspect fuel prices will stay high and could go higher. What interests me is if I can respond better than the other guy in those uncontrollable moments, partly through culture, partly through risk mitigation."

Air NZ won't be pressing ahead on its own. Although a Star Alliance member, the carrier will continue to look for compatible partnerships to help with network and market growth.

Already, it has a strong partnership with non-alliance member, Virgin Australia, in which it holds an equity stake. It recently sealed a code-share deal with oneworld's Cathay Pacific Airways on the Hong Kong route.

"We are going to have to evolve the (alliance) model and be more flexible. For smaller airlines like us we need access to partners that can help us. At the same time, we can help them. There are theatres of the world where there are not Star players.

"Star is the first port of call, but equally we have to be more flexible and pragmatic. We need partners in parts of the world whether there is a Star partner or not."

Air NZ will experience fleet changes in the not-too-distant future. "The complexity of our fleet will diminish tremendously and it's going to start happening pretty soon," said Luxon.

"Our challenge is to simplify the medium and long-haul international market to two types. I think we will end up with B777s and B787s in widebody aircraft and A320s for short-haul."

Currently, Air NZ has 37 aircraft for its international routes: two B747-400s, five B777-300ERs, eight B777-200ERs, five B767s and 17 A320s. Ten 320s are on order, as well as 10 B787-9s, which will begin arriving next year.

For domestic regional operations in New Zealand the airline has 11 ATR72-500s, 23 Bombardier Q300s, 18 Beechcraft 1900Ds and seven ATR72-600s on order. ■

Air New Zealand advertises itself as the airline of Middle-earth, linking it to the Lord of the Rings movie trilogy and the latest screen blockbuster, The Hobbit, an Unexpected Journey, filmed around the country's spectacular scenery.

No rush to invest in Indian carriers

It is nearly six months since the Indian government cleared the way for foreign airlines to invest in the country's carriers, but despite many rumours, there have been no takers so far

By Tom Ballantyne

Investors appear to be baulking at the fragile operating environment of India's airline industry. Late last year, when reports circulated that Gulf operator, Etihad Airways, was considering buying a stake in debt-laden Indian carrier Kingfisher Airlines, informed industry insiders said such a deal was highly unlikely.

They were right. In reality, throwing money into Kingfisher, which ceased flying in October after staff went on strike over unpaid wages and with debts of around $2.5 billion, the carrier hardly promised a profitable investment. Worse still, India's regulator announced last month that Kingfisher had lost its operating licence.

In fact, Etihad is more interested in another Indian airline, Jet Airways. It was confirmed in January that "various structures are being explored by the legal and commercial teams" from both airlines.

Insiders suggested a lot of tough negotiating is needed to overcome major issues before Abu Dhabi-based Etihad would agree to be a Jet shareholder. In the meantime, there is little sign any other Indian carrier is close to attracting an offshore airline investor.

The *Times of India* newspaper last month quoted sources that said SpiceJet, one of India's more successful airlines, was talking to several foreign carriers about investment, with another Gulf operator, Qatar Airways, the "most likely" contender. Spicejet and Qatar denied the report.

Said Qatar chief executive, Akbar Al Baker: "Qatar Airways categorically denies it is interested in investing in Spicejet or any other Indian airline. This is pure speculation by individuals who deliberately want to spread such unfounded rumours to raise the stock value of their entities."

However, Al Baker added: "India is a potentially lucrative market. Qatar Airways will be interested once we are sure the regulations and the laws are properly liberalized (in India)."

The reluctance of investors to invest in India's airline industry is also based on high fuel costs that are heavily taxed, an intrusive government and rules and regulations that stifle growth. Making matters worse are repeated fare wars that erode airlines' bottom lines.

Indian carriers' problems were highlighted by Tim Clark, president of Dubai-based Emirates Airline. "What are you buying into? Would you buy into the balance sheet of Kingfisher or Air India? If the Indian government is having a tough time managing its carriers, how can we run them?" he said. "It is its implementation in the Indian environment that is a challenge."

Despite these doubts, it is understood AirAsia's chief executive, Tony Fernandes, is seriously considering adding an AirAsia India to his regional stable of budget carriers. Sources said there had been "preliminary discussions" with potential local partners who have to hold a controlling 51% stake in any Indian-based joint venture.

Favoured to partner with AirAsia is the Videocon Group, a major industrial conglomerate involved in consumer electronics and mobile communication services. Its chairman, Venugopal Dhoot, confirmed in January there had been an approach from the airline group. ■

Qatar Airways chief executive, Akbar Al Baker: no immediate interest in SpiceJet

Kingfisher insists it will fly again

Kingfisher Airlines could be back in the air by next month, according to its owner, Vijay Mallya. Sources however, said this was unlikely.

A revival plan submitted to India's Directorate-General of Civil Aviation (DGCA) in December failed to come up to scratch. The plan was in two parts: the first dealt with a limited re-start using seven aircraft, increasing to 21 aircraft within four months. The second involved the airline growing to 57 aircraft within 12 months of recapitalization.

It is the recapitalization that concerns the DGCA. "They failed to provide additional details on the funding of operations," said the head of the DGCA, Arun Mishra.

A spokesman for Kingfisher said there was "no cause for concern", pointing out regulations allow for a permit-to-fly renewal within two years of expiry. "Kingfisher is confident of securing approval from the regulator for the re-start plan, licence approval and reinstatement of its operating permit," said spokesman Prakash Mirpuri.

Crunch time for ICAO

This is a crucial year for the International Civil Aviation Organization (ICAO) as it strives to arrive at a global solution to deal with aviation emissions. If it fails, Europe's emissions trading scheme (ETS), currently frozen for 12 months for non-European carriers, will re-start in early 2014 reviving the threat of an international trade war. TOM BALLANTYNE reports on the chances of success.

There is growing optimism that a specific plan to combat aviation's emissions on a global scale will be on the table at September's International Civil Aviation Organization (ICAO) Assembly.

It is also beginning to emerge that carbon offsetting, rather than emissions trading, may be the favoured option for states and industry.

The belief is that while emissions trading is technically the correct instrument, offsetting could be an interim approach on the road to a global emissions trading scheme. But the major challenge, according to observers, is not coming up with a plan. It is the political challenge of persuading the 191 member states to agree on a global scheme.

It is understood that a group of experts formed by ICAO last November, which was scheduled to meet for the second time late last month, is close to reaching a decision on a preferred scheme to put to the Assembly.

Consisting of officials from 17 countries - including China, India, Japan, Australia and Singapore – it has been looking at four options: mandatory offsetting of emissions from airlines, mandatory offsetting with some revenue-generating mechanism and two cap-and-trade systems.

While ICAO has been working on the possibility of a global ETS for more than a decade, the group of experts was selected last November after the European Commission (EC) stopped the clock on its controversial ETS, at least for non-European operators, in the face of unrelenting global opposition.

> "It is understood that a group of experts formed by ICAO ... is close to reaching a decision on a preferred scheme to put to the Assembly"

Airlines and non-European states accused Europe of breaking international law by charging for emissions outside its own airspace. But Europe said it would re-start the clock if ICAO failed to come up with global market-based measures (MBMs) to address international aviation emissions by the end of this year.

The task of the group of experts was to get ICAO's efforts into high gear and identify a preferred scheme. Among the alternatives it has considered are:

* Charging only departing flights from a state for their emissions. This is considered the most realistic of the alternatives and airlines would be charged on the basis of fuel burn calculated using a standard conversion factor to translate fuel use into emissions.

* Charging all international flights by operators registered in a given state. In a global scheme, each country would be responsible for accounting for the emissions of all its registered operators worldwide, based on fuel burn. It would require each country to agree to participate, something many observers consider extremely unlikely, given the extent of opposition to the EU law.

* Charging international flights on the basis of the nationality of airspace through which an aircraft travels. The weakness of this approach is that when aircraft are flying in international airspace emissions would not be accounted for, leaving about 50% of global emissions unregulated.

At a recent conference on European emissions markets held in Brussels, an EC environment official, Philip Good, who is a member of an ICAO MBM working group, said proposals were being developed that were technically feasible, "but the question is very much whether they will translate into something which is politically feasible".

ICAO's secretary-general, Raymond Benjamin, has pinpointed next month as the turning point "when we will put one option on the table".

At a briefing in Geneva in December, International Air Transport Association director general, Tony Tyler, said the progress ICAO was making was putting pressure on airlines.

"How to fairly divide up the responsibility for market-based measures among airlines to achieve carbon neutral growth from 2020 will be a challenge," he said.

"The current and future environmental performance of each airline has its own unique characteristics. Fuel efficiency varies by fleet age and composition. And future projections for emissions will vary widely if a carrier is based in a growth market or one that is mature."

Special circumstances and respective capabilities of states have to be accommodated and provision has to be made for the least developed countries.

ICAO's group of experts is not only looking at a global emissions scheme, but also at a broader "basket of measures" to help reduce emissions. These include sustainable alternative fuels, action plans by member states, an aircraft CO_2 standard and future air navigation systems that will allow more direct routes save fuel and emissions. However, its priority is the MBM issue. ■

Airlines outraged by 'windfall' charge

By Tom Ballantyne

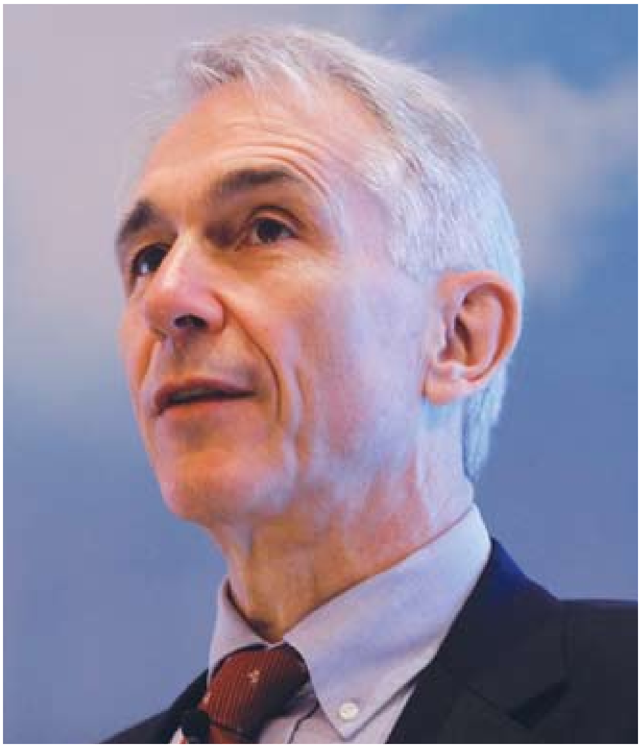
Airlines worldwide have rebutted the findings of a new study by Dutch consultancy, CE Delft, which accused them of reaping huge 'windfall' profits - some $1.82 billion worldwide last year - from surcharges they placed on ticket prices to cover the cost of Europe's controversial emissions trading scheme (ETS). Industry leaders have described the claim as deeply misleading.

The Association of Asia Pacific Airlines (AAPA) director general, Andrew Herdman, said claims of big windfall profits were "a complete fallacy". International Air Transport Association (IATA) director general, Tony Tyler, said the report was light on facts and heavy on assumptions.

Both said the industry's 1% net margin last year indicated how much airlines struggle to cover the real cost of air transport with air fares.

"Suggesting that airlines have been able to recover hundreds of millions of euros from passengers for costs that they did not face is ludicrous," said Tyler. "The report is a very simplistic analysis of a complex situation.

"It is based on assumptions and guesstimates that the authors themselves acknowledge. Moreover, it does not reflect the real world of the EU [European Union] ETS or of the airline business. It is surprising that CE Delft has put their name to research of this quality."



The report does not reflect the real world of the EU [European Union] ETS or of the airline business

Tony Tyler
Director General
IATA

The report, released last month, was commissioned by the Brussels-based green campaign group, Transport and Environment. It said airlines were still collecting extra money from passengers to cover intercontinental emissions obligations even though the requirement to pay them has been waived for a year.

It also suggested that although the bulk of allowances (about 85%) were handed out free, many airlines had been passing on the full cost and not only the value of allowances they had to buy.

The EU scheme took effect on January 1, 2012. The announcement of a 12-month freeze on non-European carriers paying for emissions was made last November after a lengthy and fiery global campaign by airlines and governments, which accused Europe of breaking international law by charging for emissions outside European airspace.

In drawing attention to inconsistencies in the CE Delft study, Tyler observed it said in one part that Chinese airlines were prohibited from raising ticket prices. In another part, the report suggested Air China made a €3.7 million profit. In fact, Chinese carriers refused to take part in the scheme.

"The report's conclusion that airlines 'could' have made windfall profits of up to €1.358 billion would equate to over a quarter of the entire global airline industry's 2012 profit," he said. "In that year European carriers [purported by the report to have profited the most from the scheme] just broke even. This begs the question: if airlines profited from the ETS so much, why would they oppose its implementation?"

"In a competitive market place, windfall profits simply do not arise, they are competed away," said Herdman.

He pointed out any airline that introduces an unreasonably high charge, for whatever reason, finds it has to reduce its underlying fares to compensate, as the passenger bases their airline choice on overall cost, inclusive of all charges.

"The experience of fuel surcharges, orders of magnitude greater than current emissions costs, illustrates the point well," said Herdman.

"Some airlines imposed substantial fuel surcharges of fifty dollars or more, others chose not to impose any fuel surcharges at all. But the overall costs of fares, inclusive of surcharges, were always kept strictly in line by the market, with no impact on airline profitability one way or the other.

"The key point is that when the underlying costs affect all airlines, it does not really matter how you package the pricing, the overall impact on consumers and producers is more or less the same."

Another problem is that individual airlines took different approaches to dealing with the cost of the EU ETS. Some operators, such as Singapore Airlines and Cathay Pacific Airways, did not add an emissions surcharge to their ticket prices, opting to compensate by focusing on such things as improved fuel efficiency.

Others did take action. Major U.S. carriers all introduced a $3 surcharge on European flights. In February last year, Qantas Airways announced a one-way A$3.50 surcharge on flights to Europe to cover the cost. A surcharge still applies, but it has been reduced to $1.50 due to a drop in the price of carbon in Europe, said a Qantas spokesman.

But it is not just a matter of the EC removing the surcharge. It has still to be formally approved by the European Parliament, which is not expected to be any earlier than May.

"It would be premature for airlines to change policy without this legal certainty," said the Qantas spokesman. When the freeze is formally approved the airline would review its policy immediately, he added.

Nevertheless, environmental campaigners want action. Bill Hemmings, aviation manager at the Transport and Environment campaign group, said passengers have paid towards fighting climate change.

"It is unjust for airlines to retain these windfall profits. Air carriers should act responsibly and contribute these additional profits to the UN's Green Climate Fund," he said

Herdman said the sudden decision by the EU to "stop the clock" does raise the problem of what should be done about those passengers who have bought tickets priced assuming the ETS costs would be levied.

"The situation is complicated by the fact that there is no standardization of how such charges are recovered from passengers. In order to be compliant with competition and antitrust laws, each airline has to make its own decisions," he said.

"This leads to a situation, already familiar from our experience with the application of fuel surcharges, where individual airlines each take a different approach.

"Emissions costs may be itemized on a per passenger, or per sector basis, either on a flat rate basis or according to distance bands. Some airlines did not make a separate charge, but simply treated such costs as internal costs reflected in the overall fares offered to the public."

With regard to retrospective adjustments, Herdman said in practice "it would be very complicated and somewhat arbitrary to calculate the appropriate refunds for individual passengers and frankly, at the current level of emissions charges, any refund would likely be exceeded by the administrative costs involved". ■

Time for governments to step up

Huge strides have been made in the development of biofuels for aviation, but there is still a long way to go before they become widely available for commercial airline operations. And if governments don't come to the party in a big way, it will take even longer.

Said Paul Steele, the International Air Transport Association's (IATA) director, aviation environment: "We face what we call the valley of death between technical development and flight trials – where we are now – and the full scale commercialization, production of biofuels and delivery to our aircraft."

To get to the finishing line much more help is required from governments, he added. "The willingness is there from the airlines, the technology is available. But the industry can only do so much. It also needs help from governments," said Steele.

"Perhaps, most importantly, governments need to look at the current legislation and see where it restricts the access for aviation biofuels. It would also be useful to prioritize biofuels for aviation and other transport sectors which don't have alternative fuel sources other than liquid."

IATA has developed a six- point plan for government support for a sustainable and commercially viable aviation biofuel industry, he said. It included the need to foster research, provide investment, establish global sustainability criteria, support supply chain collaboration, de-risk investments and understand where the local opportunities are.

"There is the opportunity for governments to get in behind aviation with a quick win in partially de-carbonising a sector. There is a big incentive to do so. Since 2003, the fuel cost has gone from 14% to 30% of [airline] operating costs," said Steele.

"Because 10% of liquid transport fuel use is for aviation, delivering biofuels to aviation is a smaller challenge than delivering biofuels to other transport sectors in general."

He also pointed out that aviation has a concentrated distribution system. Some 190 airports cover 80% of passenger traffic.

In the past two years, more than 1,500 commercial flights, using a mix of normal fuel and biofuel, have taken place. ■

Paul Steele, director, aviation environment, IATA: the industry can only do so much

Sweet and sour for ANA

All Nippon Airways (ANA) has been hit hard by the grounding of its B787 fleet since the turn of the year, but the **ANA Group** enjoyed record figures in the first nine months of its 2012 financial year.

Net income was up 54.6% to 52.2 billion yen (US$568.98 million), but operating revenue and recurring profit reached record figures of 107.5 billion yen and 89.1 billion yen respectively, increases of 18% and 24.7% over the same period last year. Operating revenue was 1,132.1 billion yen, up 5.8% on 2011.

ANA: record profit

Said ANA president and CEO, **Shinichiro Ito**: "The Japanese economy experienced a period of relative weakness during the period, against the slowdown in the global economy. Despite this, ANA performed well with demand remaining solid from both business and leisure travellers.

"While responding to significant changes in the competitive environment within the Japanese airline industry, including the expansion of the slot capacity of Haneda and Narita [airports], further progress in deregulation of the airline industry and aggressive route expansion by LCCs [low-cost carriers], ANA continued to promote the enhancement of its network by balancing the pursuit of 'strength' and 'efficiency' as a network carrier.

"At the same time, we have made further progress to implement multi-brand strategy and cost structure reforms as part of our 2012-2013 financial year corporate strategy."

ANA said in the report that despite the grounding of the Dreamliners – it has 17 in service – its forecast for the year remained unchanged with operating revenue at 1,470 billion yen and operating income 110 billion yen.

The carrier estimated that the 459 cancelled flights in January cost it 1.4 billion yen in revenue. ANA has a fleet of 233 aircraft serving a network of 171 routes. ■

IN BRIEF …

Korean Air (KAL) will introduce nine additional next generation aircraft into its fleet in 2013; two A380s, one A330-200, two B777-300ERs, two B737-900ERs, one B747-8F and one B777F. The two A380s, which will join the fleet in July and October this year, will bring KAL's A380 total to eight.

The carrier plans to add another 53 aircraft to its fleet by 2018. KAL has a fleet of 148 aircraft, but aims to have 200 by its 50th anniversary in 2019.

***Air Astana**, Kazakhstan's flag carrier, expanded its Asian network last month with the launch of twice weekly flights between Almaty and Ho Chi Minh City in Vietnam. The airline started flights to Hong Kong last year and also operates to Bangkok, Beijing, Delhi, Kuala Lumpur and Seoul.* ■

Virgin Australia, Skywest deal approved

Virgin Australia: acquisition of Skywest Airlines agreed by Australian competition watchdog

*The **Australian Competition and Consumer Commission (ACCC)** has given the green light to **Virgin Australia** to acquire Perth-based **Skywest Airlines**. A decision by the competition watchdog on Virgin taking a 60% stake in **Tiger Airways Australia** was due as* Orient Aviation *went to press.*

*Said Virgin CEO, **John Borghetti**: "The ACCC's clearance represents an important step for Virgin Australia in completing the proposed acquisition of Skywest." He added that the deal still needed clearance from the **Foreign Investment Review Board**, Skywest's shareholders and the **Singapore High Court**.*

Skywest will retain its existing air operator's certificate and management team if all the hurdles are cleared, but will become part of the Virgin Australia brand. Virgin has 100 aircraft operating 3,200 flights a week. Skywest has 28 planes and provides regional flights within and beyond Western Australia. ■

Malaysia Airlines (MAS) became an official member of the **oneworld** alliance last month. A number of oneworld carrier chief executives joined MAS chief executive, **Jauhari Yahya**, and oneworld CEO, **Bruce Ashby**, at the ceremony at Kuala Lumpur International Airport. They included Qantas CEO, **Alan Joyce**, Japan Airlines chairman, **Masaru Onishi**, and Cathay Pacific CEO, **John Slosar**. An Airbus 330-300 and Boeing 737-800 were rolled out in oneworld livery. ■