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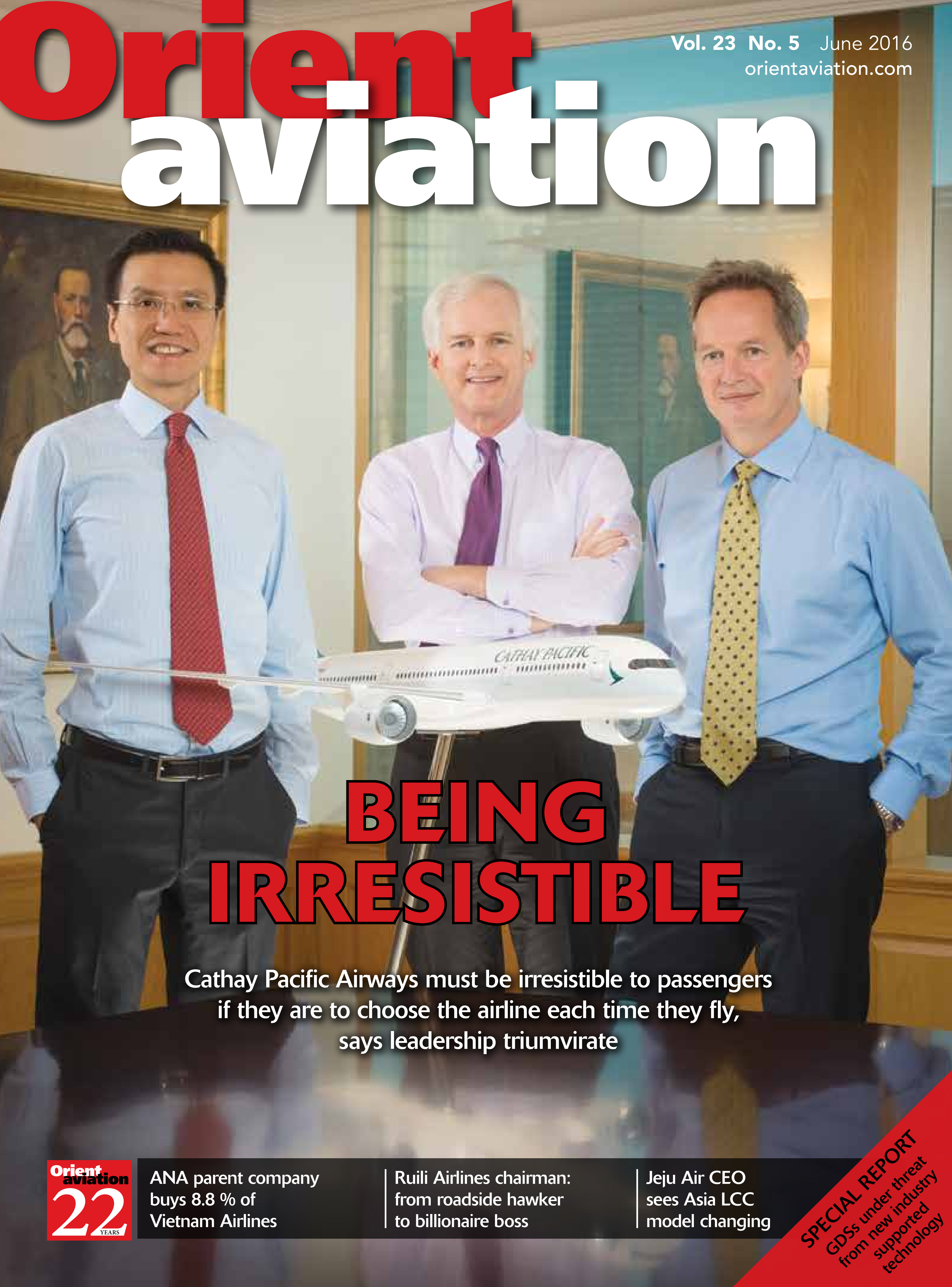

BEING IRRESISTIBLE

Cathay Pacific Airways must be irresistible to passengers if they are to choose the airline each time they fly, says leadership triumvirate

Orient aviation 22 YEARS

ANA parent company buys 8.8 % of Vietnam Airlines

Ruili Airlines chairman: from roadside hawker to billionaire boss

Jeju Air CEO sees Asia LCC model changing

SPECIAL REPORT
GDSs under threat from new industry supported technology


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

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

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

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

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

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

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

Chief Designer
Chan Ping Kwan

Printing
Printing Station(2008)

ADMINISTRATION

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

ADVERTISING

Southeast Asia and the Pacific
Christine McGee
Tel: (852) 2865 1013
E-mail: christine@orientaviation.com

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

Europe & the Middle East
REM International
Stephane de Rémusat
Tel: (33 5) 34 27 01 30
Fax: (33 5) 34 27 01 31
E-mail: sremusat@rem-intl.com

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Which aircraft best combines comfort with efficiency?


It's undoubtedly the A350 XWB.
Offering 18″ wide seats as standard in economy, along with a 25% step change in fuel efficiency and a 25% lower seat-mile cost, it has unrivalled low operating costs. The best bit? It's already in the air.
Airbus is the answer.

China slowdown a temporary blip for airlines?

Concern about China's slowing economy and its impact on Asia-Pacific aviation is the subject of daily industry analysis.

In the region and across the globe, particularly in North America and Europe, airlines have been increasing capacity into major Chinese metropolises and more recently, launching routes to the country's secondary cities.

In the last 18 months, China, whose economy is the second largest in the world, has halved its official annual GDP rate to 6.9%.

Even this forecast is considered by many industry analysts to be optimistic. They say that a severe economic downturn on the Mainland could cut back airline traffic growth in this very important market for airlines across the region – and the world.

Whatever the true numbers prove to be, it is becoming clear that China's slowing economy is having an impact on Asia-Pacific airline traffic growth, although mostly in the premium cabin. It is not yet dramatic, but it is there.

It would be premature, however, for airline managements to "over-worry" about China and the state of its economy. The nay sayers aside, global monetary institutions and several economic think tanks do not believe there will be a hard landing for the Mainland economy.

China's GDP growth is still well ahead of almost every nation on the planet. And while the Mainland's speculative and manufacturing sectors of the economy may be in trouble, the same situation does not apply to the travel and tourism industries. They are more robust than ever.

In 2016, annual air traffic growth in China is maintaining its double digit expansion and the nation's airlines are continuing to grow, both domestically and internationally. So a collapse in Asia-Pacific air traveller numbers into China seems unlikely, especially as regional passenger growth is predicted to have an average annual expansion rate of around 5%.

Another set of figures also should be considered when assessing the health of aviation in the region. India is recording annual passenger expansion of 20% a year and recently overtook China in air traffic growth.

Further south, Indonesia is the third largest economy in the region. Southeast Asia, when taken collectively, is almost as large as the Chinese market.

So while it is important for airline managements to closely monitor China's economic performance, they also know that one airline market, no matter how big, does not solely prescribe their growth.

There may be some be bumpy times ahead for airlines in the short term, but the long term issue will be who wins the biggest share of the 1.76 billion Asia-Pacific passengers forecast to take an airline journey in 2035. ■

TOM BALLANTYNE
Chief Correspondent
Orient Aviation Media Group

Cathay Pacific Airways and Swire Pacific chairman, John Slosar, identified six airline trends when he addressed the second **Lunch With Orient Aviation** in Hong Kong in May.

They are that aviation is a force for economic and social good; economic pressures will result in more industry consolidation; airline investment in Big Data will be critical for determining the needs and influences of passengers; propositions in the market place will multiply rather than simplify; lines are blurring between LCCs and full service carriers in their offerings to passengers and Chinese airlines will be the next big aviation story. ■

Photos: Gareth Jones

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John Slosar and Robert Martin

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DETERMINING THE IMPACT OF THE CHINA FACTOR

As China moves through a massive shift in its economic gears, opinions differ about the influence the Mainland's root and branch fiscal restructuring will have on the region's airline industry. Mixed in the short term, but positive in long run, predict analysts.

Tom Ballatyne reports.

After a near disastrous start to the year and a short lived recovery in March, the Chinese economy is once again heading in the wrong direction. For the economic pessimists, the Mainland's growth is moribund and there is not much that can be done about it.

In their view, a contraction is certain and a severe adjustment downward - in common parlance a crash – is inevitable.

It is the kind of talk that tests the convictions of airline managements as they decide on strategies to expand in this huge market. If China's economy continues to decline what will be the impact on the economies - and therefore air traffic growth - in the region and the world?

As media commentary makes clear daily, there are divergent views about China's economic health. For every pundit bearish on China there is another with the opposite view.

At the heart of the debate is the credibility of China's economic data. The Mainland's National Bureau of Statistics reported that growth in the first calendar quarter of 2016 was 6.7%, slightly off the figure of 6.9% for all of last year.

Some economists believe 6.7% is simply too good to be true. They suspect China's official statisticians are fiddling the books. True or not, these sceptics compound doubts about the state of the Mainland economy, particularly when the country has a $30 trillion debt.

In May, David Oxley, a senior economist at the International Air Transport Association (IATA), said at the release of an Oxford Economics and IATA report, The Outlook for the Global Economy and Air Passenger Flows, that there are well documented concerns about the accuracy of the official Chinese Gross Domestic Product (GDP) rate of 6.5%.

But he said the bigger picture about China in recent months "is that some of the gloomiest fears of a hard landing seem assuaged and there appears to be degree of stabilization in the economy".

It is a view also held by the International Monetary Fund (IMF), with its managing director, Christine Lagarde, telling a recent forum in Dubai that the global economy is in a "tepid" recovery, but China's deliberate slowing of economic growth will not lead to a "hard landing".

Lagarde said despite the fact that the IMF recently lowered its forecast for global growth to 3.4% for 2016 and 3.6% in 2017, in part because of the Chinese slowdown, the revision also was due to lower commodity prices and strains in large, emerging economies such as Brazil.

"We, the IMF, don't believe China is going to have a hard landing. We see it as a deliberate transition. It also is a big transitional business model that is essentially moving from heavy manufacturing to lighter manufacturing and a lot more services. It is going from investing to much more consuming and is being a bit less predominately export-driven," said Lagarde.

Others are even more optimistic. IATA director general and CEO, Tony Tyler said "the overall Chinese economy has slowed down, but air travel in China has remained quite robust".

Oxley had another important point to make. "For China, notwithstanding all the doom and gloom on the macroeconomic side, the air passenger market has been relatively unperturbed," he said.

"The upward trend in the market has continued. This partly relates to ongoing signs that the services sector in China is holding up relatively well. A lot of the economic weakness appears to have been confined to the more industrial side rather than the services part of the economy, which matters more for air transport.

"There has been a lot of stimulus from network expansion in China. In 2015, there was an 8% increase in direct city routes operated within China, which again translates into time saving for passengers and helps to induce demand."

Another factor emerged in the Oxford Economics/IATA report. China, while clearly important, is not the sole driver of regional economic and aviation growth. India is now the world's fastest

Don't overlook India

Another factor emerged in the Oxford Economics/IATA report. China, while clearly important, does not have to be relied upon as the sole driver of regional economic and aviation growth. India is now the world's fastest growing emerging market.

"It overtook China in that regard last year and is expected to stay there, with growth of around 7.5% in GDP this year," said International Air Transport Association (IATA) economist, David Oxley.

"India has recorded passenger growth rates higher than 20%, propelled by the country's comparatively strong economic outlook.

"There has been a huge boost to average flight frequencies in India, which ultimately is translated into more convenience for air passengers. It helps to stimulate travel demand in the country.

"The key factor is that India's growth in the next 20 years will be more than double the pace of either Brazil or Russia. Such sustained growth will be enough to propel it into the ranks of the top three domestic markets in the 2020s. So we see an ongoing bright future for the Indian market."

In India, growth in the next five years will outpace China, at an average rate of 8.9%, which will slow to 6.3% over 20 years.

> We, the IMF, don't believe China is going to have a hard landing. We see it as a deliberate transition. It also is a big transitional business model that is essentially moving from heavy manufacturing to lighter manufacturing and a lot more services. It is moving from investing to much more consuming and being a bit less predominately export-driven

Christine Lagarde
Managing director International Monetary Fund

growing emerging market.

Oxford Economics forecasts air traffic in China will grow at 8.3% each year to 2021, but over a 20-year period it will settle down to an average of 5% per year. Whatever happens in China, it is forecast that air passenger journeys across the region will average growth of 4.6%. By 2035, the Asia-Pacific will have 1.76 billion passenger journeys every year.

To understand the size of the region's market, the study looked at forecast expansion in other regions. In comparison, North America will have 545 million passenger journeys and Europe 462 million by 2035. In the Middle East and Africa, despite having similar percentage growth to the Asia-Pacific, the two regions' passenger numbers will only be 236 million and 156 million journeys, respectively, per year by 2035.

Big plane makers also sweep aside concerns about China's slowing economy. Boeing and Airbus continue to see China as their most promising future market. John Leahy, chief operating officer, customers at Airbus expected double digit growth in aviation traffic in China every year. Airbus president and chief executive, Fabrice Bregier, has said: "We don't see the slowdown. Our competitors don't see it. Our customers don't see it. We have never been so happy."

Boeing forecasts Chinese airlines will need 6,330 new planes, worth $950 billion, in the next two decades, which is 17% of the global total. Airbus expected China to require about 5,400 new planes, which will be 40% of deliveries for the Asia-Pacific.

Chinese airlines themselves are demonstrating no fear of a downturn in their businesses. In the past six months, orders have been rolling in at Boeing and Airbus. China Southern Airlines has ordered aircraft from the two big manufacturers, worth $13 billion. Chinese Eastern Airlines has agreed to purchase 20 A350s and 15 B787 Dreamliners, worth $10 billion at list prices.

In 2015, Mainland airlines and leasing companies announced orders for 780 planes, valued at about $102 billion, hardly a sign they see trouble ahead.

Another indication that the Mainland's economic slowdown needed to be separated from the region's air traffic landscape comes from Fitch Ratings in New York. In March, the agency said it expected economic growth deceleration in China to 2017, but that the downward trend should not significantly hurt aircraft lessors' credit profiles.

The market value of leased aircraft in China is $34.3 billion according to Ascend, which is approximately 17.1% of leased aircraft globally. Of the 44 lessors with exposure to China, the largest, on a notional basis, are ICBC Financial Leasing, AerCap Holdings, GE Capital Aviation Services, CDB Leasing and Bank of Communications Finance Leasing. Chinese lessors, who almost exclusively lease their planes to Chinese carriers, are playing an increasing role in the leasing sector.

"While the Asia-Pacific is a meaningful area of current exposure for most aircraft lessors, we expect that resilient consumer spending in China in the next few years and the Chinese government's support for top airlines - that are among the lessors' top customers - should suppress the fallout from a broader China slowdown," said Fitch.

It added the aviation industry is cyclical, tied to passenger travel and therefore driven in part by consumer spending. The last time China experienced a marked GDP decline was in 2012, when it fell to 7.7%, from 9.3% over the previous year.

At that time, China experienced a 1.40% decline in aircraft revenue passenger kilometer (RPK) growth, according to IATA, and a 1% falloff in average cumulative hours traveled by passengers in China.

"We believe that a similar dynamic of moderate RPK growth could play out over the next few years as the secular drivers of Chinese air travel, namely a growing middle class, low jet fuel prices and airlines' increased use of leasing persist," said Fitch.

> Whatever happens in China, it is forecast that air passenger journeys across the region will average growth of 4.6%. By 2035, the Asia-Pacific will have 1.76 billion passenger journeys every year

Oxford Economics/International Air Transport Association study

Another factor driving air travel is that China's population is more than three times larger than the U.S., but Chinese aircraft values represent approximately two thirds of U.S. aircraft values, said Ascend.

Recent Chinese airport infrastructure investments also supported air passenger traffic, which grew 10.9% domestically in 2015, said IATA. In 2016, China will invest $11.9 billion in building aviation infrastructure, Xinhua news agency reported, based on information on the Civil Aviation Administration of China (CAAC)'s website.

The CAAC said the investment would focus on airports, which will lead to 11 key construction projects and 52 aviation-related upgrades to existing facilities. The government is encouraging air travel by building 66 airports during its current five-year plan.

It also should be kept in mind that China is not alone in experiencing a slowdown. Most global economies are fragile, with the healthy surge in air traffic experienced in recent years showing signs of easing worldwide.

Last month, IATA released its latest monthly data for March, which showed demand measured in revenue passenger kilometers (RPK) rose 5.3% compared with the same month last year. Capacity grew slightly faster, at 5.9%, which pushed the average load factor down by half a percentage point, to 79.6%.

It is a moderate slowdown on the year-on-year growth rates recorded in January (7.2%) and February (8.6%), even after adjustment for the leap year impact in February. Demand for international traffic grew significantly more quickly, at 6.2%, than for domestic travel (3.7%).

"While in line with long-term trends, demand growth in March represented a slowdown compared with January and February. It is premature to say if this marks the end of the recent very strong results. We do expect further stimulus in the form of network expansion and declines in travel costs. However, the wider economic backdrop remains subdued," said IATA's Tyler.

Asia-Pacific airline traffic rose 6% in March compared with the year-ago period. However, capacity increased 7.8%. As a result, load factor dropped 1.3 percentage points to 77.4%.

Domestic demand rose 3.7% in March over 12 months ago; a dramatic slowdown from the leap year aided 7.8% growth recorded in February. "This was driven primarily by performance in the two largest markets, the U.S., which accounts for two of every five domestic passengers, and China," said IATA.

IATA's Oxley said recently there had been a rotation away from global growth being driven by emerging markets, particularly the BRIC (Brazil, Russia, India, China) bloc. "In fact, we have seen emerging market growth, in aggregate, slow in each of the past five years," Oxley said.

"This partly relates to the well documented slowdown in the Chinese economy, but if you exclude China there also has been a very broad spread in slowing in other emerging markets, not least in those countries heavily dependent on energy and commodity revenues." Brazil and Russia are almost in free fall, with their GDP declining significantly.

"The key thing to consider," said Oxley, "is that unlike the situation in 2008-2009, when emerging growth slowed and then bounced back very strongly, the same thing is not happening this time around. We are not expecting this to be a one-off."

Despite the divergence of opinion about the Mainland's economic future, it is important to remember that Asia-Pacific airlines don't have all their eggs in the one basket of China.

They may see China as an area of primary market focus, but the region's biggest airlines are global operators. They fly to Europe, North America, South America, Australasia and within Asia.

They are innovative and react quickly to changing market conditions. Most observers agree that if there was a serious downturn in China – and that is far from certain, particularly in terms of air traffic – Asia-Pacific airlines would weather that storm, as they have weathered all the other storms in their long operating histories. ■

No hard landing for China's airlines says Asia's industry association

Director-general of the Association of Asia Pacific Airlines (AAPA), Andrew Herdman, said robust passenger demand is continuing in the region, despite concerns about the global macro-economic outlook.

"Low oil prices have certainly helped, leading to widespread availability of affordable airfares, which have added stimulus to the market," he said.

"China seems to reflect similar dynamics, with the services sector still thriving in contrast to a marked slowdown in manufacturing and exports. Air cargo markets remain weak, with minimal growth in demand and latent over-capacity maintaining downward pressure on yields."

In China, Herdman said, continued growth in passenger demand meant that concerns remain on the supply side, with crowded air-space and slot scarcity constraining route development, even though aviation authorities are improving airspace utilization.

"Pilot shortages are another concern for Chinese airlines. They are being addressed, at least partially in the short term, by hiring a growing number of foreign pilots," he said.

"In addition to steady growth in the domestic market, Mainland airlines have expanded their international business with new trans-Pacific services and greater frequencies to popular Asian destinations.

"Overall, the outlook for growth in passenger demand remains quite positive although the pace may moderate somewhat as oil prices regain some lost ground from the earlier lows."

THE RULER OF RUILI AIRLINES

Dong Lecheng, the chairman of Ruili Airlines, began his working life at 19, selling vegetables by the roadside. Three decades later, he runs a US$1 billion conglomerate that includes full service economy carrier, Ruili Airlines. Last month, Orient Aviation Greater China correspondent, Dominic Lalk, was a guest at the airline's second anniversary celebrations in south western Yunnan.

Travelling to Ruili is difficult. From Hong Kong, Orient Aviation flew to Kunming, Yunnan's capital city, then onto Mangshi, the capital of Dehong prefecture deep in the Mainland's southwest. After 45-minute drive on a newly-built, mountainous and empty highway, Ruili, China's largest border town with Myanmar, appeared on the horizon.

A few hours later, in a city of Han Chinese, Burmese and local ethnic minorities such as the Dais, the Jingpo and De'ang, Orient Aviation was introduced to Dong Lecheng, 47, the chairman of Yunnan JingCheng Group and Yunnan's third richest man, to discuss his latest business venture, domestic carrier, Ruili Airlines.

"Ruili is China's great border town, and what a border it is: between new and old, controlled and unrestrained, a tidy but tawdry town China considers both a dirty little secret and also a promising new tourist destination," TIME magazine said when it visited the city at the turn of the century, uncovering a flourishing trade in drugs, sex, and jade, and widespread money laundering at local casinos.

In the midst of the colour and chaos of Ruili, Dong Lecheng, grew up and rose to local fame and status. He is said to be Yunnan's third wealthiest man.

Dong was receiving guests in a spa villa at one of his Ruili hotels on the eve of his airline's second anniversary. Dressed in a genuine Louis Vuitton T-shirt, signature Hermes belt, shorts and trainers, the chairman announced he was looking forward to the first visit of an overseas aviation journalist and then offered your correspondent the first of many "yun yan 99" cigarettes.

> "Ruili Airlines' key challenge to date is a cockpit crew shortage. China has an acute shortage of pilots and crew transfer is made difficult by complicated bureaucracy and a five million yuan ($764,000) fine for intra-carrier transfers. The airline's cockpit crew is made up of former China Eastern Airlines and China Southern Airlines crew and some South Korean pilots"

Dong is rarely spotted without a "99". Whenever he finishes a pack, someone in his all-male entourage of close aides and senior managers were on hand with more.

The Ruili of the TIME article has passed. The crackdown against corruption by the present Chinese leadership has had an impact on some of its excesses and Dong and his team are set on a path for Ruili Airlines that is much more visitor friendly.

They have mapped out a strategy to put Yunnan on the world map, with Kunming to be developed into southwest China's gateway to the world.

Kunming's Changshui International Airport, which opened in 2012, served 37 million passengers in 2015 and it expects to handle 45 million by 2020. Claimed to be China's fourth largest airport terminal, it has a design capacity of 70 million passengers that is served by four runways of which two are operational. The Yunnan government offers subsidies to any airline that starts international routes.

With start-up capital of 600 million yuan ($91.6 million) from Dong's JingCheng group and an additional 100 million yuan in government subsidies, Ruili obtained its Air Operator's Certificate (AOC) from the Civil Aviation Administration of China (CAAC) in May 2013 after an unusually short wait of six months.

Dong said the carrier was the first airline to be granted a new AOC since 2007 after the regulator stopped issuing new permits amid overcapacity and a slowing global economy.

In the lead-up to its AOC, Ruili engaged Pacific China Aero Technology Ltd, a Greater China Consultancy, to source its first aircraft. Pacific China Aero introduced Ruili Airlines to airberlin, which marked the beginning of a strong relationship that has continued to flourish.

Ruili purchased two B737-700s from the German carrier and it was with these two aircraft that it commenced commercial operations on May 18, 2013, with a flight from Kunming to Mangshi. Ruili Airlines now has nine aircraft – six B737-700s and three -800s. All but one of the planes were formerly owned by airberlin.

The carrier provided the first hint of its ambitions in August 2015 when it signed an agreement with Boeing, AVIC Leasing and Minsheng Financing for 30 B737 MAX aircraft, made up of MAX 8 and 9 variants, plus 30 options. The B737 MAXs won't arrive in Yunnan before 2020.

But Dong, his airline's CEO, Ma Zhanwei, and general manager, Xie Jinguo, told Orient Aviation that Ruili Airlines had previously signed a deal with Boeing for 14 B737NGs to support its short-


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and medium-term fleet growth. "We expect to receive at least four new aircraft every year," Dong said.

"The airberlin deal introduced the B737 to us. We like this plane," the chairman said. "We should really be sending a commission invoice to Boeing for introducing the 737 to Ruili," a senior airberlin executive joked on the sidelines of the anniversary festivities.

At its second anniversary celebrations, Ruili announced it had signed a Memorandum of Understanding for six B787-9 Dreamliners that also were financed by AVIC leasing. With deliveries scheduled from 2019 to 2021, Ruili wants to launch its long-haul operations with the B787. Chinese regulations require airlines to be in business for at least three years before they can commence international services.

At press time, Ruili Airlines was flying to 20 cities across twelve provinces and two municipalities with 46 daily flights. The carrier's network has expanded gradually to cover the majority of China's first and second-tier metropolises, although its presence is still noticeably weak in the south and east, with Guangzhou, Shenzhen, Xiamen, Shanghai, Ningbo, Hangzhou and, remarkably, Beijing still missing from its network.

As Ruili Airlines continues to receive new B737s, its reach will expand to include all major Mainland second and third-tier cities, Dong said.

The carrier plans to use the Dreamliners to fly to Australia, Europe, the U.S., and regionally to Thailand and Singapore. "I like the B787," Dong said. He added he would order more and that Boeing was an obvious choice for the carrier's long-haul fleet because of commonalities with its B737 fleet and the savings that produced for MRO and training.

When asked if he had considered Airbus' A350, Dong said he preferred U.S.-built airliners. "I trust Boeing," the chairman exclaimed "because there is too much automation in Airbus planes." He likes his pilots to fly manually. Too much automation can distract them, he said. His home airport in Mangshi does not have an ILS and is regularly affected by morning fog, which could explain some of Dong's thinking.

When Ruili Airlines was launched, it counted 16,595 revenue passenger boardings in its first month of operations. The numbers grew to 72,655 passengers after six months and 106,880 on its first anniversary. It is aiming for 160,000 passengers this month.

The carrier's load factor since inauguration has consistently hovered above 85%, with figures in the first five months of 2016 exceeding 90%. In April, Ruili said it had $16.6 million in revenue or approximately $107 per passenger not accounting for expenses.

The airline has not yet made a profit, but "that will change soon," said Dong. "After inducting the two latest airberlin 737s into the fleet on May 26, we will start making profits in June."

He is not worried about competition, despite the fact that Lucky Air (HNA Group), Kunming Airlines (Shenzhen Airlines) and China Eastern Airlines' southwest branch are being based in Changshui. In late May, Hongtu Airlines joined the crowd when it started domestic operations with a pair of A321s. Hongtu Airlines is a joint venture between Kunming Evergreen Financing (30%) and local tycoon, Tang Longcheng (20%), with the remaining 50% held by a consortium of five local firms.

Dong said Ruili Airlines' key challenge to date was a cockpit crew shortage. China has an acute shortage of pilots, he said, and crew transfer is made difficult by complicated bureaucracy and a five million yuan ($764,000) fine for intra-carrier transfers. The airline's cockpit crew is made up of former China Eastern Airlines and China Southern Airlines crew and some South Korean pilots.

To address the problem, Ruili Airlines is looking for Yunnan partners to build its own flight training school and establish a cadet pilot program – with this August as the planned starting date for its development. Once it is established, Dong hoped to attract cadets from neighbouring countries, particularly Myanmar, to the training school. The carrier also is building a new headquarters, including crew dormitories, adjacent to

Changshui airport.

Ruili Airlines, which does not have a frequent flyer program or an English website, said it won't be joining an alliance, nor will it form one. Dong believed they created an uneven playing field with the larger partners often exploiting the smaller players. That said, he told Orient Aviation Ruili is looking at an "informal partnership" with Colourful Guizhou Airlines and Xiamen Airlines.

When the first B787 is delivered in 2019, the airline will offer a two class service, business and economy, on the airliners. At present, it is a full-service all economy class domestic carrier. "We cannot sell first class because the government has ordered its cadres to fly domestic economy," Dong explained, and added he does not think Beijing will change this policy for the next decade.

As the carrier grows, it may launch its own low-cost carrier, Dong said, although no plans have been mooted for now. Instead, the Ruili chairman is toying with launching a dedicated cargo carrier. Ideas he is considering are collaborations with internet giants, Alibaba and Huawei. "I will present this plan to the government later this year," he said.

Dong already has a general aviation company, Dehong South Asian Airlines, which operates out of JingCheng Heliport in Ruili, the largest general aviation airport in southwest China. Dehong South Asian Airlines has a 28-seater Boeing Business Jet, which the chairman regularly uses on his business trips, as well as renting it out for charter flights, plus two Sikorsky S92s and a Sikorsky-76D helicopter.

"I like business. And I like challenges," Dong said. All he could think about when he was 19 was how to make money and grow it. Living in a large family with a lot of siblings, life was tough for Dong so he decided to quit school. Leaving the mountains of his home behind he began his entrepreneurial career. "My parents were farmers and didn't have any resources so I opened a small roadside grocery store and took my chances," he said. Soon afterwards, he started trading Chinese herbs and medicine across the border.

Dong must have been a shrewd trader. Less than four years later, in 1990, aged 23, he founded the JingCheng Group, now a $2 billion conglomerate with holdings in construction, mining, real estate, tourism and manufacturing.

"Eventually, I want to have at least three listed companies," Dong said, including a car manufacturing business and a bank. Nevertheless, the chief said he is "not talented" and he considers himself "lucky" because he came across "a lot of opportunities" in life.

Hailed as "the first businessman of the Jingpo ethnicity", Dong said he does "a lot of good things" for the community, including the creation of the Dong Lecheng fund that supports 50 sick, elderly and homeless Dehong citizens, as well as providing jobs at his many businesses.

The JingCheng boss lives a busy and colourful life, but he wouldn't want it any other way. "I like to work and I feel restless when I'm not conducting business," he said. He very rarely takes a holiday and intends to continue this lifestyle until his planned retirement at 60, when he will hand the business over to his eldest son. ■

Upstart VietJet stalking flag carrier in home market

Joint venture partners, Vietnam Airlines and the Qantas Group, are investing more than US$100 million to defend their low-cost carrier, Jetstar Pacific, against agile new budget rivals, led by privately owned LCC comet, VietJet.

By Tom Ballantyne

Analysts are predicting Vietnam Airlines' (VNA) domination of the country's domestic market will be overtaken this year by the privately owned and extremely ambitious low-cost carrier, VietJet.

It is a competitive threat that has galvanized Vietnam's flag carrier into action in every part of its business – and part of the defensive strategy is to increase the capacity offered by the Vietnam/Australian carrier, Jetstar Pacific.

Early last month, it was revealed the joint venture partners would invest more than US$100 million in their LCC subsidiary by 2020, cash that will allow the airline to increase its fleet from 12 A320 family aircraft to at least 30 of the type.

The Qantas Group, which owns 30% of Jetstar Pacific, will contribute $31 million of the $100 million plus funds injection with majority owner, VNA, putting in $70 million.

But analysts believe that investment in new capacity may not be enough to stop the VietJet juggernaut. With an IPO scheduled later this year that is intended to sell some 30% of VietJet (the maximum allowed under Vietnamese law), consultancy CAPA predicted the five-year-old LCC will hold a dominant 40% share of the domestic market by year end.

Vietjet operates 35 A320 aircraft, with 179 of the type on order plus 91 options. Its goal is a fleet of 70 airliners by 2021. It is Vietnam's only privately owned airline, run by chief executive, Nguyen Thi Phuong Thao, and is a carrier with global ambitions. "We look at Emirates, which came from a country with a small population and has become a global airline. We want to make VietJet the Emirates of Asia," she has said.

Official government figures record that Jetstar Pacific had 14.9% of the domestic market last year, with Vietnam Airlines at 40.8% and VietJet at 36.3%.

Although Vietjet is tearing apart VNA's past domestic market strategy, it is not the only competition that the flag carrier and Jetstar Pacific are facing. In March, the Ministry of Transport asked the government to grant an air transport business licence to operate as a scheduled passenger airline to Vietstar Airlines Multirole Corporation or Vietstar Airlines.

Based in Ho Chi Minh City, the airline was established by the Vietnamese Air Force in 2010 and has mainly operated as a cargo airline, with MRO and pilot training subsidiaries. It plans a fleet of B737s and A320s that will service a network of both domestic and south east and north Asia destinations.

The Civil Aviation Authority of Vietnam (CAAV) has eight Vietnamese airlines registered with the authority: Vietnam Airlines, Jetstar Pacific Airlines, Vietnam Air Services Company (VASCO), VietJet Air, Blue Sky Travel, Event Company Ltd, Hải Âu Airline and Green Planet Technology.

In April, VASCO was renamed SkyViet and will compete in the turboprop market flying ATR72-500s.

Most analysts believe VNA and its partners would face an uphill battle in retaining their present market share and said the effort required to turn around Jetstar Pacific's performance has been tortuous.

Launched in 2008, it was born out of a restructuring of state-controlled charter cargo carrier, Pacific Airlines, in which Qantas took a 30% shareholding. Four years later, sovereign wealth fund, State Capital Investment Corporation, transferred its 70% equity in the carrier to Vietnam Airlines.

The LCC announced its first ever profit, a meagre $11,800 for 2015, in April. Chief executive, Le Hong Ha, attributed the result to an extended overhaul of operations, cost reductions and cooperation with Vietnam Airlines.

It is generally agreed that Jetstar Pacific has been too slow to change, a situation that has benefitted the much more energetic VietJet. Jetstar Pacific's passenger traffic grew by 38% in 2015, to 3.6 million. VietJet recorded 70% passenger growth, to around 10 million, and has forecast a 50% expansion this year, to 15 million passengers.

In April, VNA reported a $48 million pre-tax profit for the first quarter of its fiscal year, 32.5% better than in the same period 12 months ago. The carrier said it had operated in a good business environment where the macro-economy had remained stable, accompanied by satisfactory GDP expansion.

In addition, fuel costs were lower and foreign exchange rates had increased against the U.S. dollar, benefitting the airline's bottom line. In better than expected results for the three months reported, VNA carried more than 4.6 million passengers and nearly 61,000 tonnes of cargo, increases of 11.6% and 11.2%, respectively.

"However, the firm is still faced with many challenges and fluctuations in the market such as increased terrorism in the Europe, particularly after the bombings in Brussels in March, and doubts about the Zika virus's penetration into Vietnam that affected travelling demand on international routes," an airline statement said.

"Complicated weather and infrastructure [limitations] at a number of airports also hampered the firm's implementation of its plans and services."

The carrier achieved a breakthrough last month when Japan's All Nippon Airways Holdings (ANAH) confirmed an 8.8% investment in the airline for US$109 million. Vietnam could be an attractive market for ANA with Japanese companies investing in the country as they reduce their exposure to China.

Foreign direct investment by Japanese businesses in Vietnam more than tripled, to $9 billion, from 2011 to 2014 compared with the previous four years, the Japan External Trade Organization records.

Whoever ends up at the top of the Vietnamese aviation pile, there will still be plenty of business for everyone. The International Air Transport Association (IATA) forecast Vietnam will be one of the world's 10 fastest growing aviation markets in the next two decades. ■

ANA parent confirms investment in Vietnam Airlines

Following the signing of a Memorandum of Understanding in January, ANA Holdings (ANAH) has formally agreed to purchase 8.8% of Vietnamese flag carrier, Vietnam Airlines, for US$109 million. The share subscription is scheduled for July, Japan's largest airline group said in a statement at press time.

The partnership will include code shares and a share mileage program from October 30, the start of the northern Winter time table. The code share agreement will cover 30 major domestic routes in Japan and Vietnam and ten international destinations between the two countries.

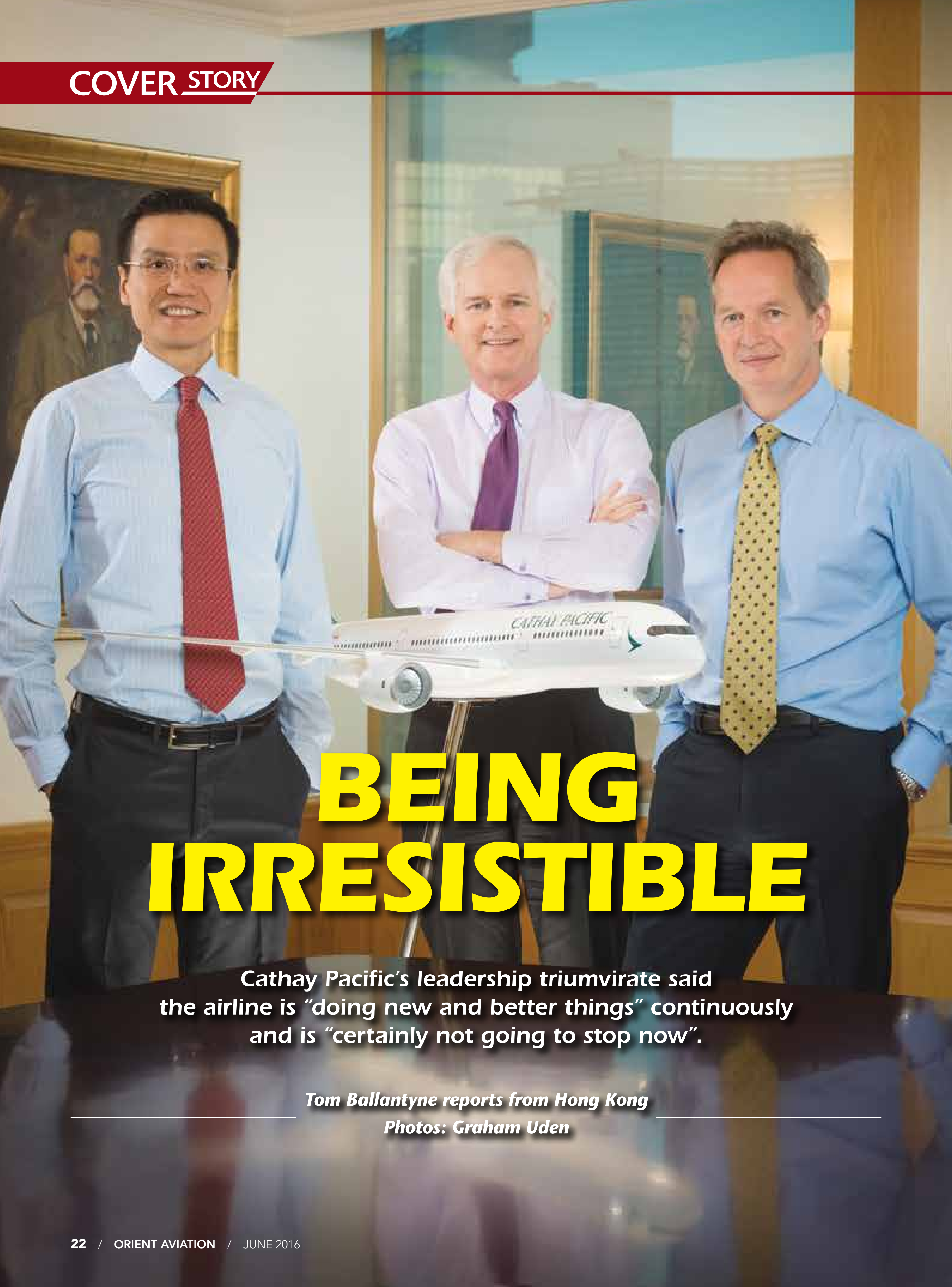
Apart from offering mileage accrual benefits for passengers of All Nippon Airways (ANA) and Vietnam Airlines (VN), the two airlines intend to co-operate on passenger check in, ground handling, catering, aircraft MRO and other airport services in Japan and Vietnam.

ANAH also will provide VN with management support at board level and flight training and service quality development.

President and CEO of Vietnam Airlines, Pham Ngoc Minh, said: "finding a partner for a business and capital tie-up is a key part in the efforts of Vietnam Airlines to improve and increase its competitiveness in international markets. The partnership with ANAH will help us to be more confident about upgrading the fleet with the newest generation aircraft, expand the market, improve service quality and be more efficient."

Vietnam Airlines has a fleet of 89 airliners that serve a network of 29 international and 21 domestic destinations. It operates 68 flights a week to Japan's Narita, Haneda, Chubu, Kansai and Fukuoka airports.

ANAH, established in 2013, is the parent company of ANA and LCC, Vanilla Air. It is made up of 62 consolidated subsidiaries and 18 equity interest affiliates that include airlines, airline cargo, catering and IT services. The Star alliance member carries 47 million passengers a year on 250 aircraft to 90 destinations worldwide. ■



BEING IRRESISTIBLE

Cathay Pacific's leadership triumvirate said the airline is "doing new and better things" continuously and is "certainly not going to stop now".

Tom Ballantyne reports from Hong Kong
Photos: Graham Uden

Gathered in a Swire executive suite that takes in the sweep of Hong Kong's iconic harbor and skyline, Cathay Pacific Airways' John Slosar, Ivan Chu and Rupert Hogg could not look more relaxed. China's economy might or might not be in serious trouble and the global growth outlook might be feeble. But when talking to Orient Aviation in Hong Kong last month, the carrier's leadership triumvirate expressed a collective conviction that their airline charge is fit for purpose in a very competitive aviation world.

"Aviation has always had its ups and downs, depending on supply and demand, political shocks and everything else. I strongly suspect those will continue going forward," said Slosar, the airline's chairman, who also is chairman of the airline's parent, Swire Pacific Limited.

"We have been around for 70 years so we have seen a number of ups and downs. We will always take proper steps to make sure we get through the downs and are there for the ups. Aviation in Asia has a long way to go. We think Hong Kong has established itself as the best hub in the middle of Asia and it is within our powers to continue to build on that. That's exactly what we are trying to do."

Fighting words indeed when the business of making money at an airline has never been tougher. Cathay faces competition from full service regional rivals, ambitious and fast growing low-cost carriers, capacity hungry Gulf airlines and the growing power of Mainland China's major aviation groups. All of them, in different sectors of the market, are as intent as Cathay on building market share in the region – and beyond.

In the meantime, the airline has had to absorb fuel hedging losses of more than $1 billion for fiscal 2015. Despite these factors, Cathay reported a net profit of US$773 million in 2015, up 90% from a year earlier. It was its best result since 2010.

The good news came down to strong traffic and a focus on cost control, explained the airline's chief executive, Ivan Chu. Cathay's flights in 2015 had record load factors, with premium economy performing particularly well.

"In general, we had a very strong result on our regional and long-haul routes, particularly in the back end, with 93% to 94% [load factor] throughout the year. That's incredible," said Chu, who has been the airline's boss since 2014.

"With the passenger side strong, the cost side was great, he added. "Even though we sustained a few hedging losses, the net saving was in the region of about 20%. We did very well on the non-fuel cost side. We grew capacity by 5%-6% last year, but costs did not grow to the same extent so we had efficiency and productivity gains from that."

Chief operating officer Hogg added that Cathay's costs without fuel, that is its unit costs, have come down every year since 2011. "We have been working on a whole lot of things that make us more productive, such as new technology. So, as ever, we have to totally manage our cost base."

Critically for the carrier, a major fleet renewal is underway. Cathay Pacific operates 121 passenger airliners: 53 B777-300ERs, 12 B777-300s, five B777-200s, three B747-400s, five A340s, 42 A330-300s and the latest A350.

It has 68 new passenger jets on order: 22 A350-900s, 26 A350-1000s and 21 B777-9s. All of its B747s will be gone by year end and the A340s will follow suit next year. The airline's first A350-900 arrived at the carrier at the end of May – Cathay's first new aircraft type for 20 years. Eleven are expected to be delivered to its Hong Kong headquarters by December, bringing huge efficiencies and significant network opportunities with them. Annual growth for the airline is forecast at 4% to 5% in the next five to 10 years.

"This is another very exciting epoch for Cathay Pacific with the introduction of the A350s," said Hogg, who has been director cargo and then director sales and marketing before he succeeded Chu as COO in 2014.

"The first 22 of them are the 900 series that we are going to configure in three classes with 280 business, premium economy and economy seats. This configuration gives us the opportunity to open destinations on long thin routes and to do that really economically because the A350 is such an efficient aircraft.

"You will see more frequencies to places like Europe and a general expansion of our network there and elsewhere. The 26 A350-1000s, a bigger capacity aircraft and more like the B777 if you like, will allow us great flexibility between our 777 family, our 1000 family and our 900 family to increase services to Europe, Australasia and both coasts of the U.S."

The A350 fleet is part of a strategy to counter the value proposition and threat of the Gulf carriers. "It will allow us to fly to secondary destinations in Europe in a very cost efficient manner. No doubt our passengers would want to fly non-stop rather than spending three hours or more in the Middle East," said Chu. "We believe we can secure the high yield customers who want to have the convenience and the comfort of flying non-stop all the way to secondary airports. We will be doubling

No holding off on hedging

Cathay, which normally hedges between 50% and 60% of its fuel, may have been burnt last year by its fuel hedging policy, but it has no intention of ending the practice. Its current hedging contracts are declining year on year, said Cathay Pacific Airways chairman, John Slosar. "We are still relatively highly hedged, but next year it is less and the year after that we are pretty much out."

"We will continue to hedge. We have a hedging policy and where fuel is such a high percentage of your cost - at a low it's still in the 30% range and at a high it's in the 40% somewhere - some judicious hedging is an important thing to do. But hedging's not easy. I wish I could say it was, but it's not."

Slosar said the airline would continue to adapt and "nip and tuck" on that. "Who knows? It's been low for a while. At some point, we're going to wake up and discover it's a lot higher than we thought it was. Then we will think thank goodness we've got a hedging policy," he said.

Future hedging will depend on fuel price levels. "You would obviously hedge a different percentage when it's very high as opposed to when it's very low. It takes that into account. You can't make a fixed rule that is going to apply for the next 20 years. That's not going to work," said Slosar.

> The industry has never ultimately been constrained by its infrastructure. It has found a way to keep that growth going. The onus is on us to work with everybody here in Hong Kong and the other airports around the region to find a way to keep it going. I would bet that we'll find a way

John Slosar
Cathay Pacific Airways chairman

our destinations in Europe. The A350 is ideal for these routes and we will be very competitive."

Cathay will not, however, be fixated on Europe. "We are a network airline. In order to keep it in balance we have to expand a bit everywhere," said Slosar. "If you only expanded to one place you would end up with constraints in other places. There will be a focus on Europe, but in the past few years there has been tremendous growth to North America. That is not going to end."

"China and the rest of Asia also are a hugely important part of the network. A lot of people come to Hong Kong and go onto other places so we have to expand to make sure we have connectivity and seats available. You have to get the whole thing to grow otherwise you will have a lot of seats in one place and no seats in the other and you won't be able to take advantage of that."

Hogg pointed there are always "bumpy periods" along the aviation path, but said: "We remain bullish about the prospects across the region. All the data shows the centre of global aviation is heading to this region. In terms of city pair volumes the top ten city pairs are now in Asia and six of the ten of them touch on Hong Kong. So the fundamentals are clearly there."

One issue that remained an impediment to growth is air traffic congestion at Cathay's home airport as well as other major airports in the region. "Definitely, the ability for infrastructure to grow with demand is going to be a factor in Asian aviation," said Hogg.

"In Hong Kong itself we are reasonably confident the third runway will open in around seven or eight years. We've a plan to allow us to grow. We are working very closely with the airport authority, other partners and suppliers to minimize active disruption when it [congestion] happens.

"We have done a lot of work on this. We are beginning to see some results coming through in terms of on-time performances. It's quite encouraging."

Slosar also is optimistic. "There's a great deal of co-operation among those involved, at a very high level. Everybody knows we are facing a period when we must optimize to extract the most from what is there. There always are things you can do and we will do everything we can within that period to make it work," he said.

"The Hong Kong hub is huge for us. It's home. It is still the

biggest aviation passenger hub in Asia. We need to make sure it stays efficient and continues to work like the well-oiled machine that it is."

He said "the industry has never ultimately been constrained by its infrastructure. It has found a way to keep that growth going. The onus is on us to work with everybody here in Hong Kong and the other airports around the region to just find a way to keep it going. I would bet that we'll find a way".

One worry, particularly for Cathay, is cargo operations. With air freight still in the doldrums group cargo revenue in 2015 dropped 9%, to $2.9 billion, compared with the previous year. "We are a very big cargo operator. It's always been a great business for us," said Hogg. "We are probably one of the largest combination carriers – belly and freighter – and we think for some time to come this region will be the manufacturing centre for the world. So it's a sensible business for us to be in.

"The trends are sort of universal. For the first time, volumes have grown at a slower rate than GDP. There's also a lot more passenger belly capacity around. So yes, there are definitely some challenges, although the low fuel price has allowed us to keep operating aircraft we might not have done otherwise."

Cathay has always taken pride in its service standards and it does not intend to ease up on that front. At the airline's most recent shareholder meeting, held in Hong Kong, one investor accused Cathay of no longer being a premium airline, a charge Slosar strongly disputed.

"My response was we do a lot of research with our customers and that's not what they are saying. We don't do it by talking to a few people. We do quite serious research to keep track of what people think about us. We are not seeing that trend at all," he said.

Cathay is an "unabashed believer" in the multi segment full-service model. "It has worked well and we think it has a lot of legs going forward. Don't necessarily listen to what we say, look at what we do. We continue to launch and develop what we think are industry-leading products in seats, lounges and new planes that complete the passenger travel experience from the start of the journey to the end," he said.

Chu said the goal is to maintain consistently high quality at Cathay and at its 100%-owned subsidiary, Cathay Dragon. "It's what we do every single day. For someone to say to us you

"We are not worried about competition, low-cost or otherwise, because we see big growth, not just in China but all over Asia and the rest of the world. We are not worried about the demand situation as long as we do our things right, making sure we look after our customers"

Ivan Chu
Cathay Pacific Airways chief executive

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Rupert Hogg
Cathay Pacific Airways chief operating officer

are not premium any more is actually to us quite emotional. I can detail so many examples of the amount of capital we have invested in the airlines - last year it was more than HK$7 billion (US$901 million) on cabins and lounges," he said.

"We are taking delivery of 70 aircraft with list prices of HK$180 billion ($23.2 billion) and they all come with better seats. Even though we already have the best business class seats we are improving them.

"For us, when we think about new product and new lounges we always ask ourselves three questions. Number one, what's new? Number two, is it better? Number three, is it better than our competitors? You can see tons of evidence that we are constantly spending capital making sure we continue to be the best."

Cathay unveiled a revised livery in November. As well, all Cathay and Cathay Dragon wide body passenger aircraft have been fitted or retro-fitted with new or refreshed seats in all classes. The A350s will have a new cabin design and better seats and inflight entertainment systems. The first class lounge at The Pier at Hong Kong International Airport has been very well received and the Business Class Pier lounge, the biggest in Asia after a year of refurbishment, will be ready for guests soon. New lounges also have been opened in Manila, Bangkok, San Francisco and Taipei.

"We sometimes forget it's a consumer business because we focus on planes and all that kind of stuff," said Slosar. "The reality at the consumer end is that every time somebody travels they have a choice. We need to make it an irresistible choice to keep coming back to us, which means we can't stand still. We've got to do new and better things continuously. If you look back on the last decade of Cathay that's exactly what we've done and we are certainly not stopping now."

Cathay has re-named its regional subsidiary from Dragonair to Cathay Dragon. Why was it necessary? "It's a great airline. It has a strong following and a strong clientele. Its network complements the Cathay Pacific network," said Hogg. "The principle reason for rebranding is to make sure that travellers in China or Australia or America understand the two airlines are unequivocally from the same premium stable.

"We needed a visual way of doing that. We needed a linking of the names that reinforced that vision. If you look at

Cathay Pacific and Lufthansa forge cargo partnership

In May, Cathay Pacific and Germany's Lufthansa announced an agreement to co-operate on cargo operations. After Emirates, they are the second and third largest air cargo players in the world.

The two airlines will work closely on network planning, sales, IT and ground handling. The goal is for the airlines' customers to have access to the entire joint networks of the two carriers either through the partners' booking systems or offering joint handling at their hubs in Hong Kong and Frankfurt.

"We are well positioned and have a very big business in the trans-Pacific, joining the number one and two economies in the world of the U.S. and China. We think the Lufthansa deal will be really good for shippers and forwarders between here and Europe. It makes a lot of complementary sense," said Cathay Pacific's chief operating officer, Rupert Hogg.

Despite the sluggish nature of the cargo sector, he added Cathay Cargo is managing to operate at about 64% load factor across its fleet, which "keeps our head above water".

China and the number of first time travellers there and then think of people from our increasing American network, they need to feel that if they are going on a one-stop itinerary over the Hong Kong hub they will be looked after to the same standard, with the same professionalism, throughout the journey. That's the reason for doing it and we are very excited about it. Cathay Dragon will continue to grow, not only in China but across the region," he said.

Cathay's position on low-cost carrier competition and its refusal to start an LCC subsidiary is well known and is unchanged.

"The assumption people often make is that LCCs have a cost advantage," said Slosar. "They don't often. Where we fly a route with a 420-seat B777-300 regional plane, with cargo and premium passengers, for sure the net cost to us of our economy class seat is lower than most LCCs. We can compete with them on these routes and we have done."

Cathay makes the point that low-cost or whatever it is called is irrelevant to consumers. "They're just offerings in the market place. Passengers don't say: I'll take you because you have this business model. They say I will take you because you're giving me the best value. That may be cost or schedule or things like 'I can watch TV programs for free on a three-hour flight'," said Slosar.

"We say we're not going to get hung up about the business model. We're going to get really hung up about making sure we are offering value in the market place."

Elsewhere, he suggested, incumbent airlines have permitted the market growth to go to new entrants. Cathay won't allow that to happen.

"We will find a way to make sure we participate in that growth. Strategically, that's a hugely important decision to make, to say we will not allow ourselves to just sit back and let the growth go elsewhere," he said.

In the meantime, Cathay must manage an emerging global trend; a slowdown in traffic growth compared with previous high levels.

"Hong Kong is growing at 1% to 1.5% this year. On the passenger side we are seeing some softening. If you look at the trends in the last 18 months there are some weak trends in front-end travel with corporates around the world cutting back, particularly the financial sectors," Chu said.

"In terms of load factor, however, we are still better than our peers in the region. In 2015, we achieved an 86% plus load factor. So far this year, it is 84%, although 84%, by all accounts, is higher than most of our competitions in the region. Last year, we were about 7% higher and this year it is 5% to 6% higher."

Whatever the market conditions, Cathay is far from pessimistic about its future. "There is still huge opportunity for Cathay Pacific as long as we invest in the brand and invest in the product as well as service," said Chu.

"Cathay is not known just for the hardware, but for the great service that is provided by more than 10,000 cabin crew. That service is at a consistent, high quality level. It is what we stand for. I don't think we should worry about passenger demand too much because over the years our customers have voted consistently with us.

"We are not worried about competition, low-cost or otherwise, because we see big growth, not just in China but all over Asia and the rest of the world. We are not worried about the demand situation as long as we do our things right, making sure we look after our customers.

"The challenge for us is to continue to maintain that investment in product and services and to be focused on costs. Ensuring a consistent, high quality service is absolutely critical for us going forward." ■

Both sides "want to do a deal" in pilots' dispute

A troublesome issue for Cathay Pacific is a continuing work to rule by members of the Hong Kong Aircrew Officers Association (HKAOA), which represents 2,100 of Cathay Pacific's 2,900 pilots. Cathay Pacific's chief executive, Ivan Chu, believes the parties are moving closer to a deal.

Initially implemented at the airline because of a pilot pay dispute, which was ultimately resolved, the industrial action has overflowed into a dispute about other cockpit crew working conditions, including roster patterns. The work to rule has forced Cathay to defer the launching of some routes.

"We are talking to them. That's the good news," said Chu. "We have been going through this very uncomfortable and unsettled situation with our pilot union, but we are, hopefully, in the final rounds of discussion with them. We have been making some headway and both sides want to do a deal," Chu told Orient Aviation.

Asia suffers in on time performance lottery

Maintaining one of the industry's crucial metrics – on time performance – is under pressure as Asia-Pacific airlines buy more planes to accommodate passenger demand. An industry survey released last month once again highlighted the problem with the news that only a small number of Asian airports and airlines rate in the top twenty global tables for on time performance.

By Tom Ballantyne

The good news for air travelers is that despite growing air traffic and congestion issues in many parts of the world their trip through an airport and their chances of on-time departure are better than ever. The bad news is that in many parts of the Asia-Pacific getting away on time remains a lottery, according to a new OAG report on the on-time performance (OTP) of the world's airports and airlines.

Only four airports in the region, Tokyo Haneda, Sydney, Melbourne and Singapore Changi, rate in the top 20 airports for OTP in the large airport category, with Osaka in Japan topping the league in the small airport category.

Among airlines, Japan Airlines, All Nippon Airways, Virgin Australia, Qantas Airways and Air New Zealand were among the top 20 carriers whose flights leave within 15 minutes of their scheduled departure times.

Tokyo Haneda, with an average OTP in 2015 of 91.25%, was the world's best airport for OTP. Sydney was fifth, on 85.2%, followed by Melbourne (6), on 85.02%, and Singapore Changi was seventh at 84.75%.

JAL and ANA were third and fourth best in the world for OTP, with an average last year of 90.44% and 89.65%, respectively. Virgin Australia was 10th (88.56%), Qantas 14th (88.08%) and Air New Zealand 17th (87.33%).

The 2015 Punctuality League report, from UK-based air travel intelligence company OAG, said there has been a steady overall improvement in airport and airline OTP worldwide.

"Investment in new technology, improved operating procedures and most importantly, the skill and professionalism of the airline and airport operators, translates into the continual improvements we are reporting year on year," said OAG executive vice president, John Grant.

But he pointed to some notable absences in the league table. "There are, as yet, no Chinese airports or airlines in the league. Performance is improving and we hope to include some in next year's league," he said.

Nor do any UK airports or Middle East carriers feature among the top 20 airports in the OAG report, but for different reasons, OAG said. Beijing and Hong Kong airports also missed out on a top 20 place.

Last year, the leading 20 large airports had 83.3% of flights arriving and departing within 15 minutes of their scheduled times, a slight improvement from 82.9% in 2014.

Low-cost carriers (LCCs) globally are working hard to improve punctuality. "Whilst still not achieving the same levels of on-time performance as mainline carriers, this year we see a significant improvement in the baseline of the LCC category, from 58% to 74%," said Grant.

Brazil's Azul topped the LCC rankings with a 91.03 OTP average in 2015. Five Asia-Pacific airlines ranked in the top 20: IndiGo Air (84.57%), Thai AirAsia (84.28%), Skymark Airlines (81.94%), Jetstar (80.10%) and AirAsia (79.25%). ■

Stepping up the game

The Value Alliance, formed last month by eight Asia-Pacific low-cost carriers, is the world's largest budget airline alliance. The new cross carrier partnership will add another layer of tension to the region's increasingly competitive airline market.

Tom Ballantyne reports from Singapore

Exuberant Nok Air chief executive, Patee Sarisin, has absolutely no doubts about the future of the new eight airline Value Alliance. "It's going to be enormous," he told Orient Aviation at its launch in Singapore last month. And while conceding it is at "the baby stage", Patee has no doubts about the potential of Value.

"I'm going to approach some European ones (LCCs) to do this with us. The key element is to prove it works. Right now, we are putting in a whole lot of commitment to make sure that it does," he said.

It will be a long journey before the pan-Pacific budget alliance arrives where Patee ultimately wants it to be, but unlike the other members of the Value Alliance, he has some prior experience with airline partnerships, a factor that propels his enthusiasm for the partnership.

Bangkok-headquartered Nok and long haul LCC, NokScoot, has been live since February with ground-breaking technology that allows alliance members to dramatically increase their network reach and sell flights and ancillary products in markets where they have not had a presence.

"I'll give you numbers," he told Orient Aviation. "We started with NokScoot selling Nok Air tickets. Already, in our second month of operating with the new system, we are selling to 30,000 people. The sales are mostly to Chinese travellers coming into Thailand on NokScoot and transferring to Nok domestic flights.

"We are talking about a tremendous boost to our business and that is just from one airline. You can imagine what it will be like when other airlines are coming in from other places around Asia and doing the same thing."

Value's members are Nok Air, Cebu Pacific and its subsidiary Cebgo, South Korea's Jeju Air, NokScoot, Singapore Airlines long-haul LCC subsidiary Scoot, Tigerair Singapore,

Tigerair Australia and All Nippon Airways controlled Vanilla Air.

Between them, the alliance members have a fleet of 176 aircraft serving more than 160 destinations from 17 hubs. Combined, the eight airlines carried 47 million passengers last year.

Analysts interpret the establishment of the alliance as an attempt to break the market dominance of major LCCs: Malaysia's AirAsia Group and Qantas' stable of Jetstar carriers. The two groups hold around 15% and 9%, respectively, of the region's budget passenger market.

By coming together, the Value Alliance hopes to mount an effective challenge to the market share of the two leading LCC groups.

The AirAsia group has about 200 aircraft spread among its eight carriers in Malaysia, Indonesia, Thailand, the Philippines and India and expects its Japan joint venture will be flying by October. The pioneering LCC group serves 120 destinations.

Jetstar, controlled by the Qantas Group, operates a fleet of 122 airliners and flies to 75 destinations from bases in Singapore, Australia, New Zealand, Japan and Vietnam.

"The alliance has been brought about by intense competition within the LCC segment", said Shukor Yusof, head of Endau Analytics in Kuala Lumpur. "It is an innovative solution. The bottom line is to increase revenue".

"Even if the incremental gain is relatively small initially, it's still a good ploy to get together and try to improve your distribution, brand awareness and to build some incremental traffic," said the CAPA consultancy.

Ironically, although none of the alliance's LCCs belongs to the International Air Transport

Association (IATA), Value was formed as a result of IATA's New Distribution Capability (NDC). The NDC is a major IATA project and is successfully establishing a new standard for the distribution and sale of airline products.

Based on NDC, UK-based Air Black Box (ABB) is the first company in the world to have developed the technology that allows customers to view, select and book the best available airfares on any alliance member airline in one transaction. The transactions can be done directly from the websites of each of the alliance's airlines.

And unlike typical interline technologies, ABB enables its users, in a single itinerary, to view the full suite of ancillary options, including seat and meal selections, variable baggage allowances and other inflight offerings across all partner airlines.

ABB's Air Connection Engine (ACE) platform has been certified at the first stage and is scheduled to receive full NDC certification later this year.

NDC strengthens distribution for airlines in their non-home markets, expands their saleable networks by interlining itineraries, retains their ancillary revenue opportunities and offers customers a better, one-stop shop experience.

For example, a Japanese traveller wanting to fly on different alliance member carrier from a secondary destination in Japan via Tokyo to Bangkok and on to a secondary destination in Thailand can book the entire journey, including ancillary purchases on Vanilla Air's website.

The other big plus is that the technology is not expensive. "There is very little cost involved for individual airlines," explained Scoot chief executive, Campbell Wilson. "The principle cost was developing the technology. Nok and Scoot contributed $1 million for that.

"We knew what we wanted to do, but the secret was ensuring the technology was not burdensome. The last thing you need is burdening cost. Once we cracked that, it was much easier to go out to airlines and say there's only upside here.

"Make a one-off investment in connecting into this technology, which we have developed, and then any sales that come are incremental revenue. It might not move the needle massively for you immediately, but what have you got to lose?"

Wilson, who is to return to Singapore Airlines from Scoot to take up a senior management role at the parent group, pointed out that in Southeast Asia almost 60% of airline seats are operated by LCCs.

"Yet most LCCs are not well known outside their home market. By bringing together our individual home market strengths, combined with our

"The ability to work with other carriers in the Value Alliance will be a big gain. We see that the traditional LCC model changes very rapidly. Point to point ancillary airport strategy doesn't hold any more. It's a regional hub strategy. This network, amongst the partners, not only brings very good value to us, but also fits in very well with our network strategy"

Cho Kyu Nam
President and chief executive Jeju Air

collective network, the Value Alliance offers travellers the convenience of transacting with an airline they know and trust and has proven its local market commitment. They also will enjoy a vastly broader network than any individual airline cannot offer alone. So from Australia to Japan, from Southeast Asia to the Middle East, LCC travel just became a whole lot more convenient."

Vanilla Air president, Katsuya Goto, told Orient Aviation in Singapore: "The technology enables us to interface with other airlines within the Value Alliance, including those using different passenger service systems (PSS), to provide a solution to a guest's travel query, even on routes Vanilla Air may not serve, to connect Japan to the rest of Asia-Pacific."

Cebu Pacific president and chief executive, Lance Gokongwei, said the alliance is a clear example of how LCCs can accomplish more by working together than they can individually. President and chief executive of Jeju Air, Cho Kyu Nam, said the ability to work with other carriers in the Value Alliance will be a big gain.

"We see that the traditional LCC model changes very rapidly. Point to point ancillary airport strategy doesn't hold any more. It's a regional hub strategy. The network amongst the partners not only brings very good value to us, but also fits in very well with our network strategy."

Goto said the most important gain is an expanded network that brings more opportunities and better selection for customers. "That is going to be the number one benefit. We have just started our operation, from December 2013, and are still young. This alliance will support our growth," he said.

Tigerair Australia chief executive, Rob Sharp, said the partnership is a win-win for every Value Alliance airline and will deliver significant benefits for Tigerair Australia customers. "Tigerair Australia itself has only one overseas destination, Bali in Indonesia. But it can tap into traffic through Scoot, which flies to several Australian destinations, linking up with other Value members through Singapore," he said.

"This is a major milestone that expands our existing network from 21 routes and 12 destinations to span one third of the world with more than 160 destinations across the Asia-Pacific."

At this early stage, assessing the threat Value will present to the region's established LLC groups is difficult. For now, although it may be possible at a later date, passengers can't check their luggage through to their final destinations.

Nor is there a joint frequent flyer scheme or reciprocity mileage, services that the AsiaAsia Group and Jetstar offer across all their owned or part-owned subsidiaries

Membership of Value is "by invitation only" and it is clear AirAsia or Jetstar will not be invited to the alliance party. Most Value members are in fierce competition with Jetstar and AirAsia and their joint venture airlines so they do not intend to start interlining with them.

Rivals' reactions to the alliance were muted. A Jetstar group spokesperson said that "when our customers travel on Jetstar they can be assured of a consistent brand and with it, the same product, level of service and flight experience across any of our airlines".

Surprisingly, there has been no reaction to date from the normally talkative AirAsia group chief, Tony Fernandes, not even on his Twitter account.

The formation of Value was welcomed by a group which describes itself as the world's first LCC alliance, the U-FLY Alliance. It is made up of four carriers from Greater China, all of which are majority-owned by the Mainland's HNA Group.

Launched in January, its members are HK Express in Hong Kong, Lucky Air in Kunming, Urumqi Air in Urumqi and West Air in Chongqing. In a statement issued after Value was unveiled, U-FLY said: "the launch of this new alliance poses no threat to the competitive landscape. In fact, it will encourage creative collaboration and foster healthy growth in the LCC industry".

As for the expansion of Value, it is expected to be some time before new members are recruited to the alliance. While Nok, NokScoot and Scoot are operating with the new technology, other Value members are still coming on line with the process scheduled for completion by year end.

"We think we've got the principle key markets covered with the exception of India and Indonesia," said Scoot's Wilson. "Vietnam is certainly an opportunity. In China, there are some opportunities that we are pursuing, but for the moment we have eight carriers, six countries and 17 hubs. That is the focus of making this work, but we are always open to expansion."

Patee added that many of the 17 hubs reach into China. "Also, Cebu and Scoot operate to the Middle East. Already, the alliance has an extensive reach. We'll bed the alliance down. We will get the software tools up and running and then see where to go from there. It's very exciting. This is really a game changer for the industry." ■

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Campbell Wilson
CEO Scoot

Jeju Air's leap of faith in joining the Value Alliance

Competition among low-cost carriers in the South Korean market is about to intensify with market leader, privately-owned Jeju Air, expanding its international network to build its successful business.

By Tom Ballantyne in Singapore

It may seem unusual that in South Korea, with its population of 51.5 million people, that a local budget carrier would operate four domestic routes but have a network of 27 international destinations.

But there is logic to the LCC's network, Jeju Air president and chief executive, Ken Choi, told Orient Aviation in Singapore last month.

"The domestic market is limited and highly competitive. It was inevitable that we had to build our cross-border network."

The carrier links the major cities in South Korea from its island headquarters on Jeju to Busan and Seoul's Incheon and Gimpo airports. Choi sees international expansion as a way to build traffic. The LCC has been developing this strategy by having all its hubs operating flights to foreign destinations.

South Korea's home skies are increasingly crowded, with five LCCs operating in the country: Jeju, Jin Air (Korean Airlines), Air Busan, Eastar Jet and T'Way Air. Another carrier, Air Seoul, controlled by Asiana Airlines, will launch services in the second half of this year.

Not surprisingly, with domestic routes saturated with capacity, Jeju is not the only LCC expanding onto regional routes. According to the latest figures from South Korea's Ministry of Land, Transportation and Infrastructure (KADA), international passengers rose by 13.7% percent, to 5.22 million year-on-year, to last November.

Passengers flying full service carriers rose 10.3%, but LCC international traffic surged by 54.6%. Overall, the market share of LCCs in South Korea last year had reached 14% of market penetration in 2015 from 0.05% in 2008.

"Due to their extended operations for the mid- and long-range routes, which make airlines earn more profits, and the lower burden from oil prices, the market share of LCCs is expected to soar to 30% within five years," the KADA said.

Jeju Air, whose majority shareholder is South Korea's Aekyung Industrial Company, was launched in 2006 and is the country's largest LCC in passenger numbers, fleet size, revenue and net profit.

Its 23 B737-800s, with three more to come into the fleet this year, carried seven million passengers in 2015 to destinations within South Korea and to Japan, China, Southeast Asia, Guam and Saipan. Its first international flight, in July 2008, was from Jeju, a popular destination for Japanese tourists, to Hiroshima in Japan.

"We have been adding at least four or five new aircraft every year and our top line in terms of sales and capacity growth is around 20% annually, which is pretty significant," said Choi, who took charge of Jeju in 2012.

It was Choi's first venture into the airline industry. A certified chartered accountant who holds a Master's degree in Engineering Management from Stanford University and a Bachelor's degree in engineering from Seoul National University, Choi joined Jeju after a long career with global financial institutions such as Citigroup followed by the presidency of the Korea Game Industry Agency, where he regulated and promoted the country's digital media industry.

Choi told Orient Aviation that despite the competition from rival LCCs, the airline is well positioned financially following its listing last November and its three recent years of consecutive profits.

"We have a pretty healthy balance sheet and we want to make new investments in aircraft and network expansion," he said. "We are continuously looking for opportunities to build a better platform, not only for growth but for a sound financial base."

In 2015, Jeju Air's net profit jumped 47.3% year-on-year, to $38.8 million, driven in part by historically low oil prices coupled with increased inflight sales and network expansion. The airline's profit margin has hit an all-time high of 8.5%, well ahead of the global industry average.

However, Choi said there is one sector of the airline that is under-performing compared

Jeju Air president and chief executive, Ken Choi: a Jeju Air joint venture possible with Thai partner?

with the carrier's LCC rivals. Jeju earns only 8% of its revenue from ancillaries, which is well below the level of most budget airlines. "But three years ago it was only 3%," said Choi. "This year, I think it will grow to about 10%. I acknowledge that is low, but the flip side of that is we have a lot more potential for introducing quality ancillaries."

Another sector of Jeju's operations that is disappointing is the carrier's penetration of the China market. "We are not getting as much as we hoped into China. The problem is that the China-South Korea market is not open skies yet. So we are running a lot of charters, but it is one of the potential valuable markets for us," he said.

Choi spoke to Orient Aviation at the launch of the Value Alliance, an eight-member LCC alliance of which Jeju Air is a founding member. Choi sees the merit of the alliance for Jeju Air in network expansion and brand recognition.

"With the current network of [alliance] partners we can immediately expose our brand to those local markets and, probably and hopefully, encourage a lot more inbound travellers to come to South Korea," he said.

While Jeju is focused on shorter haul flying, Choi is not ruling out longer haul operations, including setting up a joint venture in another country. "The Value Alliance allows us to build a platform. In the future, we can potentially look at a joint venture. For example, Bangkok is a very good market and Thailand is relatively flexible in allowing the establishment of a new carrier. We will see how this alliance goes in building a base towards that," he said.

Nevertheless, maintaining profitability at Jeju won't be easy as competition intensifies for the carrier, especially on international routes. Last year, South Korea's five LCCs opened 39 international destinations. Seven were launched by Jeju, but Jin Air launched 11 and T'way 10.

Korean Air's Jin is now flying Incheon-Honolulu, the first long-haul international service operated by a South Korean budget carrier. Analysts said Jin's decision to go long-haul is because short and medium-haul LCC routes are saturated and suffering from declining yields.

For Jeju, flying long haul is not yet part of its strategy, but it is possible, given the right conditions, said Choi. ■

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>
> **Ken Choi**
> President and chief executive Jeju Air

Adapt or disappear

New technology and the demands of airlines to directly deal with paying customers is forcing Global Distribution Systems (GDS) to adapt their business models to avoid industry obsolescence.

Dominic Lalk reports

Airline Global Distribution Systems (GDSs) have come a long way since they were created in the 1980s for airlines to more easily sell seats cost effectively across all borders.

Today, GDS technology sits at the heart of the global travel business as it allows travel agents and their customers to book their entire travel experience, from tickets to accommodation and every type of on-ground travel service.

But the three major airline GDSs, Amadeus, Sabre and Travelport, are feeling the competitive heat from airlines. Their former business partners are selling travel directly through their own platforms and from the New Distribution Capability (NDC) launched by the International Air Transport Association (IATA) in 2012.

In the early days of computerised reservations systems, it was not possible to book a flight without GDS. Now, airlines are investing heavily in their own reservations systems, direct-distribution channels and partner systems. They want to minimise their dependency on GDSs for meeting sales and revenue targets and for responding to changing air travel trends.

As well, the advent of price comparison websites has eliminated the need for dedicated GDS for point-in-time prices and inventory for both travel agents and passengers.

This swift technological shift already has prompted some industry experts to forecast that GDSs are a sunset business and that they could be completely phased out by 2020.

But global GDS powerhouse, Amadeus, told Orient Aviation otherwise. Hazem Hussein, executive vice president airline commercial, Amadeus Asia Pacific. "The cost of each GDS transaction remains very low compared with other industries. It remains the most efficient, neutral and cost-effective distribution channel to reach travel agencies, not just for seats, but for effective retailing, because of superior reach."

The Madrid-based GDS said 64% of all bookings outside its home market still come through the indirect channel, particularly bookings for big ticket items.

"On average, 67% of business and first class bookings come from indirect distribution and yield from the indirect channel is, on average, 42% higher than the direct channel," said Hussein. "The cost of each GDS transaction remains very low compared with other industries, especially when put against the direct online traffic acquisition costs per traveller."

In 2015, 37 airlines renewed content agreements with Amadeus. To date this year, the GDS extended its cooperation with Spring Airlines, China's largest low-cost carrier, Virgin Australia and HK Express. Asia is a priority for the company.

The GDS playing field has become more competitive since the International Air Transport Association (IATA) rolled out its New Distribution Capability (NDC) in 2012. Initially, the GDSs feared the NDC standard would make them redundant.

Based on XML-based rich-data content, the NDC standard not only enhances the capability of communications between airlines, travel agents and the end customer, it also improves communications between the GDS providers.

However, a number of issues still surround the radical development, including funding and a healthy degree of protectionism.

The NDC has three independent certifications - Shopping, Order Management and Airline Profile. IATA believes NDC will give GDS providers more ammunition to drive sales, rather than drive them out of the market. IATA said NDC modernizes the 40-year-old data exchange standards for ticket distribution that were developed before the Internet was invented.

It also said NDC will enable innovation in travel technology solutions and apps.

Using the NDC Shopping, the aggregators can transmit much more detailed and complex information for travellers to consider. Previously, information from airlines was limited to fare and equipment details. The sky is now the limit for content.

An airline can offer customers all its seat offerings and meal offerings, with images and limitless detail, luggage allowances both paid and free, frequent flyer information, paid lounge access, priority boarding, paid seat selection, on-board Wi-Fi, and chauffeur services.

In the past, an airline customer had two options when planning a journey: the customer's preferred website where she or he bought a ticket, including extra luggage, made a seat selection and ordered ancillary items. Or his travel agent would present him with a range of travel options. In both cases, the customer had very little information apart from the schedule and the fare.

The NDC standard now being rolled out allows a customer still to consult a travel agent but there will be a much more complete picture of options. This way, ancillary inventory will be captured at the time of the core booking, allowing greater transparency of individual customer spend, enhanced forecasting, and improved data and payment processes.

NDC Order Management enables stakeholders, including GDSs, to manage NDC-driven orders throughout the entire lifecycle, from booking to fulfilment, by collecting and passing on payment details and also allowing them to request accountable documents issuance to fulfil NDC-driven orders.

With the NDC Airline Profile, airlines can communicate with their target markets if they are willing to respond to NDC-driven requests for offers and associated services.

"Sabre has been enabling airlines to sell their products in new and different ways through both direct and indirect channels for many years and would continue to utilize emerging technologies in a way that benefits all constituents in the travel ecosystem"

Kathy Morgan
Sabre's director transportation product solutions

In a 2015 survey conducted by Atmosphere Research Group, travel agents said NDC makes them more competitive and customer focused and makes selling airline ancillary products more efficient.

The GDSs have been accused of a lack of vision, interest and execution when merchandising airline content. It took GDSs more than three years to sell Air New Zealand's (Air NZ's) Skycouch product, so agents had to go directly to Air NZ to purchase the product, which caused many in the industry to claim that GDS providers had stifled ancillary sales. Given that global ancillary sales amounted to more than $30 billion in 2015, it is a serious criticism.

Airlines also have complained they do not receive value for money from GDS providers and have said they are not training their agents to use airline ancillary products to upsell to passengers. GDS providers and agents counter that ancillaries do not attract commissions from airlines.

The disagreement between airlines and GDS providers came to a head in June 2015 when the Lufthansa Group, fed up with fee increased and complacency, began imposing an additional charge of 16 Euros if a booking was made through a GDS rather than a Lufthansa system. The airline said the costs for third party systems were several times higher than their own. Several other airlines, including Air France–KLM and Emirates, said they would follow Lufthansa's example.

Naturally, airlines embraced IATA's open and ready-to-use NDC approach, but IATA realised it had to include the GDSs if NDC was to work. Said IATA director-general and CEO, Tony Tyler, earlier this year: "We had to rethink and take stock of where we were, particularly about bringing partners on board like the GDS. It wasn't going to work if we didn't have them [the GDSs] with us. That was a big step forward when we got them on board."

"While it's true that NDC had a bumpy start in terms of industry acceptance, as the benefits of adopting a single data transmission standard become clearer, major players have climbed on board" said IATA's NDC director, Yanik Hoyles.

"It is important to note that GDSs are already working towards making it possible for airlines to merchandize their products via travel agents in a manner more consistent with airlines' own websites. However, each GDS has been working on its own proprietary solution."

"Sabre's GDS business is in discussions with several airlines regarding NDC based solutions to support their ancillary and merchandising strategies. abre's Airline Solutions business has developed our Dynamic Retailer solution which supports customer centric retailing utilizing both traditional and NDC connectivity standards," Sabre's director transportation product solutions, Kathy Morgan, told Orient Aviation. The Texas-headquartered GDS provider will utilize NDC, along with other technology standards such as ATPCO OC, IATA EMD, and IATA EDIFACT.

So why are the GDSs this protectionist? They see significant danger in lost revenues, because in a fully-realized NDC environment, the airline creates the offer, rather than the GDS, and also can manage functions such as ticket issuance and payment authorization , functions currently performed outside the airline.

After learning what IATA's NDC can do for them, most airlines are urging the GDS providers and agents adopt the NDC, but questions remain about how the providers would earn fees if they moved to the NDC.

Creating new interfaces and training agents carry a significant cost, which is another big ticket item the GDSs want cleared. "IATA's role is to work with industry to develop technical standards. However, it is up to the marketplace to decide when and how to implement the standard and how the costs associated with implementation are allocated," said Hoyles.

More than 15 airlines are using all or part of the NDC standard and among the top 25 airline groups, 20 are operating with it or have plans to do so. Recent high-profile announcements have included Emirates Airline launching its NDC portal and British Airways increasing the capability of its NDC API (application programming interface). "Supporting this activity is rising, participation from IT suppliers, with over 20 providers including the three global distribution systems are building solutions around NDC," IATA's Hoyles said.

In the Asia-Pacific, the Chinese carriers represent the largest group of NDC early adopters. Air China, in cooperation with TravelSky, which is China's state-owned answer to travel information technology, piloted the NDC end-to-end technology to validate the successful sale of international air tickets and prepaid baggage ancillary services with two agents, Ctrip and China Air Service.

"The cost of each GDS transaction remains very low compared with other industries. It remains the most efficient, neutral and cost-effective distribution channel to reach travel agencies, not just for seats, but for effective retailing, because of superior reach"

Hazem Hussein
Amadeus Asia Pacific executive vice president airline commercial

Air China subsidiary, Shandong Airlines, and China Southern Airlines have launched similar schemes. In 2014, Hainan Airlines partnered with CTBA and Ctrip in a pilot program of ancillary add ons to determine if they supported the distribution of their domestic air products through local travel agencies ('Skydreamer' pilot). Last year, Hainan expanded this initiative to include NDC Order Management to simulate an end-to-end transaction and to test the capability to distribute more rich content to the CTBA travel portal.

The three major Australasian carriers - Air New Zealand (Air NZ), Qantas Airways and Virgin Australia – embraced NDC early on. In cooperation with a U.S. consolidator and with the support of IT provider JR Technologies, Air NZ piloted NDC Shopping to finally distribute its "SkyCouch" and "Deluxe" products in a third-party environment.

Qantas is piloting NDC Shopping for its Chauffeur Drive product in a third party channel environment and Virgin Australia used NDC Baseline as early as 2012 to support its transition from a low-cost airline to a full service carrier.

So what does the future hold? "By 2017, traditional GDS bookings will account for just 7% of worldwide airline reservation volume, down from about 50% to 60% today," said Atmosphere Research Group co-founder, Henry Harteveldt, in a report commissioned by IATA.

However, the accuracy of this forecast is questionable, particularly considering that the two largest future aviation markets – China and India – are only just waking up to their potential and will undergo the traditional cycle of maturity that includes GDSs and travel agents.

It also will be more difficult to eliminate third parties from the booking process as far as the corporate travel business is concerned as carriers would likely have to spend the same amount of money on their own and other third-party distribution systems to retain these customers.

True personalization in shopping and selling requires significant hardware, lots of software and expensive, that are not in place at most airlines now.

Nevertheless, IATA's Hoyles believed that in 2017 and 2018, "we will continue to see confirmation of NDC becoming main stream as more airlines adopt the standard. This will then set the ground for mass adoption", he said.

If there is one point on which all stakeholders agree, it is that innovation is the only way forward. But not all roads lead to Rome, or the NDC, GDS providers say. IATA's Tyler appears to agree: "We have set up standards for the development of distribution through the indirect channel and other ways which will now presumably carry on until someone else betters it," he said, and added "smaller businesses are coming on board as well as putting the building blocks in place for airlines to change the way they merchandise. So that snowball is well and truly rolling down the hill and getting bigger every day. I am pleased about that."

IATA held its first IATA NDC "hackathon" last October when almost 100 developers were given the opportunity to develop travel apps using the NDC standard. At press time, IATA planned a second hackathon in Berlin focused on solutions and apps in the area of business travel," said Hoyles.

"From Sabre's perspective, we aren't waiting on IATA's NDC to deliver merchandising solutions to airlines. Sabre has been enabling airlines to sell their products in new and different ways through both direct and indirect channels for many years and would continue to utilize emerging technologies in a way that benefits all constituents in the travel ecosystem," she said.

"While important, we recognise that NDC-XML is just one standard among many key elements involved in delivering an enriched passenger experience, as it is only a small part of the merchandising effort underway in the industry," said Amadeus' Hussein. "With the global travel industry, and the way in which consumers experience it changing so rapidly, continuous technological evolution is a minimum requirement, just as it has happened in many other industries."

Amadeus said its vision is to develop a truly open, intelligent, dynamic and customer-centric global travel ecosystem underpinned by three key elements: development and roll out of a new Global Merchandising System (GMS) to enable airlines to create their offering dynamically; evolve its retailing and distribution systems into more efficient processes for airline content delivery and full integration of both the new GMS and its retailing and distribution systems with the Amadeus's Altéa PSS Suite.

Similar to IATA's hackathons, the Madrid-headquartered GDS last November launched the Amadeus Next startup initiative, aimed at evolving original ideas in travel. It already has eleven travel technology startups on-board: TripHobo, Klook, Crayon Data, Orahi, Triposo, TopDocs, TripVerse, StayAngel, TraveLibro, PredictHQ and Dozo! Amadeus says it is investing more than 1.8 million Euro in R&D every day.

While these innovation drives will benefit the end customer, they appear just slightly at odds with IATA's aim to create a consistent environment where airlines will be able to distribute the entirety of their product portfolio, including ancillaries, in a uniform manner across all channels both directly and indirectly using rich format.

Then again, IATA is aware NDC is not a perfect solution. "NDC will never finish. We have set up standards for the development of distribution through the indirect channel and other ways which will now presumably carry on until someone else betters it," said IATA's Tyler. ■

"While it is true that NDC had a bumpy star in terms of industry acceptance, as the benefits of adopting a single data transmission standard becomes clearer, major players have climbed on board"

Yanik Hoyles
IATA NDC director