

I'm in charge, says new THAI boss

For years Thai Airways International has been dogged by claims of cronyism, corruption and political meddling. New president and chief executive, Piyasvasti Amranand, is acting to eradicate the problems, but first he had to protect himself against government interference

By Tom Ballantyne
in Bangkok



Thailand's former Minister of Energy, Piyasvasti Amranand, was guarded last year when he was offered the job as boss of troubled Thai Airways International. He spent long hours talking to airline staff and former THAI presidents, including his immediate predecessor, Captain Apinan Sumanaseni.

The best advice, according to Piyasvasti, came from ex-president, Kanok Abhiradee, who was asked to step aside in 2005. His advice: ensure you have a good lawyer and negotiate a cast-iron contract that puts you beyond the whims and fancies of political masters.

Piyasvasti took note and spent three months negotiating his contract before officially taking over last October.

"In the last five years we have seen major intervention by the board of directors at Thai Airways, who were, in effect, managing the company. So much so that the airline's management stopped managing, which lead to a decline in the work of the company," he said.

Before accepting the top job Piyasvasti wanted to ensure he had firm control of the company.

He didn't get all the guarantees he wanted, but believes he has enough to put him in a far better position to do the job than his predecessors.

Previous presidents had been tied to a "model" contract drawn up by the airline's owners, the Finance Ministry. That contract, according to the new president, was "so one-sided".

"They were afraid they could hire a chief executive who turned out to be incompetent and they would not be able to get rid of him. This resulted in many CEOs being fired after a few months. This was how politicians treated CEOs of state enterprises," said the former government minister.

So he was adamant. If the government wanted him to make changes at THAI he needed the flexibility and the freedom to act to achieve the stated goals.

"It would be very unreasonable for them to be evaluating my performance after six months because I would be doing a lot of things a lot of people would not like. If my term was not secure there was no way I would be able to make these changes. That's why I had to negotiate my terms of employment," said Piyasvasti.

His performance will now be evaluated after one year, much of it on Key Performance Indicators (KPI) such as financial results. Only 20% of the evaluation will be weighted on his perceived ability to manage the company and that will now be done by an independent consultant.

It should give Piyasvasti the breathing space he needs to turn THAI into "a five star airline within 2010 and one of the top airlines in Asia and the world within three years".

THAI appears to be recovering from the shock of a US\$646.3 million net loss in 2008, its first loss in 43



A monk blesses a newly delivered aircraft at THAI, but the carrier still needs more planes

years. Much of it was the result of fuel hedging. Last year, with the global recession biting deep and worldwide air traffic plunging, the situation was expected to worsen.

But there was a surprise in store for analysts as well as THAI. The net loss of \$47.4 million in the first nine months was considerably better than the \$199.6 million loss recorded in the same period of 2008.

Then, in September, THAI's passenger and cargo traffic began improving and, importantly, yields improved in the last quarter along with profitability. "We were surprised. We had been hoping to make a small profit for 2009, but low yields made us very cautious. Now, the preliminary result is in and it confirms we did make a profit this year."

Piyasvasti won't release a figure - it is expected to be announced this month - but did say it was higher than expected. "That is why we are confident the operation will be in line with our business plan in 2010 and we will make a profit of around \$130 million," he said.

The target is to increase annual revenues to \$5.8 billion in 2010, a 20.7% increase over 2009's expected \$4.6 billion.

The prospect of a turnaround in fortunes in a year when THAI celebrates its 50th anniversary, should drive him in his quest to polish the THAI image. This will mean rooting out problem areas and intensifying efforts to trim costs. This will include eradicating improper practices within the airline, something he has already addressed by introducing a "whistleblowers" programme to allow staff to draw attention to problems.

It has taken less than four months since the new president arrived for a recovery plan to be approved. This will include improvements to THAI's inflight product - primarily seats and inflight entertainment - and service standards, which Piyasvasti has identified as a real problem.

"Product quality [improvement] will take time, maybe two years. We plan to

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President & Chief Executive
Thai Airways International

retrofit seats in 12 B747s and eight B777s," said the president.

"The yield is improving, but if that is to be sustained we need to improve service quality very quickly. There are many areas where that could be done without much investment. For example, meals, on board services, internet access, ticket purchasing and so on.

"These are the areas we are looking at and implementing changes as quickly as possible because they can be done easily. That will help us to prop up the yield."

A fleet upgrade and network rationalisation are high on the agenda. THAI operates 89 aircraft, which carry almost 19 million passengers a year to 74 international and domestic destinations.

Piyasvasti believes the airline's five-year fleet planning period has been too short-term. "A lot of things have been slipping and one of the reasons is that we do not plan far enough into the future. You cannot plan long-term for new generation aircraft in five years. That's why we have lagged behind other carriers in the procurement of these aircraft. We are now working on an aircraft

THAI former executive chairman, Wallop Bhukkanasut: fell foul of the whistleblowers scheme and resigned

procurement plan that will cover 10 to 15 years," he said.

Already on order are six A380s – three will arrive in 2012 and another three in 2013. Five A330s will join three added to the fleet during this year.

THAI is looking to acquire 15 more aircraft – A330s or B777s – for delivery through to 2015. It plans for an additional 30 to arrive between 2015 and 2019. Longer term, THAI will be evaluating purchasing either B787s or A350s.

A share issue this year will strengthen the airline's buying potential. But just when these orders will materialize has yet to be determined. "Unfortunately, Thai Airways is a state enterprise so the approval process doesn't end at the THAI board. It has to go to the transport ministry and then on to Cabinet. The procurement process probably takes a lot longer than in many other airlines," said Piyasvasti.

Piyasvasti said that not only is THAI short of aircraft, but the situation has been worsened by its own maintenance department, which has had trouble keeping up with work demands. At one stage last year more than 20 aircraft, nearly a quarter of the fleet, were undergoing maintenance.

The situation has improved, but needs to get better. "I worry about these internal problems more than external factors such as the world economic recession. We are looking at the reasons why there are delays in maintenance and there has to be an improvement to make sure they are in line with the plan," he said.

Lack of capacity is impacting on network planning. Piyasvasti said THAI is flying to too many destinations. "We have many more destinations than Singapore Airlines and less planes," he said.

"There are destinations where ticket revenue doesn't even cover costs. What is the point of flying to those destinations?"

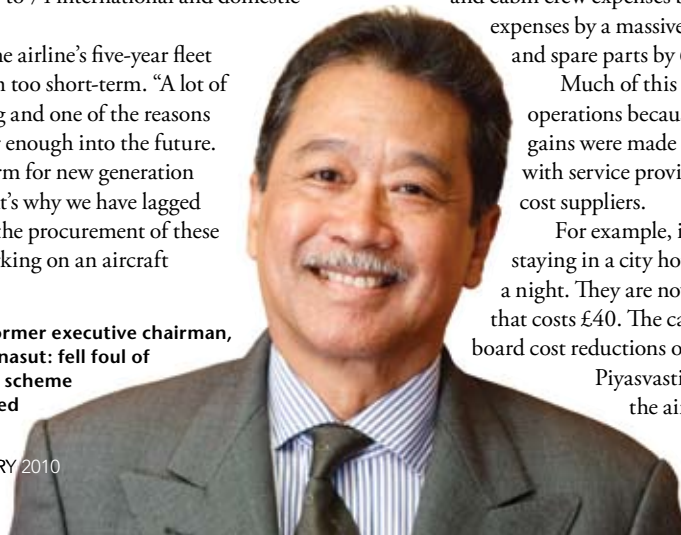
Among problem flights are Bangkok-Kuwait and Bangkok-Pusan, as well as some Indian destinations. Even in China, generally regarded as a market with huge opportunities, he said competition is fierce and yield is low. "There are a number of routes where we are examining the economics very carefully," said Piyasvasti.

Major cost-cutting gains have already been made. In the first nine months of last year, THAI trimmed its non-fuel expenses by \$103 million. It cut overtime by 47.7%, pilot and cabin crew expenses by 26%, flight operational expenses by a massive 67% and rental of aircraft and spare parts by 63.9%.

Much of this was a result of downsizing operations because of the recession but big gains were made by renegotiating contracts with service providers or changing to lower cost suppliers.

For example, in London, cabin crew were staying in a city hotel that cost £80 (US\$129.6) a night. They are now at a Heathrow airport hotel that costs £40. The carrier is targeting across the board cost reductions of \$356.4 million this year.

Piyasvasti believes that financially the airline is in a relatively good





position. "This time last year we had enormous liquidity problems," he said. "A lot of debt was due last year and the company was making losses. Cash was being drained out of the company. The board alleviated the problem by obtaining 35 billion baht (US\$1 billion) of loans from commercial banks in Thailand.

"That together with the improvement in the financial situation of the company has more or less alleviated the short-term liquidity problem. Now we have enough cash to run the company."

But another \$875.8 million of debt will be due this year. "If the situation continues to improve we are probably alright. But it will be risky because the debt-equity ratio is still more than three to one. We need to increase the capital," said the president.

THAI's existing debt has to be paid back over five to seven years. Piyasvasti wants it restructured with maturity between seven and 10 years. Capital has to be increased by a substantial amount, he said, so the debt equity ratio is reduced to a more reasonable level of around two to one.

The finance ministry has verbally agreed to buy half of a new share issue with the remainder going to local investors. The issue will take place sometime this year. No details of the target have been disclosed, but local analysts have suggested THAI may issue around 800 million new shares to raise about \$600 million. The carrier has debts of \$4.8 billion.

One bothersome issue THAI has faced in recent years is its fractious relationship with low-cost affiliate Nok Air. That now appears to have been resolved.

Nok has incurred the wrath of THAI by competing directly with the carrier on some of its routes. But by the end of this month THAI's stake in Nok will be increased from 39% to 49% and, said Piyasvasti, there will be a much clearer framework on how they will work together. "Nok Air will become our LCC. There has to be very close co-ordination between the two airlines on route and schedule planning," he said.

This year the two will co-operate closely on domestic routes. THAI has already earmarked three of its local services, which have been losing the airline \$6.3 million annually, to be handed to Nok.

The plan is that Nok will take over domestic services that don't feed international connections. THAI will retain domestic routes such as Bangkok to Phuket which are important for international feed. By 2011, it is hoped Nok will be ready to handle some regional routes.

One of THAI's problems in the past, said Piyasvasti, was that the carrier tried to compete on price with fast-growing LCC rivals such as AirAsia. He wants Nok to focus on capturing the lower end market while THAI concentrates on the

Nok Air: THAI to increase its stake to 49%



Thai Airways: at one stage last year 20 aircraft were undergoing maintenance

higher yield market.

Piyasvasti is keen to change a public perception that THAI is a troubled airline. "The general public's impression is that this company is full of corruption and nepotism and the decline in the business has been largely due to staff incompetence," he said.

"What I found was the opposite. There are a lot of people who are very capable and most of the people here love Thai Airways and would like to see changes."

THAI management had not been able to operate efficiently because there had been too much interference in the airline by the board and people "outside", he added. "That's why when Thai Airways was confronted by the economic financial crisis the company immediately went into a loss. The problems outside were exacerbated by the internal weakness of the company."

"The board was involved in almost everything. Major decisions, which would normally be left to management, were being taken by the board. Minor details and minor decisions were made by the board. That's why before I came here I had to negotiate for an acceptable work environment and sufficient authority so that I could manage the company efficiently.

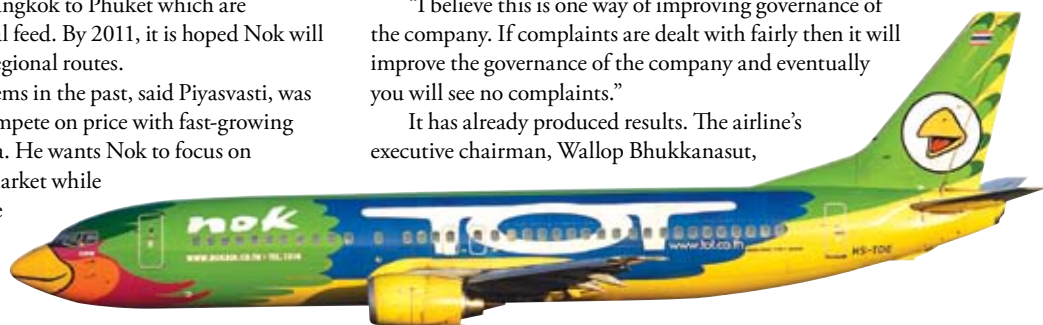
"That was why I demanded that I be given more authority on the appointment of key staff and on procurement, otherwise you spend all your time submitting everything to the board for approval."

His whistleblowers scheme is an effort by Piyasvasti to tighten up the company. He said THAI had always been a company "full of leaflets", unofficial memos about such things as nepotism, misdeeds and corruption which constantly circulate among the carrier's 26,000 staff.

"If you did something wrong you could be 99% sure that someone would find out and would bring this up, but it was all unofficial. Those complaints and leaflets provide enormously valuable information, but if you want to crack down on corruption, nepotism and other abuse of privileges there has to be a proper system where you take care of these complaints. In the past there has not been a proper system," said the president.

"I believe this is one way of improving governance of the company. If complaints are dealt with fairly then it will improve the governance of the company and eventually you will see no complaints."

It has already produced results. The airline's executive chairman, Wallop Bhukkanasut,





resigned in January after becoming embroiled in a scandal involving excess baggage on a THAI flight from Japan last November.

He took 30 pieces of baggage, totalling 398kg aboard, but only 170kg was declared. Wallop has said he did not intend to tarnish THAI's reputation and denied any of the excess baggage was for his own commercial use.

THAI chairman, Ampon Kitti-ampon, said Wallop's resignation had set a new standard at THAI. Piyasvasti agrees and said the Wallop incident "was investigated in line with the whistleblower policy regulation".

"We are now entering a period where we will have a much higher level of governance within the company. An example has been set and that sets new standards for everyone within the company."

Flying the 'green' flag

Thai Airways International (THAI) president and chief executive, Piyasvasti Amranand, loves a spot of gardening. But it is not only his hobby that makes him a truly 'green' leader. The 56-year-old former Thai Minister of Energy is deeply committed to environmental issues.

He is chairman of the country's Energy for Environment Foundation and a member of several other 'green' foundations.

And his interest hasn't taken long to surface at THAI. Piyasvasti said the airline was ready to comply with new European regulations on aircraft emissions. The new emissions trading scheme will see carriers pay for carbon from 2012.

"We will be able to alleviate emission of greenhouse gases for Europe flights through better management and new aircraft, but the number of flights will increase so we will eventually have to probably buy 700,000 tonnes of credits," said Piyasvasti.

"If we have to buy the credits we would prefer to buy them from projects within Thailand. That is what we are looking at."

THAI is also in the process of implementing two new environmental programmes. One will allow passengers to select "environmentally friendly" meals. The airline has begun providing information on the carbon footprint of the six signature Thai dishes it serves.

"Passengers will be able to see how much carbon is being emitted from a meal of chicken curry or whatever ... from the raising of chickens to the growing of rice, up to the point where the meal is served," said the president.

THAI will also introduce a carbon offset programme, probably during the second quarter of this year, allowing passengers to offset carbon emissions from their flights. But unlike most other programmes introduced by many airlines, flyers will be able to select the projects their money should support.

But how does he feel about his own position, as a former politician, now running an airline previously plagued by political interference? "I don't consider myself a politician and while I was energy minister I did not interfere in the operations of the companies under the energy ministry," he said.

"I allowed them to work freely under proper rules and regulations. But most politicians in Thailand would prefer it the other way round. I do not want to see politicians interfering in the operation of Thai Airways."

Many in Thailand are sceptical about Piyasvasti's chances of completely avoiding political interference in the airline. However, there is little doubt that thanks to his tough negotiating stance before he accepted the job, his prospects of success are brighter than many of his predecessors. ■

"We are preparing a portfolio of projects and we prefer those to be in Thailand. Our problem at the moment is that there are only two projects in Thailand which have received permission to sell carbon credits, but there are many more projects in the pipeline which, hopefully, will be able to sell carbon credits soon," said the president.

While energy minister from October 2006 to February 2008 Piyasvasti implemented an aggressive policy to promote renewable energy, including biofuels, led the adoption of a number of standards and incentive programmes for energy efficiency and established a nuclear power programme with a target for 4,000mw of nuclear capacity for Thailand by 2020-21.

He also served on the boards of, amongst others, Bangkok Aviation Fuel Services, Thai Petroleum Pipeline, the Electricity Generating Authority of Thailand, the Metropolitan Rapid Transit Authority and the Monetary Policy Board.

Piyasvasti joined government in 1994 as secretary general of the National Energy Policy Council in the Office of the Prime Minister.

Married with two children, he holds a first class honours degree in mathematics from Brasenose College, Oxford University, as well as degrees in economics and econometrics and mathematical economics from the London School of Economics. ■

**THAI president and CEO,
Piyasvasti Amranand:
his 'green' credentials
not confined to
the garden**

