Orient aviation
Vol. 19 No. 10
December 2012-January 2013
orientaviation.com

ORIENT AVIATION PERSON OF THE YEAR 2012
John Borghetti
Chief Executive
Virgin Australia

BACK TO HAUNT QANTAS

LIFETIME ACHIEVEMENT AWARD
Rob Fyfe,
Chief Executive,
Air New Zealand

AAPA Assembly of Presidents:
Asia ‘changing the aviation landscape’

Europe backs
down on ETS

2012 in Review:
Stars among the gloom

PUBLISHED BY

WILSON PRESS HK LTD
GPO Box 11435 Hong Kong
Tel: Editorial (852) 2865 1013
Fax: Editorial (852) 2865 3966
E-mail: orientav@netvigator.com
Website: www.orientaviation.com

Chief Executive
Barry Grindrod
E-mail: orientav@netvigator.com

Publisher
Christine McGee
E-mail: cmcgee@netvigator.com

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

Special Correspondents
China
Bill Savadove
Tel: (86) 138 1818 2162
E-mail: bsavadove@gmail.com

Japan & Korea
Geoffrey Tudor
Tel: (813) 3373 8368
E-mail: njgtudor@nifty.com

India
R. Thomas
Tel: (852) 2865 1013
E-mail: orientav@netvigator.com

Photographers
Rob Finlayson, Colin Parker,
Graham Uden

Design & Production
Chan Ping Kwan

Printing
Printing Station(2008)

ADVERTISING

South East Asia and Pacific
Tan Kay Hui
Tel: (65) 9790 6090
E-mail: tankayhui@tankayhuimedia.com

The Americas / Canada
Barnes Media Associates
Ray Barnes
Tel: (1 434) 927 5122
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: rem-media@sfr.fr

ASSOCIATION OF ASIA PACIFIC AIRLINES SECRETARIAT

Suite 9.01, 9/F,
Kompleks Antarabangsa,
Jalan Sultan Ismail,
50250 Kuala Lumpur,
Malaysia.
Tel: (603) 2145 5600
Fax: (603) 2145 2500
E-mail: info@aapa.org.my

Director General
Andrew Herdman

Commercial Director
Beatrice Lim

Technical Director
Martin Eran-Tasker

CONTENTS

Volume **19**, Issue **10**

COVER STORY

COMMENT

NEWS

56th AAPA ASSEMBLY OF PRESIDENTS

2012 IN REVIEW

ICAO needs to move quickly on ETS

There has not been a lot of it around of late, but Asia-Pacific airlines head towards 2013 with a welcome piece of good news.

Next April, when European governments were scheduled to send out bills to carriers for their emissions on flights to and from European destinations, airline accounts departments won't be receiving any demands for settlement.

The European Commission (EC), apparently pleased with International Civil Aviation Organization (ICAO) progress on a global emissions trading scheme (ETS) for aviation, has finally seen the light. It has frozen its ETS for 12 months.

On the one hand, Europe should be congratulated for bringing this environmental issue to the fore. On the other, there was no reason why it should have been so stubborn for such a long time. In the process, it caused prolonged angst amongst its trading partners, including economic powerhouses China, the U.S., Russia, India and beyond.

Given the horrendous state of European economies one would have thought Europe would have wanted to avoid even the slightest risk of a trade war with the rest of the world.

Also, it should be recognized that this is not an elimination of the European ETS in favour of a global ETS. Europe has simply "stopped the clock" on its scheme for a year.

It is now imperative that ICAO and its 191 member states ensure there is real progress on the final shape of a global scheme by the time they meet at their Assembly in September next year.

Airlines have enough to worry about without a return to a damaging Europe versus the rest of the world dispute. Asia-Pacific carriers and their global counterparts continue to absorb persistently high fuel costs. Economic conditions in the U.S. and Europe continue to lag behind predictions of recovery.

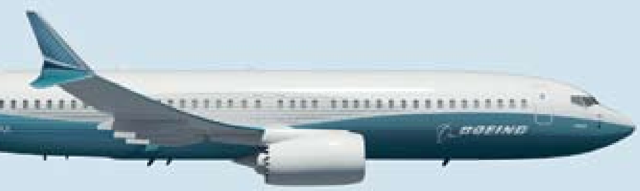
Slowing growth in China has caused concern worldwide although the slide back from double-digit Gross Domestic Product (GDP) expansion to around 7.5% still leaves it well ahead of growth elsewhere.

In the latter part of this year passenger traffic growth has slowed and cargo volumes, critical to Asia-Pacific airlines who carry 40% of global air freight, remain in the doldrums.

These are concerns but, overall, the future of aviation in this region remains bright. Carriers only need to turn the promise into sustainable and acceptable profits. Let's hope 2013 doesn't bring another unexpected shock and that more profitable times are ahead. ■

TOM BALLANTYNE
Chief Correspondent

LAG



A derivative of a 1960's design (even if it has been amended from time to time), it's no wonder the 737 MAX is suffering from jet lag.

The 737 MAX will probably be the last non fly-by-wire commercial aircraft the industry will ever see. An aircraft family unto itself with low commonality with other Boeing products.

It has a narrow fuselage which offers comfort based on a 1960's standard, pivoting passenger doors, 17 inch seat width and no wide-aisle option, required for today's fast turn-around times.

It also has no containerised cargo, small cumbersome inward opening doors, and constrained engine optimisation possibilities due to its 1960's undercarriage design. You don't even get a choice of engines.

By the time the 737 MAX is expected to arrive in 2017, it will be the 50th anniversary of the 737 first flight.

The 737 MAX. Based on a 1960's design. A true case of jet lag!

No let up on fleet orders, deliveries

November was a very good month for **Airbus** in the region as several customers ordered or took delivery of the manufacturer's A330s, A320s, A321s, its new engine option (neo) version, and an A319 assembled in China.

Up and coming Taiwanese carrier, **TransAsia Airways**, received its first A330-300, the initial step in its fleet renewal plan that includes a second A330-300, 12 A321neos, 6 A321-200s and 12 ATR-600s (including three options).

TransAsia chairman, **Vincent Lin**, said once both A330-300s were operating, the airline's international passenger market would increase by 40%. Since 2010, TransAsia has doubled its international network to 16 destinations. It intends to fly to New Zealand, Guam, Sydney and the Middle East using the new A330s.

Across the Taiwan Strait, Shanghai-based **China Eastern Airlines** has confirmed an order for 60 A320s, with deliveries scheduled from 2014 for two years.

Airbus parent company, **EADS**, has said the Toulouse-headquartered airplane maker was securing A320 customers following an increase in production to 42 A320s a month last October. The first of the more fuel efficient A320neos will begin arriving at customer airlines in 2015.

In November, orders and deliveries for Airbus aircraft included: **Etihad Airways**' two A330-200s and the conversion of a commitment for seven A320s to seven A321s; **EVA Air** accepted the first of its 12 new A321s, leased through the **Aviation Capital Group** in the U.S.; **Cebu Pacific** announced its fleet had grown to 41 aircraft following the delivery of its 23rd A320; **Maldivian Airlines** became a new A320 operator and **Tibet Airlines** took delivery of its first A319 assembled at the Airbus Tianjin Final Assembly Line.

Boeing also scored a big win when it secured the largest order in the history of **SilkAir**, a subsidiary of **Singapore Airlines**.

SilkAir CEO, **Leslie Thng**, announced his airline would convert a Letter of Intent for 23 B737-800s and 31 B737 MAX 8s to a final order valued at list prices at US$4.9 billion. In China and Central Asia respectively, Tianjin's **OK Airlines** agreed to buy three MA60s from **AVIC** subsidiary, **Xian Aircraft Corp**, and **Azerbaijin Airlines** ordered four new Embraer 190 jets and bought two pre-owned Embraer 170 jets through the manufacturer's leasing arm, **ECC Leasing**. ■

TransAsia chairman, Vincent Lin: his carrier's two new A330-300s will increase its international passenger market by 40%

KAL aims for aerospace top spot

***Korean Air (KAL)** launched its ambitious "Aerospace Vision 2020" plan last month with the goal of becoming Asia's top aerospace company.*

*Central to the target is the expansion of its aerospace business division (Tech Centre) in Busan, South Korea. KAL signed a Memorandum of Understanding (MoU) with the city last month to build a second Tech Centre near **Gimhae International Airport**.*

KAL hopes to transform aerospace into Busan's core industry, developing technology intensive small businesses in the city. Busan itself is planning to attract about 50 enterprises to what it calls its "cooperation community area".

As part of the Aerospace Vision 2020, KAL will focus on cutting-edge technologies. It aims to participate in the international joint development of civil aircraft, to become the number one maintenance, repair and overhaul (MRO) supplier in Asia and to position itself as the region's biggest exporter of unmanned aerial vehicles (UAVs).

A statement from the company said KAL's operating revenue would increase from 600 billion won (US$553 million) in 2012 to more than three trillion come 2020, by expanding the Tech Centre and increasing its support of partner companies.

The centre will be expanded from 710,000 sq. metres to 940,000 sq. metres. It will include state-of-the-art facilities, including an aircraft assembly plant, a composites manufacturing plant, an MRO centre, which will provide services for aircraft such as the A380 and B787, a centre for the international joint development of aircraft and an automatic logistics centre.

The composites plant will produce wings for B737s and structures for B787s and A320s as well as UAVs. ■

Korean Air: Big ambitions for its aerospace division

One more 'biggie' in me – Fernandes

AirAsia founder and serial entrepreneur, **Tony Fernandes**, has said he has the "energy for another biggie" to add to his successful stable of airlines "and maybe a few small ones".

Fernandes was speaking as AirAsia announced its third consecutive quarterly profit last month. However, said the *Bloomberg* news agency, he intended in the next three years to concentrate on his three major markets in Malaysia, Thailand and Indonesia. AirAsia also has interests in Japan and the Philippines.

The goal is to increase the annual profit of the three main hubs to one billion ringgit (US$316.25 million) each, said the group chief executive.

Fernandes said India, Taiwan, South Korea and Vietnam were other potential markets for a new hub. Laos, Cambodia and Myanmar were among the smaller options, he said.

The AirAsia boss expects to complete negotiations for 100 more A320s by the end of this month. The carrier has 112 A320s in service. It intends to take delivery of another 266 A320s by 2026.

The net income of the Kuala-Lumpur based carrier increased 3.6% to 157.8 million ringgit in the quarter to September 30. Revenue rose 15% to 1.24 billion ringgit.

Thai AirAsia posted a profit of 199 million baht (US$6.48 million) year-on-year, while its Indonesian counterpart recorded net income of 74.5 billion rupiah (US$7.75 million), said AirAsia. ■

SHORTTAKES

AIRPORTS: **Hong Kong's Airport Authority** reported a 13.1% (US$355.99 million) increase in interim profit, to September 30, over the same six months in 2011. The authority predicted moderate passenger and air traffic growth and said it was encouraged at recent improvements in air cargo movements.

AIR TRAFFIC MANAGEMENT: The **Civil Aviation Authority of Singapore (CAAS)** and the **Single European Sky ATM Research Joint Undertaking (SESAR JU)** signed a Memorandum of Cooperation to identify areas of common interest for overall improvements in air traffic management.

ALLIANCES: **Malaysia Airlines** has delayed its entry into full membership of the **oneworld** alliance until February next year "to avoid the end-of-year holiday season and for other administrative reasons". The newest member of the **SkyTeam** alliance is **Xiamen Airlines**, China's sixth largest carrier and one of the region's most profitable airlines.

CARGO: **Qatar Airways**, which had planned to increase its holding in Luxembourg-based **Cargolux Airlines**, is selling its 35% equity in the carrier following staff protests about possible job losses if Qatar increased its shareholding at the struggling cargo carrier.

CODE-SHARES: **Air Seychelles** and **Etihad Airways** will start a three-times-a week code-share from Hong Kong to the Seychelles via Abu Dhabi next February. Etihad owns 40% of Air Seychelles. **Japan Airlines (JAL)** and **Bangkok Airways** have commenced a code-share on selected JAL to Bangkok routes from Narita, Haneda and Osaka. JAL passengers will be able to connect with flights on Bangkok Airways to Mumbai, Koh Samui, Phuket and Chiang Mai.

ENGINES: **CFM International** continued filling its healthy order book in November when it announced the **Commercial Aircraft Corp of China (COMAC)**, the manufacturer of the new C919 mid-sized jet, had ordered 50 LEAP-1C engines to power the airliner. The 150-seat plus C919 is scheduled to enter service in 2016. CFMI orders and commitments for its LEAP engines reached US$52 billion following confirmation of the COMAC purchase agreement. **Hainan Airlines**, the fourth largest Mainland Chinese airline group, has chosen GEnx-18 engines to power the two latest B787s it has ordered, bringing the airline's fleet to 10 B787s when all the aircraft are delivered. Airline customers worldwide have ordered 1,300 GEnx engines, which has been designed to produce 15% less CO_2 than its big selling precursor, the CF6. **Mitsui & Co. Ltd** and **GE Aviation** have formed a strategic partnership to develop technologies for GE's next generation large commercial engines.

LEASING: **BOC Aviation** has signed agreements to lease six B737-800s and three B737-800ERs to Indonesian airline, **Lion Air**. The Singapore-based lessor also will lease two new A321s to **Etihad Airways** and one A320, manufactured in 2005, to **Bangkok Airways**. Chinese lessor, **ICBC**, has taken delivery of an A320, the first of 92 A320s and A320neos it has ordered. **Thai AirAsia** will operate the aircraft.

MRO: **Lufthansa Technik** and **CFM International** have signed a cooperation agreement to support CFM56 engines to jointly develop component repairs, overhaul technology and technology support for their MRO operations.

OEM: The manufacturer of China's regional ARJ21 jet, which had its maiden flight four years ago, will delay its first delivery to customers by up to two years because of "inexperience in certification in terms of methods and infrastructure". **Luo Ronghuai**, a vice president of the **Commercial Aircraft Corp. of China (COMAC)**, said six of the ARJs have accumulated 2,800 flight hours of ground and flight tests, but delivery to launch customer, **Chengdu Airlines**, had been delayed "due to the inability of some key parts to pass flight tests". COMAC has 252 orders for the ARJ.

ROUTES: **All Nippon Airways (ANA)** will launch its Tokyo Narita-San Jose service on January 13, using the newest addition to its fleet, the B787 Dreamliner, initially offering five flights a week on the route. ANA has also launched a new service between Tokyo and Delhi. It commenced flying to Mumbai from Tokyo in 2007.

TRAINING: The **European Aviation Safety Agency (EASA)** has announced that **ATR**'s new flight training centre at the **Seletar Aerospace Park** in Singapore has full accreditation to instruct trainees in a range of programmes from flight crew type-rating to recurrent training. ATR has more than 250 of its aircraft flying with Asia-Pacific airlines. **Hong Kong Poly University** has received an in-principal commitment of HK$160 million (US$20.65 million) to establish a research centre for aviation maintenance at the university. ■

ANA, Garuda beating the odds

Recession or no recession, **All Nippon Airways (ANA)** must be the envy of its peers following the publishing of its interim financial results to September 30.

Its operating revenue of 753.2 billion yen (US$926.45 million) and operating income of 75.3 billion yen was the airline's highest on record. Recurring profit of 63.4 billion yen was also a record. Net income for the six-month period was 36.9 billion yen.

However, operating revenue is expected to fall 30 billion yen below pre-financial year forecasts as a result of the impact of anti-Japanese demonstrations in China over territorial issues.

Resurgent **Japan Airlines (JAL)** also was in the black for the six months to September 30. Operating revenue, expenses and income for the six months rose 5.7%, compared with the same period last year, to 634.2 billion yen, 522 billion yen and 112.1 billion yen respectively. Net income increased 2.4% to 99.7 billion yen.

Like its rival ANA, JAL is expecting the anti-Japanese protests in China to hit its revenue for the full year. This is estimated at five billion yen, but this drop off will be offset by an expected increase in net income of 10 billion yen.

The **Singapore Airlines (SIA) Group** saw its profit fall 30% to S$168 million (US$136.58 million) for the six months to September 30 when compared to the same period last year.

This was mainly attributable to lower non-operating items as the airline benefitted from a higher surplus on the disposal of aircraft and spare engines last year, said an SIA statement. Group operating profit was up S$8 million, or 6% year-on-year, to S$142 million.

All Nippon Airways: record revenue and operating income

The airline recorded an operating profit of S$169 million for the six months compared with a $53 million profit in 2011; subsidiary carrier **SilkAir** posted a profit of S$37 million (S$34 million profit in 2011); **SIA Cargo** lost S$99 million (S$31 million loss in 2011); and **SIA Engineering** made a profit of S$66 million (S$69 million in 2011).

Garuda Indonesia is proving to be one of the Asia-Pacific's most buoyant airlines in these difficult economic times.

Its operating revenue in the third quarter was up 14.4% to US$2.39 billion, compared with the $2.08 billion earned in the same period last year. Operating income rose 140.4% to $92.75 million, while comprehensive income increased 108.2% to $60.8 million year-on-year.

Garuda saw passenger and cargo volumes increase significantly. Indeed, compared to a lacklustre global cargo industry, the carrier recorded an 18.7% rise in cargo during the third quarter compared to last year.

After six consecutive quarters of losses, **Malaysia Airlines (MAS)** posted a profit before tax of 39.10 million ringgit (US$12.82 million) for the third quarter ended Sept 30. This contrasted with a pre-tax loss of 461.54 million ringgit in the corresponding quarter in 2011. Revenue declined to 3.47 billion ringitt from 3.56 billion ringgit.

MAS has reached agreement with state-owned **Turus Pesawat** for financing of up to 5.31 billion ringgit (US$1.72 billion) to purchase six A380-800s, one A330-200 freighter and one A330-300. MAS took delivery of its third A380 last month.

China's top three carriers saw declines in their third quarter profits as a softening in air travel demand and foreign exchange losses hit their bottom lines.

Flag carrier, **Air China**'s profit declined 16% year-on-year to 3.17 billion yuan (US$508 million) from 3.8 billion yuan a year earlier. Air China's first half net profit declined 77%.

China Southern Airlines' third quarter profit dropped 29% to 2.22 billion yuan. **China Eastern Airlines** saw its third quarter profit fall 20% to 2.63 billion yuan, compared with 3.31 billion a year earlier.

India's major carriers are still swimming in red ink, but for two of their number the losses were cut in the second quarter.

Jet Airways reported a 16% increase in operating income to $783 million compared with the same period a year earlier. The improved performance, attributed to reduced capacity in the market and higher yields, led to a lower net loss of $19 million over $146 million year-on-year.

Meanwhile, **SpiceJet**, India's second largest low-cost carrier, reduced its second quarter losses by 32%. Net losses fell to $30 million compared to $48 million year-on-year.

The same could not be said for **Kingfisher Airlines**. Currently grounded and desperately looking for investors, its losses widened in the second quarter to around $150 million compared with a $93 million loss a year earlier. Its revenue fell to $40 million from $310 million in 2011 as many of its aircraft were returned to leasing companies.

* **Qantas Airways** unveiled a plan last month to repurchase A$100 million (US$104 million) of its shares and repay A$650 million in debt ahead of schedule. Its chief executive, **Alan Joyce**, has embarked on a five-year plan to restructure the airline, focussing on its loss-making international business. ■

EU backs down on ETS

Well, well, well, what a turn up for the books. During a panel discussion at the Association of Asia Pacific Airlines (AAPA) Assembly of Presidents in Kuala Lumpur in November, the European Commission's (EC) director of transport, Matthew Baldwin, hinted a compromise on the European Union's stance on its emissions trading scheme (ETS) may be on the cards.

Five days later it was official. The EC's commissioner for climate action, Connie Hedegaard, announced she had "stopped the clock" and suspended the inclusion of international aviation in the EU ETS after a "positive" International Civil Aviation Organisation (ICAO) council meeting. The industry will now focus on providing a global framework for aviation emissions through ICAO by the time of the organisation's next general assembly in September, 2013.

The AAPA's director general, Andrew Herdman, said the EU had "bowed to the inevitable". He added: "The implied threat of an automatic snapback in a year's time [after the ICAO assembly] means the EU will still be seen by some as negotiating with a gun on the table."

IATA director general, Tony Tyler, described the commission's move as a "pragmatic decision" while the China Air Transport Association's deputy secretary general, Gen. Chai Haibo, described it as a "sensible choice".

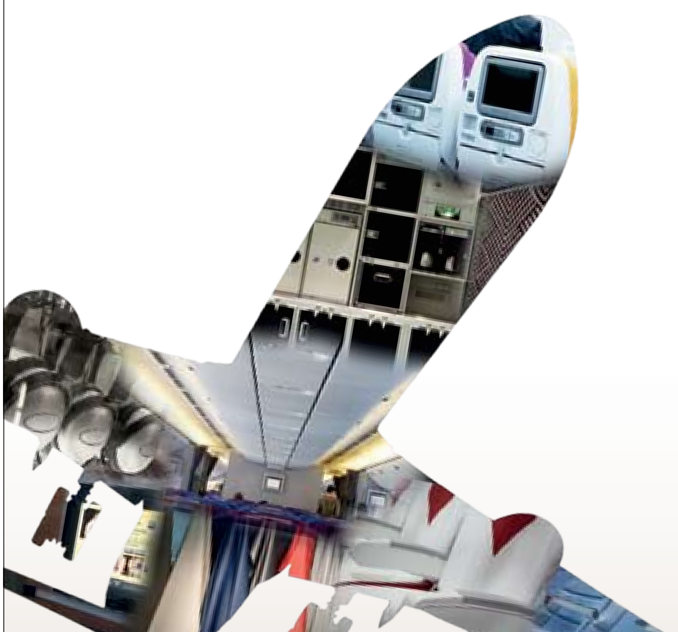
China's airlines had refused to take part in the EU ETS, but Gen. Chai said: "China will take an active part in ICAO's negotiations to address the aviation carbon emission issue."

It has been a tumultuous year for the EU ETS, which came into effect on January 1. Many of Europe's own carriers joined the rest of the world in speaking against it. The word compromise was first used earlier this year by the EU transport commissioner, Siim Kallas. And following early threats of reprisals to the ETS by China, Hedegaard suggested a global solution may be acceptable.

Eight of China's airlines, along with two Indian carriers, failed to submit carbon emission data by a March deadline set by the EU.

Last month, U.S. President, Barack Obama, signed into law legislation that enables the country's transportation secretary to forbid its airlines from participating in the EU's ETS should it be re-introduced.

Now it is up to ICAO to come up with the goods: an ETS that will satisfy the EU's Commission for Climate Action. ■



ORIENT AVIATION PERSON OF THE YEAR 2012

JOHN BORGHETTI

Chief Executive
Virgin Australia

Back to haunt Qantas

Virgin Australia chief executive, John Borghetti, has achieved what many people thought impossible. The former Qantas high flyer has turned a no-frills cum hybrid airline, formerly named Virgin Blue, into a high quality, full-service carrier with global reach. In recent weeks, Singapore Airlines has agreed to take a 10% share in Virgin and Virgin is to take a 60% share in Tiger Airways. There is much more to come, says Borghetti.

By Tom Ballantyne

Back in 2008, John Borghetti missed out on Qantas' Airways top job to his then colleague, Alan Joyce. But in a twist of fate Qantas' loss has turned out to be Virgin Australia's gain. The 56-year-old airline operations veteran has become one of the biggest bees in his former employer's bonnet.

Borghetti spent 36 years in a wide range of senior roles at Qantas before leaving in May 2008. A little over two years later, in March 2010, he was appointed chief executive of Virgin Australia.

"What we have achieved in the past two-and-a-half years will pale into insignificance compared with the next two and a half years," he said. Fighting words indeed.

Virgin chief Borghetti is a man of surprises and he has a few more up his sleeve. But he isn't telling just yet. No point in giving his competitors any advance notice, he said.

Those who doubt him need only look at his track record since he took the reins of the carrier. At the time, the former no-frills Virgin Blue had changed its spots. It had become a hybrid "New World" airline. It was struggling.

But in a remarkably short time, Borghetti morphed Virgin Australia into a high quality, full-service airline group that offers its passengers access to destinations around the world.

Urbane and street smart, he changed the brand. For starters he dumped "Blue" from the name. Previously operating offshore under a variety of names because an agreement with Singapore Airlines, 49% owners of Virgin Atlantic Airways, meant the Virgin brand couldn't be used internationally, he resolved the issue so that the various divisions could be consolidated.

He created his own virtual global alliance through bilateral deals with major offshore partners, Singapore Airlines (SIA), Etihad Airways, Delta Air Lines and Air New Zealand.

He drew up a five-year business plan that persuaded some of the partners to invest in Virgin without a seat on the board. In addition to major shareholder Sir Richard Branson's Virgin Group's 26%, Air New Zealand has 20% equity and Etihad 10%.

Last month, Borghetti surprised the industry again with another round of unexpected developments.

He announced:

* 10% of Virgin Australia will be sold to SIA for $105 million.
* Virgin will pay $35 million for a 60% share in budget carrier, Tiger Airways Australia, which is part-owned by SIA.
* it planned to spend another $99 million on a 100% takeover of major Australian regional airline, Skywest.

Borghetti announced at last month's annual general meeting that Virgin made a pre-tax profit of $85.8 million in the latest year ended June 30. A net profit of $22.8 million was a 134% increase over the previous 12 months. He expects an even better result this year once acquisition costs for the stake in Tiger and the take-over of Skywest are excluded.

Virgin also expects to exceed its 20% target of domestic revenue from the corporate and government markets, he said, as well as growing its Velocity frequent flyer scheme from 2.5 million members in 2010-11 to 3.2 million in 2012-13.

The airline is looking for $415 million in efficiencies and productivity gains in the next three years. Meanwhile, Virgin had a goal to boost Velocity membership to five million by the end of 2014-15.

Just how much has changed hit Borghetti on a Virgin Australia flight about six months ago. "I looked around and it occurred to me there was not one thing that was the same as when I joined," said Borghetti.

"It's just the beginning, not the end. If you look around the world at the airlines that find themselves in trouble today they are, typically, the airlines that stood still for a while.

"You will never see us standing still. You will always have the next big step coming."

The latest transactions are significant. They not only cement investment in its operations by major airlines, but Virgin re-enters the low-cost carrier (LCC) market, abandoned with the transformation of Virgin Blue. And it opens doors into new markets.

The Skywest deal still has to receive regulatory approval, but the regional carrier – it will be rebranded as Virgin Australia – is involved in the lucrative fly-in-fly-out, or FIFO, business, which ferries workers to and from mining operations in remote parts of Australia, mainly Western Australia and Queensland.

The strategy ramps up the pressure on Qantas, which still controls more than 60% of Australia's domestic market.

CITATION:

John Borghetti has relentlessly driven Virgin Australia forward, constantly upgrading its services and network. And while the operating climate remains volatile, with immense cost pressures and fierce competition, Borghetti guided the airline to a net profit of $22.8 million in its financial year ended June 30, a 134% increase over the previous 12 months.

Strong new shareholders, Singapore Airlines, Etihad Airways and Air New Zealand have arrived to give the carrier a firmer financial base of airline partners.

Borghetti has successfully introduced a new livery and morphed a multi-branded operation into what is now essentially a single, recognized full-service airline brand at home and abroad.

He has turned a medium-sized regional operator into an airline with global reach. This has been achieved through Virgin's own network expansion and, more importantly, through significant co-operative agreements with major international partners, Singapore Airlines, Delta Air Lines, Etihad Airways and Air New Zealand.

In effect, he has forged his own personal global airline alliance. And while rival Qantas still dominates Australia's skies, Borghetti has made serious inroads into his competitor's market, particularly in the corporate travel segment.

However, Borghetti is adamant it is not about market share.

"Our position on market share has not changed. We don't have any market share target. It is about earnings. It is about yield. It is about building a sustainable business that is active in every sector," said the Virgin boss.

"It's obvious we are a smaller player in this market than our competitor [Qantas], but we are growing in scale. I believe we are a more formidable group now."

> What we have achieved in the past two-and-a-half years is going to pale into insignificance compared with the next two and a half years
>
> **John Borghetti**

Borghetti is changing the competitive dynamic. As Virgin Australia abandoned budget flying and focused on capturing more corporate customers, it was competing with Qantas mainline and its budget subsidiary, Jetstar. Now, it can focus on vying with Qantas while Tiger grows and confronts Jetstar. If approved, the acquisition of Skywest will allow it to better compete against Qantas' domestic regional, Qantas Link.

Borghetti said Virgin is delivering on its strategy. "There is no question it is going to enhance competition in this country. It must. We are entering into markets where we are very small or not participating in at all," he said.

"We have seen the impact on fares when we entered into the corporate business market in the last year or so. We have seen the impact when we entered into some of the regional ports with our turboprop operations.

"In both cases airfares dropped anywhere between 20% and 30%. When we flew to the U.S. fares dropped 25%. It's good for consumers, but it is also very good for jobs because it stimulates demand and that means growth."

Borghetti said the arrival of SIA as a shareholder showed the confidence Virgin's partners have in its business plan and its future.

"It isn't just a lick of paint on an aircraft, it's the way we have positioned everything, including the international network. I'm not sure if I know of any other airline that's got four alliances to different parts of the world that have anti-trust immunity," he said.

Virgin Australia: one of the youngest fleets in the world

Creating a virtual global alliance through bilaterals had always been the plan. "I knew we couldn't join one of the existing alliances for the simple reason that, firstly, we couldn't afford it and, secondly, no matter who we joined we were always going to be the tail on the dog," said Borghetti.

"Can you imagine joining Star or Skyteam and you sit next to a guy at a meeting who's got over a thousand aeroplanes and a huge staff and you are just a small carrier. Every time you put your hand up they are going to say: sorry who are you again?

"The other issue is that you couldn't possibly get anti-trust immunity with all the carriers that mattered. Bilaterals are certainly the way to go and I question the longevity of some of the global alliances.

"We are tailoring our bilateral alliances to do precisely what is best for us. We are fortunate we have four of the best airlines in the world in their respective regions."

Some eyebrows were raised at the Tiger deal. The carrier was grounded last year by Australia's aviation regulator for safety issues, but it was recently cleared to return to full operations.

Borghetti is confident the episode is behind the no-frills operator. It will remain as Tiger Airways and will not be re-branded, operating as a stand-alone business.

"There will be co-ordination, but we have studied very carefully managing a two-brand strategy and one of the things we have learned is what not to do," he said.

"For example, we won't code Virgin Australia on Tiger or put the Tiger code on Virgin. We have to make a distinct separation in the marketing, the brand and the consumer expectation of what they are booking."

Borghetti said Tiger has "run a good business" despite its past issues. "In my view we can deliver many benefits to the joint venture in all aspects. The Tiger brand is very strong. Even in Australia, when you consider some of the issues it has had, the brand has been very resilient."

Virgin has committed to investing a further $62.5 million in Tiger Australia, increasing its fleet of 11 A320s to 35 aircraft by 2018.

Borghetti said he was trying to make Virgin Australia a stable, value-creating, non-cyclical exposed business. "Right from day one the biggest enemy of this business has been its earnings volatility," he said.

In the year Borghetti took over, Virgin made money in the first half and lost more than $100 million in the second half. Last year, it made $90 million in the first half and lost $15 million in the second half of the year.

While still a loss, it was a huge difference and clearly showed "the trajectory is heading in right way. Judge me in three years time, I know we can do it by the end of the fifth year", he said.

"Everything we do is aimed at avoiding volatility, to smooth it out and grow."

When Borghetti arrived at the airline, Virgin had 79 aircraft. It now has 106. With the new interest in Tiger and the proposed acquisition of Skywest its combined fleet will be 140 planes.

"If you look at deliveries, in two-and-a-half years our fleet will be close to 180 or 200 aircraft," he said. The carrier will grow incrementally, but cautiously, with most international network expansion taking place through its partners, he added.

"We don't need any more long-haul aircraft. Flying to Europe is not on the radar. We know our limitations and it's Australia, regional, the Asia-Pacific and the U.S. for us. You'll see us growing in medium-haul rather than long-haul."

The carrier has ordered 23 B737 MAX for single-aisle expansion. It will be undertaking evaluation of its twin-aisle requirements next year.

From 2017, Virgin will be looking at the B787 Dreamliner and the A350. It currently operates B777s and A330s. "We'll make a call by the end of the year," said Borghetti.

Virgin has one of the youngest fleets in the world, with an average age of 4.2 years.

Borghetti is reticent to engage in any verbal duels with Qantas, his former employer. He said of the recent alliance deal between Qantas and Emirates Airline: "We've analysed what this would mean for us if it gets approved [from the competition regulators] and we fail to see any negatives.

"There is an argument that we could see it as a small advantage. Obviously, I am not going to articulate that to everybody because it would elaborate on our strategy, but we certainly don't see it as a disadvantage."

Virgin is already competing with Emirates, which has more than 90 weekly flights into Australia. "Whether Qantas is attached to them or not, these flights are still there. Would an extra few flights by Qantas add much of an impact? No, not really. I'm not shaking in my boots," said Borghetti.

Just after starting at Virgin, Borghetti issued a profit downgrade. At an analysts briefing on strategy, he recalled, most of the analysts were rolling their eyes in disbelief.

"They were thinking what planet is this guy on. What? He's going to consolidate the airlines to one name. Doesn't he know you can't get the licence deal from SIA? He's going to have an international network without buying an aeroplane? What is he smoking?" said Borghetti.

"You could see it almost without exception. Everybody thought we were mad. Not only did we do what we said we were going to do, but we did it a year earlier than planned."

There are still a few analysts who doubt what Virgin Australia has set out to achieve in the next few years, said Borghetti. "One thing is sure. We are determined to prove them wrong," he added.

It is difficult to believe he won't succeed. ■

Tiger Airways Australia: Virgin has bought a 60% holding in the carrier

> **We don't have any market share target. It is about earnings. It is about yield. It is about building a sustainable business that is active in every sector**
>
> **John Borghetti**

Life in the fast lane

Like his love for motor sports and classic cars, Porsche driving John Borghetti has thrived on adrenalin. For his last six years at Qantas he was the carrier's executive general manager, responsible for more than $10 billion in annual revenue, up to 16,000 staff and assets including some 200 aircraft.

He headed domestic and international operations, including network operations, scheduling and pricing, sales and marketing, crew, customer service, product and brand. These responsibilities covered all full-service airlines in the Qantas Group, which in addition to Qantas mainline, also included Australia's regional carrier, QantasLink, and Qantas' New Zealand operation, Jetconnect. During his tenure as executive general manager, the company achieved its highest reported profit of more than $1.4 billion.

His other achievements at Qantas included the development of a number of subsidiary businesses such as the company's Holiday Travel operations in Australia and Asia, building its frequent flyer membership to more than five million and increasing Qantas' Australian corporate travel business.

He played a key role in formulating the company's two-brand strategy and the introduction of low-cost operator, Jetstar.

Married with two adult children, Borghetti is fluent in Italian. In addition to his interests in cars, he is passionate about Australian Rules football. ■

Man for all reasons

LIFETIME ACHIEVEMENT AWARD

Air New Zealand outgoing chief executive

ROB FYFE

During his seven years as CEO of Air New Zealand (Air NZ), Rob Fyfe has guided the Auckland-based carrier through one crisis after another: high fuel costs, the global financial meltdown, the loss of an aircraft and the impact of traumatic earthquakes. During his tenure the airline has punched above its weight and continued to make profits.

But beyond all this there is Rob Fyfe the man. The man who was on an aircraft bound for Christchurch within two hours of the 2011 earthquake. He, along with his emergency team, knocked on doors until they were sure all 1,900 Air NZ employees in the city were safe.

For those badly affected a support plan was put in place for as long as it was needed. Potentially years in some cases, said Fyfe.

The popular boss also headed for Tokyo following the Great East Japan earthquake, tsunami and nuclear disaster. "I thought it was important I was on the ground there to demonstrate that I was comfortable with my own safety and that of our team," he said.

Seven years ago, when the airline was in confrontation with its engineers, Fyfe spent all night in an aircraft hangar discussing the issues with staff. "I fronted up, we created a dialogue," he said. The dispute was settled.

And when it came to full body painting for an Air NZ ad campaign, the boss was centre stage, painted in ground handlers' "colours" with little more than paint protecting his modesty.

When Fyfe joined Air NZ in 2003 as chief information officer, the carrier was recovering from near bankruptcy and a taxpayer funded bail-out.

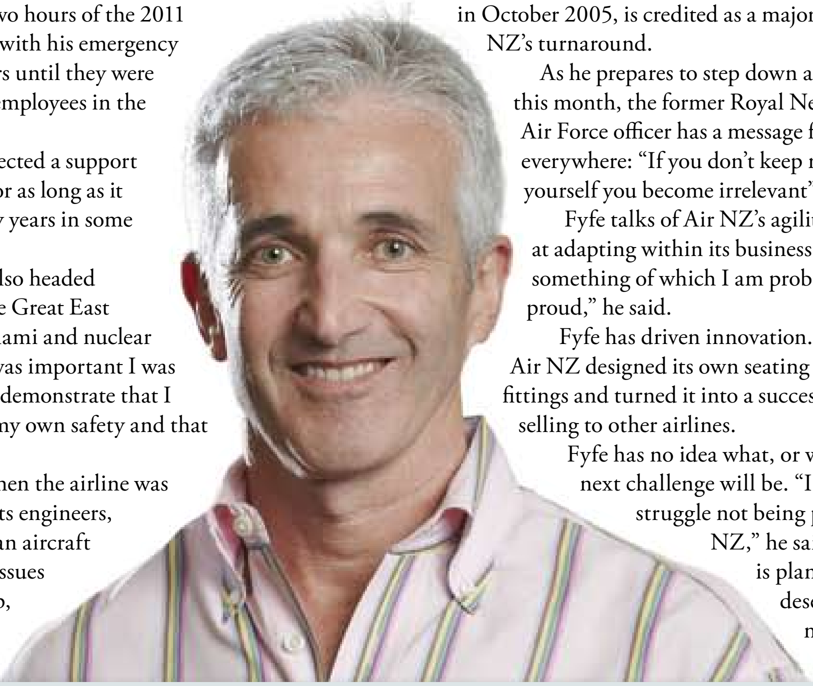
Nearly a decade later it is flying high. Fyfe, who headed the carrier's business transformation team before becoming chief executive in October 2005, is credited as a major player in Air NZ's turnaround.

As he prepares to step down at the end of this month, the former Royal New Zealand Air Force officer has a message for airlines everywhere: "If you don't keep re-inventing yourself you become irrelevant".

Fyfe talks of Air NZ's agility and speed at adapting within its business. "That is something of which I am probably most proud," he said.

Fyfe has driven innovation. For example, Air NZ designed its own seating and cabin fittings and turned it into a successful business selling to other airlines.

Fyfe has no idea what, or where, his next challenge will be. "I'm going to struggle not being part of Air NZ," he said. For now he is planning a well deserved three-month break. ■



CITATION

Since he took charge of Air New Zealand in October 2005, Rob Fyfe has guided the airline through one of the most difficult periods in aviation history.

Not only did the industry have to withstand the ongoing pressure of high oil prices, but the global financial crisis had a severe impact on the industry and its operations.

While Air New Zealand is a small carrier by international standards, Fyfe has made it an industry leader on several fronts. Outspoken on all issues affecting airlines, he has been a constant and admired contributor to debate on industry issues and is a member of the board of the International Air Transport Association and the most recent board chairman of the Star Alliance.

His time at the helm of Air New Zealand has been marked by his continued encouragement of innovation. These include biofuel test flights and aviation sustainability, a unique approach to marketing and advertising, such as the widely publicized body painting ads, to designing and manufacturing the airline's own cabin interiors, a product now much sought by other carriers that has turned into a lucrative business for Air New Zealand.

Fyfe has had other challenges to face. The tragic Christchurch earthquake struck at the heart of Air New Zealand in February, 2011, and this was closely followed by the devastating Japanese earthquake and tsunami in the following month.

This award recognizes Fyfe's strong business and leadership skills and his humanitarian and aviation sustainability work in his years with Air New Zealand.

Borghetti, Fyfe

1

2

Photos by DAVID McINTYRE

Virgin Australia chief executive, John Borghetti, became the 15th recipient of *Orient Aviation* Media Group's Person of the Year award this month. Outgoing Air New Zealand chief executive, Rob Fyfe, became only the second recipient of a Lifetime Achievement award since the awards first began in 1997.

Almost 100 people attended the Airbus-sponsored awards dinner at The Conrad in Hong Kong on December 3.

Rob Fyfe was unable to make the award's night but sent a video message and was presented with his award by *Orient Aviation* Media Group chief executive, Barry Grindrod, a few days earlier. ■

5

6

7

8

collect awards

3

4

9

10

11

1. Person of the Year, John Borghetti, with Airbus senior vice-president, Asia Pacific, Isabelle Floret, and Orient Aviation Media Group chief executive, Barry Grindrod.
2. Orient Aviation publisher and editor-in-chief, Christine McGee
3. Air New Zealand's outgoing CEO, Rob Fyfe, receives his Lifetime Achievement award from Orient Aviation chief executive, Barry Grindrod.
4. John Borghetti with Cathay Pacific Airways executives general manager purchasing & aircraft trading, Mike Scantlebury (left), and director engineering, Chris Gibbs.
5. Boeing senior director, sales, Chris Morgan, Fedex managing director brand & communications Asia-Pacific division, Laura Crampton (centre) and Nancy Morgan.
6. Swire Properties advisor, Kerry McGlynn, with HAECO head of corporate communications, Carolyn Leung.
7. Cebu Pacific Airways director Greater China region, Joe Kwok (right) and manager Bryant Ang.
8. AAPA technical director, Martin Eran-Tasker (left) with former Philippine Airlines president and Person of the Year 2007, Jaime Bautista and Josefina Bautista.
9. HAECO chief operating officer, Kenny Tang (left) with Hong Kong Express Airways CEO, Kalid Razack
10. Air New Zealand representatives and guests.
11. From left: Garuda Indonesia general manager Hong Kong & Taiwan, Riza Perdana Kusuma, Pacific Aviation Marketing (HK) Ltd managing director, Eddy Sat, Garuda finance manager, Hong Kong and Taiwan, Syathroni, and Pacific Aviation Marketing (HK) Ltd senior sales & marketing manager, passenger & cargo, Sandy Cheung

56th AAPA Assembly of Presidents

Asia changing aviation landscape

'AAPA determined to challenge government constraints with renewed vigour'

TOM BALLANTYNE reports

Asia-Pacific airline chiefs called on their governments to take a greater role in global aviation policy-making at the 56th Association of Asia Pacific Airlines (AAPA) Assembly of Presidents in Kuala Lumpur last month.

They also argued for an end to higher taxes on their operations. The leaders cited the region's growing share of global air traffic. They said that Asia's airlines were leading the way in changing the landscape of aviation with new business models, creative products and unprecedented partnerships.

AAPA director general, Andrew Herdman, said innovative ideas were helping Asian full service carriers survive the economic slump. They had seen them remain at the forefront of new global partnerships and multi-brand strategies.

As examples, Herdman quoted the launch of three low-cost carriers (LCCs) in Japan, a new Singapore Airlines (SIA) long-haul LCC, Scoot, and a new hybrid airline, Thai Smile, as well as the recent partnership agreements between Emirates and Qantas and Virgin Australia and Tiger Airways.

"Two thousand and twelve is proving to be a pivotal year for the global air transport industry, with enterprising carriers from the Asia-Pacific at the forefront of major developments," said Herdman.

"Ground-breaking deals that would have been unimaginable a year ago are rapidly turning previous rivals into long-term strategic partners. The new competitive landscape is providing consumers with a wide variety of new travel options and adding tremendous momentum to the rise of Asian carriers in the global industry."

But despite the bold initiatives being taken by carriers to change the old order, governments were still oblivious to the counter-productive impact of never-ending new legislation and taxation, he said.

"Asia-Pacific carriers are innovation leaders who are playing a major role in global industry developments, but they are still hampered by the straitjacket of over-reaching government policies, particularly from the United States and the European Union, impacting global aviation," said Herdman.

"With the shift of economic influence and commercial dynamism towards Asia continuing at an accelerating pace, the AAPA is determined to challenge these government constraints with renewed vigour," he said.

Shifting the balance of aviation regulatory power from west to east won't be easy. John Byerly, a former

> Asia-Pacific carriers ... are still hampered by the straitjacket of over-reaching government policies, particularly from the United States and European Union
>
> **Andrew Herdman**
> Director General
> AAPA

U.S. under-secretary of state for transportation and for years Washington's chief air rights negotiator, said the "mantle of innovation" is no longer in the North Atlantic, in Europe or the U.S., but had shifted to Asia, Latin America and the Middle East.

> I believe for each airline in each [Asian] country we have to see how we can help our governments to understand the issues
>
> **Goh Choon Phong**
> Chief Executive
> Singapore Airlines

"That's where new business models, cross border mergers and new ways of approaching customers are arising. It is exciting stuff," he said.

Speaking during an executive panel at the Assembly, Byerly said to be an effective voice in international aviation unity was needed.

"The U.S. and Europe can talk with one voice. I think the Asian governments need to look at ways to do that more effectively. I don't want to replace European and North American hegemony in aviation rule-making with Asian hegemony," he said.

"What we need is global consensus. Whether it's the environment or regulation we need a global set of solutions more today than ever before."

But Byerly said it had to be done through the International Civil Aviation Organization (ICAO). "IATA [International Air Transport Association] is doing a fantastic job in pushing standardization, but ICAO is the answer.

"ICAO is not an 'it', it's a 'we'. It's not bureaucrats. It's 191 countries. They have to be the ones who come together. ICAO can have a role in bringing more openness, making the rules and regulations and getting more international consensus.

"Asia can play an incredibly important role because it has become so important to aviation," he said.

SIA chief executive, Goh Choon Phong, agreed that unlike the U.S. and Europe, which had a cohesive approach to aviation policy, Asia was a lot more diverse.

"We have many different issues that each country must resolve. Therefore, there is less cohesion in getting everyone together, uniting their views and being able to push a common agenda," he said.

"But I believe for each airline in each country we have to see how we can help our governments to understand the issues and bring all this together so that we can truly become a united body to ensure that Asia has its rightful vote in the international agenda."

Another major topic of discussion was the growing tax burden on airlines. As Goh said: "It is more important to look for ways to bring more cost efficiencies to the industry rather than finding new ways of taxing it".

To reflect government attitudes towards airlines Herdman quoted former U.S. president. Ronald Reagan: "If it moves, tax it. If it keeps moving, regulate it. If it stops moving, subsidize it."

Cathay Pacific chief executive, John Slosar, also quoted Reagan with the words: "The nearest thing to immortality on the face of the earth is government tax, because once it is in place it tends to stay forever."

He said taxes were a huge danger to the industry in every aspect of the business. "Aviation must be the most taxed, regulated, dissected industry we have ever seen. It seems totally out of place within the context of how much aviation contributes to the world and regional economies and everything else," said Slosar.

"If it's not ETS, it's passenger bills of rights, it's ATC systems. It is new taxes right, left and centre. The challenge is for the AAPA to extend its own remit and do an even better job of representing what Asian aviation has to say

ETS: beaten to the punch

Asia-Pacific airline chiefs were primed to renew the attack on the recently suspended European Union's controversial emissions trading scheme (ETS) when they met at the Assembly of Presidents. They had the perfect target, the European Commission's director of transport, Matthew Baldwin.

But the amiable Englishman, taking part in an executive panel discussion, took everyone by surprise when he dropped a big hint that the major breakthrough was forthcoming.

"I cannot tell you what it is, but I hope if today's ICAO [International Civil Aviation Organization] council meeting goes well, signalling a renewed commitment on all sides to get to grips with the [ETS] issues, we will act very quickly," said Baldwin, beating the critics to the punch.

"I hope we will surprise everyone at just how far we are ready to go to address the concerns of the global community."

Five days later the EC announced it was suspending its ETS for flights into and out of Europe for a period of one year to allow time for ICAO to finalize a global scheme.

Baldwin said Europe had always wanted an ICAO solution. "We would have been remarkably stupid not to have recognized the strength of the opposition," he said.

At its meeting in Montreal, ICAO agreed to initiate a high-level political process to whittle down the three options under consideration for a regulatory market-based mechanism (MBM) to a single preferred solution.

It expressed the need for a global MBM, which is sought by the airline industry *(EU backs down on ETS, see page 11).* ■

about how the industry is developing."

IATA director general, Tony Tyler, speaking at the Assembly, urged Asia- Pacific aviation leaders to focus on airport and air traffic management (ATM) infrastructure as the region's demand for connectivity continues to grow.

He said IATA advocated a prudent approach to private investment in the development of airports to support demand growth. A trend has emerged across the region, and demonstrated by the governments of Vietnam, Indonesia and the Philippines, where private investors are being considered for inclusion in new airport development. Also, the Korean government is considering private equity participation in Incheon airport.

"I am not advocating for or against private participation. But there have been enough mistakes made when engaging the private sector in airport development," said Tyler. "These should not be repeated.

> "The challenge is for the AAPA to extend its own remit and do an even better job of representing what Asian aviation has to say"
>
> **John Slosar**
> Chief Executive
> Cathay Pacific Airways

"When governments work with private investors to develop infrastructure they must establish an effective economic and service-level regulatory framework to ensure that the national interest is well protected. That means ensuring that air connectivity is both cost-effective and efficient."

He also called for cross-border regional thinking for the development of the Asia-Pacific's ATM network. "The Asia-Pacific is not immune to air traffic congestion issues and these will grow acute if they are not well-managed with a regional perspective," said Tyler.

"We must not repeat the mistakes made in Europe where efforts to implement a Single European Sky are stalled because states are not delivering." ■

Passenger growth slowing

The airline leaders were meeting in Malaysia as the latest traffic statistics showed passenger growth was slowing and cargo remained in the doldrums. AAPA airlines recorded 4.9% growth in passenger traffic during the third quarter of 2012, ending September 30 (the latest available statistics). That was down from the 8.7% growth in the first half of the year.

Nevertheless, AAPA director general, Andrew Herdman remained upbeat, commenting that while traffic is "moderating a bit … it seems to be holding up pretty well".

He said there were positive indicators, including China, despite the slowdown in economic growth in Asia's largest market. He remained "optimistic on the passenger side going into next year" and predicted Asian passenger carriers would once again outshine other regions in 2013.

Meanwhile, there was slightly better news for air cargo. Demand in September, measured in freight tonne kilometres (FTK), was 0.4% below last year's level, an improvement on the generally negative trend seen so far this year.

Offered freight capacity was reduced 4.3%, leading to a 2.6 percentage point increase in the average international cargo load factor to 66.6%.

Herdman said that after experiencing a 3.9% year-on-year volume decline for the first nine months of 2012, September was a relatively good month. But overall, he said the operating environment for carriers remained challenging.

> "Oil now accounts for about 38% of total costs, up from 32% in 2011"
>
> **Andrew Herdman**

"Margins have been under pressure from stubbornly high oil prices and there is continuing uncertainty about the global economic outlook, despite the fact that Asian economies are still maintaining respectable growth rates," he said.

"But high oil prices continue to eat into profits and will keep profit margins in Asia relatively modest. Oil now accounts for about 38% of total costs, up from 32% in 2011, which explains why we are all anxious at taking delivery of new aircraft and ordering new aircraft."

While there has been widespread concern at China's slowing economy, most airline chiefs did not see it is a major problem.

Cathay Pacific CEO, John Slosar, said his involvement with China stretched back to the 1980s. "When I look at what China was then and what it has become in one generation, it has covered amazing ground in an amazingly positive way," he said.

"Development in China has been fantastic and that is likely to carry on. China has done a better job than they are given credit for. Cathay Pacific is still bullish on China." ■

Stars among the gloom

The second coming of Japan Airlines and the continued success of Garuda Indonesia contrasted with the best forgotten year of majors like SIA, Cathay and Qantas.

BARRY GRINDROD reports

Japan Airlines: reborn

OVERVIEW

The year started with a warning. "Brace, Brace' read the headline in the February issue of *Orient Aviation*. "Industry preparing for another hit on profits," said the sub-head.

And it was true as major carriers like Singapore Airlines (SIA), Cathay Pacific Airways and Qantas Airways saw their profits eroded big time during 2012. For Qantas' international arm it was a time of crisis as Virgin Australia (formerly Virgin Blue) and, in particular, a flood of extra seats from Chinese and Middle Eastern carriers entered the market.

After much speculation about a tie-up, this led to an announcement in September that once deadly rivals, Qantas and Emirates Airline, were to establish a 10-year alliance, Australia's competition watchdog willing that is.

If the green light is given to the alliance by the Australian Competition and Consumer Commission (ACCC) – a final decision is expected in March – it will mean that Qantas will hub its Kangaroo Route to Europe through Dubai and not Singapore, as it has done for decades.

Emirates president, Tim Clark, heralded the move as a "seismic" shift for the airline industry. Qantas boss, Alan Joyce, said the consequences for the Australian icon would be dire if the partnership did not proceed.

All the above happened in the face of ongoing uncertainty about market conditions and no let-up in high oil prices.

But it wasn't all doom and gloom in the Asia-Pacific. For a start, if airlines were struggling in the region, they were doing far worse elsewhere in the world.

Singapore Airlines: profits slump, pilots asked to take voluntary unpaid leave

The Asia-Pacific continues to be the highest achiever in the world aviation market.

On an individual level, it was impossible to ignore the remarkable transformation of Japan Airlines (JAL). In January 2010, it entered bankruptcy protection and was struck off the rolls of the Tokyo Stock Exchange (TSE).

In the months that followed about a third of JAL's workforce disappeared. Its gas guzzling aircraft, including its B747s – JAL once had the largest fleet of B747s in the world – were taken out of service and routes slashed. Indeed it has reduced international seat supply by 40% and domestic seat supply by 30% since 2008.

Under the leadership of management guru, Kazuo Inamori, the founder of hi-tech company, Kyocera, who was drafted in by the Japanese government, the JAL miracle started to happen.

Inamori had been scathing of the previous airline management. He dismissed them as "unfit to run a fruit and vegetable stall". But those around him now were oiling the wheels of an increasingly efficient machine.

From entering bankruptcy protection and exiting in March this year, raising $8.5 billion in the world's second largest initial public offering and re-listing on the TSE as the world's most profitable airline in September, the process took just 973 days.

It may have had some help from a government bail-out, as its illustrious Japanese rival, All Nippon Airways (ANA), continues to remind the industry. It claims the bail-out was "unfair". The government, for its part, has said it will keep an eye on the situation to see if the aid "has distorted the circumstances of competition".

Hong Kong Airlines: fleet expansion frozen by authorities because of safety fears

But JAL is leaner and meaner than ever. In October the JAL Group announced a US$1.24 million interim profit to March 31 this year. This was 2.3% up on the previous year and prompted the company to increase its full-year net profit forecast by 10 billion yen to 140 billion yen.

Another success story this year has been Garuda Indonesia. In November it reported a 51.9% rise in net income to $56.5 million for the first nine months of 2012, from $37.2 million a year earlier.

Income from operations more than doubled to $92.75 million, compared with $38.6 million in 2011.

And while other legacy airlines in the region suffered, particularly with cargo volumes, Garuda showed improvements on all fronts; passenger and cargo volumes, load factors and yields.

Garuda and its low-cost subsidiary, Citilink, will have had 20 new aircraft join their fleets by the end of the year. Another 34 planes will become part of the combined fleet in 2013.

Garuda's president, a former banker, Emirsyah Satar, has worked wonders for his airline in recent years (he was *Orient Aviation's* Person of the Year in 2010) and, it appears, he has no intention of risking that success by merging with Indonesia's lost-cause carrier, Merpati Nusantara.

There had been reports in mid-year that the government wanted to see them come together. But Satar left *Orient Aviation* in no doubt of his intensions when he told the magazine in July: "We are letting them solve their own issues.

"It doesn't make sense [the merger]. We won't do it. I have told the government several times: we are a listed company. We just can't go in there and bail them out. It has to be on a commercial basis."

Merpati lost $81 million last year and nearly half that amount again in the first four months of 2012. Of its 124 domestic routes, 112 are losing money. According to the Indonesian government, Merpati is bleeding $250,000 a day. You don't need to be a banker to sympathise with Satar's view.

Hong Kong Airlines likes to talk the talk, but so far, in its less than glorious history, it has failed to walk the walk.

Owned by Mainland China interests, including its fourth largest carrier, Hainan Airlines, Hong Kong Airlines is based in the Special Administrative Region that bears its name.

In January, its president, Yang Jianhong, said the carrier intended to establish businesses across the aviation and tourism spectrum, including hotel development, ground handling and air cargo management.

It was planning to bid for a hotel site in Hong Kong, was aiming to acquire a 40% holding in Hong Kong Air Cargo Terminals, establish joint venture flight catering and IT companies at the Hong Kong airport and build a flight training facility.

But so far nothing has happened, at least none of the above. The carrier has a slew of aircraft on order, including 10 A330s, 30 A320s and 15 A350-900 XWBs. The carrier was also at the point of signing for six A380s until China stepped in and said no, in protest over the European Union's emissions trading scheme, which China refuses to recognize.

Alas, in mid-year Hong Kong Airlines had its fleet expansion frozen by the Hong Kong Civil Aviation Department (CAD). The CAD said it would not be able to add to its 21-aircraft fleet without permission because the CAD had concerns about the safety of the airline.

The one thing Hong Kong Airlines did achieve this year was launch an all business A330 daily service between Hong Kong and London in March. But this was cancelled in September. With little demand it was said to be losing $1.3 million a month.

Hong Kong Airlines also put an initial public offering it had planned on hold.

Back in February, Malaysia Airlines (MAS) chief executive, Ahmad Jauhari Yahya, wasn't pulling his punches. "The company is in crisis," he said.

Appointed to lead the airline in September, 2011, he launched a tough business plan in December and said MAS had "to stem the losses before going forward". One year on there are signs the plan is working.

In November, Yahya told *Orient Aviation* that the first six months of 2012 had been "encouraging". Losses were down over 30% on 2011 and the airline made a small operating profit of $194,000 in June.

These figures, said the CEO, reflected the value of his decision to cut 12 loss-making routes, which meant an 8% capacity reduction from the network.

A major re-fleeting exercise is also underway. By the end of 2012, 23 aircraft will have been delivered, including four of six A380s it ordered. Older aircraft are being retired.

However, there must have been disappointment in the board room that the share swap and alliance with AirAsia did not work out following protests from the MAS unions (see low-cost carriers, page 28).

One of the more interesting fleet order announcements this year was from Philippine Airlines (PAL). Not for the fact that it ordered a record 54 new jets, but that airline president, Ramon Ang, chose the moment to tell assembled media that PAL was hoping to build its own airport (see airports, page 30).

Garuda Indonesia president, Emirsyah Satar: under his leadership, Garuda has been one of the few success stories in 2012

At its annual general meeting held in Beijing, in July, the International Air Transport Association (IATA) re-iterated the new-year forecast: gloom and more gloom.

Industry profit was expected to slump to $3 billion this year after reaching a record $15.8 billion three years ago. The good news was that the Asia-Pacific would account for two thirds of those profits.

It didn't exactly have the likes of the region's major legacy carriers, SIA, Cathay Pacific and Qantas, jumping up and down.

In August, Cathay reported its worst interim result since 2003 when Hong Kong passenger numbers were decimated by SARS (Severe Acute Respiratory Syndrome).

It reported a loss of $120 million in the six months to June 30, compared with a $359 million profit in 2011. This followed a 61% fall in full-year profits for 2011. The carrier suffered from the predictable factors; high jet fuel costs, low passenger yields and particularly weak air cargo demand.

During the course of this year, Cathay parked three B747-400s and three B747-400 BCF freighters to cut costs. Flight

Qantas Airways CEO, Alan Joyce: "dire consequences" for airline if partnership with Emirates does not go ahead crews at Cathay and its wholly-owned subsidiary, Dragonair, were offered unpaid voluntary leave.

In June, Cathay ordered 10 A350-1000s and agreed to convert orders for 16 A350-900s to 1000s in a deal worth $4.2 billion.

In the same month Qantas announced an annual loss of $258 million to June 30, its first deficit since the airline was privatized in 1995.

The loss prompted chief executive, Alan Joyce, to report that the national carrier was cancelling orders for 35 B787-9s, which had been due for delivery post 2014. More recently it announced it is cutting a net 400 jobs from its engineering bases in Australia.

Meanwhile, SIA saw its interim profits slump 30% to $137.8 million compared with the same period in 2011.

In March, in an attempt to cut costs, SIA asked its pilots to volunteer for unpaid leave. And in November the carrier announced it would be parking one of its 13 freighters from January 2013 until May the following year (see freight, page 31).

In October, SIA announced it would be ceasing the world's longest non-stop flights between Singapore – Los Angeles and Singapore – Newark next year and selling the five A340-500s it used for the services back to Airbus.

However, on the same day, the carrier announced orders for five more A380s – it has 19 in service – and 20 A350-900s to add to an earlier order for 20 A350s, worth $7.5 billion at list prices.

Air New Zealand also felt the cold wind of the world recession this year and by mid-year had shed 441 jobs, 175 through redundancies and the remainder by attrition. ■

In brief:

* ***Major overseas aerospace companies continued to pump millions of dollars into Singapore during 2012 with the Lion City's 'crown jewel' Seletar Aerospace Park, growing apace. Rolls-Royce opened its 154,000 sq metre manufacturing, assembly, training and research campus at the park in February. When fully operational it will provide 500 new jobs bringing the total of people employed by Rolls-Royce and its joint ventures in Singapore to 2,000.***

Changing faces

PEOPLE

Thai Airways International's (THAI) former president, Piyasvasti Amranand, was unceremoniously sacked by his board last May. It took the industry by surprise, but maybe it shouldn't have given the THAI board's record for interference in the running of the airline and sacking of presidents.

Piyasvasti had turned the carrier around from a record loss in the year before he arrived, to a profit. He also had gone a long way to stamping out endemic corruption and cronyism in the airline and won the respect of his peers throughout the industry.

Former energy minister Piyasvasti said the sacking was "politically influenced" and threatened legal action if his reputation was tarnished. He also suggested that some of the corrupt staff, who had been punished, may have sought help from powerful figures within government to oust him.

THAI chairman, Ampon Kittiampon, said the president had received an 86% approval rating in his performance evaluation, but had "communications problems with the board".

THAI ex-boss, Piyasvasti Amranand: victim of politics?

Ex-PAL president, Jaime Bautista: new broom swept in

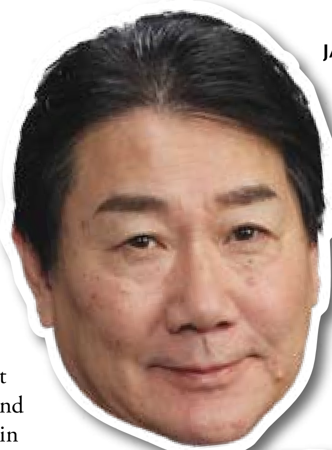
"That's ludicrous," Piyasvasti told 750 delegates at the IATA annual general meeting in Beijing, when he sat on a chief executive panel and was asked about the sacking. "If I had communications problems, how could I push through all the changes in the airline, the financial capital increase, acquisition of 52 new aircraft, the biggest ever in THAI corporate history," he said.

Political insider, Sorajak Kasemsuvan, who has no previous experience of the airline industry, was appointed president of the carrier by the THAI board in September. Acting president, Chokchai Panyayong, said in August that if THAI was not properly managed, its financial position could reach "crisis level" this year.

One chief executive who has had no problems with his board is Air New Zealand (Air NZ) boss, Rob Fyfe. He announced at the beginning of the year he was going to step aside "to encourage new talent" at the end of 2012. Fyfe was described as "world class" by Air NZ board chairman, John Palmer, after his announcement. Fyfe was the recipient of *Orient Aviation's* Lifetime Achievement award this month, only the second time it has been awarded in 15 years (see separate story).

In June, head of long-haul operations, Christopher Luxon, was named as Fyfe's successor.

Like Fyfe, until he joined Air NZ two years ago, New Zealand-born Luxon had not previously worked in aviation. He had held senior positions at Unilever in North America, Australia and Asia before returning to Auckland to join Air NZ. He has a hard act to follow.



JAL CEO, Yoshiharu Ueki: a leading role of his own

In mid-year, one of the most respected and longest serving presidents, Jaime Bautista, stepped aside at Philippine Airlines (PAL). The move coincided with a new broom, the San Miguel Corporation, sweeping in at PAL and taking over the major shareholding and management from Lucio Tan.

Bautista was PAL's chief financial officer when the carrier went into receivership with $2.1 billion of debt in 1998. He was a key player in formulating and implementing PAL's 10-year rehabilitation plan.

TransAsia chairman, Vincent Lin: inspirational

Bautista became president in 2004 and relentlessly drove down costs and improved systems and productivity during his tenure at PAL. He led the airline out of rehabilitation two years ahead of schedule.

In the same year, PAL recorded the largest profit in its 66-year history. Bautista received *Orient Aviation's* Person of the Year award in 2007. He is succeeded by Ramon Ang.

The re-born Japan Airlines (JAL) appointed former pilot, Yoshiharu Ueki, as its president in January. The son of one of Japan's greatest movie actors, Chiezo Kataoka, he has been relishing his own leading role.

Air NZ chief, Rob Fyfe: "world class"

A JAL pilot for 35 years, Ueki often keeps a book of traditional Japanese philosophy in his pocket so he can read and learn when he has a spare moment. He must be hoping it will help him lead JAL back to its glory days. It has started well (see Overview, page 23).

Early this year self-confessed Asiaphile, Ray Conner, was in the region. He was here in his role as Boeing's worldwide head of sales and customer support and spoke to *Orient Aviation* of his links with the Asia-Pacific that date back 25 years.

Three months later, in June, he was appointed president and chief executive of Boeing Commercial Airplanes.

Conner said he knew airlines like Singapore Airlines and Cathay Pacific Airways were going to be world leaders as far back as the early 1990s. "You could see it from their operations, from their product," he said.

He also spoke of how Boeing could overtake Airbus to regain its lead in aircraft sales and deliveries. "We need more stability. Stability is about regaining our focus on the customers," he said.

"Relationships are part of this business. People need to know you, need to trust you. Hopefully, my team and myself will be able to provide that stability."

His remarks carry even more resonance now he heads Boeing's commercial airplane division.

We called Vincent Lin inspirational in the April issue of *Orient Aviation*. The 39-year-old chairman of Taiwan's TransAsia Airways has only been holding the reins of the carrier for two years, but in that time has re-invented it from a struggling player in the regional market to a profitable airline that is making its presence felt among its peer airlines.

TransAsia has been a major beneficiary of the booming Cross Straits airline market between Taiwan and Mainland China. The carrier flies to 17 cities in China, four of which were added this year. Last year, TransAsia carried 500,000 passengers between Taiwan and China, a five-fold increase over 2010.

The airline will double its fleet of 19 aircraft in the next five years. It took delivery of its first A330 at the end of November and has another on order among 31 aircraft due for delivery in coming years.

In this time, Lin is looking to extend his carrier's reach to destinations in the Middle East, Australia and New Zealand.

TransAsia is not yet in the same league as national carrier, China Airlines, and EVA Air, but Lin compares his airline with Virgin Atlantic Airways. "They are giantkillers," he said. "We are not quite giantkillers yet, but we are learning how to compete."

In mid-year, Airen Omar was named as CEO and executive director of AirAsia Berhad, the Malaysian arm of the AirAsia Group. Omar had previously been head of corporate finance, treasury and investor relations at AirAsia. ■

Headliner scores again

LOW-COST CARRIERS

Just how does he do it? Where does he get the energy? We refer to AirAsia founder and chief executive, English Premier League club Queens Park Rangers owner and Formula 1 motor racing team Caterham owner, Tony Fernandes.

For all his diversified interests, Fernandes has, as usual, been rarely out of the news during 2012 as the AirAsia Group has gone from strength to strength.

Not that he has had it all his own way. Fernandes, the pioneer of low-cost carriers (LCCs) in Asia, moved his regional headquarters from Kuala Lumpur to Jakarta, Indonesia, during the year. He launched his seventh no-frills brand, AirAsia ASEAN, to benefit from the 10-nation ASEAN (Association of Southeast Asian Nations) bloc as it moves towards full open skies in 2015. In August, in partnership with All Nippon Airways, he established AirAsia Japan.

But there have been setbacks. At the beginning of the year the group's long-haul budget carrier, AirAsia X, dropped its services to Europe (London and Paris) and to India as high fuel costs and high taxes took their toll. In May, a share swap deal with Malaysia Airlines (MAS) collapsed following objections from MAS unions.

Fernandes is not a man to let the grass grow under his feet. It was the unravelling of the MAS agreement that prompted Fernandes to head for Jakarta. "ASEAN is a massive market where we only scratch the surface," said Fernandes. "Our mandate in the next five or six years is to focus on ASEAN."

To that end he planned to spend $80 million on buying a controlling interest in Indonesian operator, Batavia Air, but the deal fell through in October.

"In hindsight we think management time, the integration, the potential earnings fallout and the huge amount of cash required to turn around Batavia would have been too dilutive," said Fernandes.

In the future, the hyper-active airline boss sees expansion opportunities in the Middle East, China and possibly India. Maybe even Africa, he said.

The AirAsia group has a fleet of 112 aircraft, of which 104 are A320s. The carrier has 266 A320s, 25 A330s and 10 A350s on order, with another 100 A320s under negotiation.

To man these aircraft, Fernandes is planning training centres in Batam in Indonesia, Penang in Malaysia, Thailand and Singapore, in addition to AirAsia's state-of-the art facility in Kuala Lumpur.

The chief executive admits that competition among the LCCs is hotting up. With no-frills airlines now holding around 25% of the market in the Asia-Pacific, with some predicting this could rise to 50% in the next five years, carriers such as Qantas' Jetstar Asia, Indonesia's Lion Air, the Philippines' Cebu Pacific and Singapore's Tiger Airways, are leading the charge.

Indeed, as *Orient Aviation* reported in October, AirAsia and Lion Air could become embroiled in a tit-for-tat war as Lion boss, Rusdi Kirana, responded to AirAsia's move to Indonesia by announcing he was to launch a new budget carrier, Malindo Airways, in Kuala Lumpur next May, in partnership with Malaysia's privately-owned National Aerospace and Defence Industries (NADI).

In addition, the partners have agreed to spend $15 million on establishing an aviation training centre in Malaysia.

Kirana is also launching a new, full-service airline, Batik Air, in Indonesia to enter service next March.

The Lion "king" certainly doesn't believe in doing things by halves. The airline, which has a fleet of 100 aircraft, is one of Boeing's biggest customers. Lion topped the buyers' list at the Singapore Air Show in February when it ordered 201 B737MAX and 29 B737NGs. Since then Lion has ordered 15 B787 Dreamliners.

AirAsia: another eventful, headlining year

Japan has been the scene of a "tsunami-like transformation" in its budget airline market during 2012. Three new LCCs took to the air and all have shown signs of early success.

All Nippon Airways (ANA)-backed Peach Aviation was the first out of the blocks in March, followed by Jetstar Japan, a joint venture between Japan Airlines and Qantas Airways, in July and AirAsia Japan in August. ANA also has an interest in AirAsia Japan along with the now Jakarta-based AirAsia Group.

A confident Miyuki Suzuki, the female chief of Jetstar Japan, has forecast that her airline could have a 100-plane fleet by 2020.

Jetstar Japan chief executive, Miyuki Suzuki: has forecast the carrier could have a 100-plane fleet by 2020

Analyst Haruo Ushiba, said the Japanese no-frills carriers were "not just taking business away from existing airlines, but creating completely new demand". He believed the LCCs could have a 30% market share in the country by 2020.

Philippine Airlines (PAL) has been busy looking over its shoulder throughout this year as budget carrier, Cebu Pacific, has been gobbling up chunks of its domestic market share.

By mid-year it was holding 45% market share compared with PAL and its subsidiary, Air Philippines', joint 43.9% share. Now Cebu is turning the screw further on the national carrier by taking on PAL offshore.

Cebu has a fleet of 41 aircraft, 23 A320s, 10 A319s and eight ATRs. Beyond the domestic market it flies to 20 destinations around Asia. It has leased eight A330s, which will start arriving next year, and is eyeing the large population of Filipinos working overseas in the Middle East, Australia and Europe.

The budget carrier has 16% of the overseas market compared with PAL's 25%. That could change in the near future.

Cebu Pacific has built a $50 million training centre, the Philippine Academy for Aviation Training, in a joint venture with CAE of Canada. The facility, opened in November, is expecting to cater for 2,500 Filipino and expatriate pilots a year. Cebu has 500 pilots, but will need 300-400 more in the next five years.

Meanwhile, a political storm has been brewing in Hong Kong in recent months over the proposed launch of Jetstar Hong Kong, a joint venture between Qantas Airways and one of China's big three carriers, China Eastern Airlines (CEA).

Cathay Pacific Airways has let it be known it would oppose the plan. Some industry observers make the point that a carrier set up in Hong Kong by two carriers whose principal places of business are outside the city contravenes Hong Kong's Basic Law.

Qantas and CEA intend to invest $198 million in Jetstar Hong Kong over three years. The plan is to start in mid-2013 with three A320s, expanding to 15 aircraft by 2015.

The aim is to link Hong Kong with a wide range of secondary destinations in Mainland China. It would not fly to the major hubs of Beijing and Shanghai where relatively new terminals are becoming congested.

In May, *Orient Aviation* reported that officials at the Civil Aviation Administration of China (CAAC) were becoming increasingly nervous about the soaring demand for access from rising numbers of budget carriers across the region. They are said to be restricting LCC access to the crowded Beijing and Shanghai airports to protect their own full service carriers.

Asia-Pacific LCCs have more than 1,000 jets, mostly single aisle, on order and they see China as the prime source of passengers to fill their seats in coming years.

Singapore Airlines (SIA) launched its budget carrier subsidiary, Scoot, with its first flight to Sydney in June using a B777-200ER.

In October, Scoot announced it will replace its fleet of four B777-200s with 20 B787s, with deliveries commencing in 2014.

Scoot CEO, Campbell Wilson, said the carrier's network had grown to six cities – Singapore, Sydney, Australia's Gold Coast, Bangkok, Taipei and Tianjin – and would expand to nine cities in coming months.

The B787s were originally ordered for SIA. ■

In brief:

* ***The Airports of Thailand (AoT) asked 14 LCCs and Thai domestic carriers in mid-year to return to Don Muang Airport from October as pressure grew on Bangkok's main facility, Suvarnabhumi International Airport. The request was accompanied by a package of incentives, which included reductions in landing and parking fees, space rental and service charges. Suvarnabhumi airport has reached saturation point after only five years in service.***

* ***Singapore-based LCC, Tiger Airways, acquired a 33% holding in Indonesia carrier, PT Mandala, in January. At the time, financial problems had grounded the carrier. However, a re-invigorated Mandala resumed services in April. It adopted Tiger's low-cost model with a strategy of serving domestic and regional routes up to five hours flying time from Indonesia using A320 aircraft.***

Singapore Changi International Airport: to double in size and build a third runway

World beaters

AIRPORTS

Staggering. That's about the only word to describe the Asia-Pacific airport boom. Nowhere else in the world comes close.

And nowhere else can compete with the expansion in China which is building 70 new airports in the next few years and upgrading 100 existing facilities. The country will have 230 airports by the end of 2015.

In mid-year, Airports Council International (ACI) reported that 16 of the fastest growing airports in the world were in the Asia-Pacific. In August, Jakarta's Soekarno-Hatta International Airport was ranked the fastest growing airport worldwide, with around 170,000 extra seats booked compared with the same month a year earlier.

Soekarno-Hatta, like so many other airports in the region, is bursting at the seams. It has announced plans to triple its size by 2014 at a cost of $2.8 billion.

Built to handle 22 million passengers annually, in 2011 its throughput grew 19.2% to reach 52 million. The expansion will raise its capacity to 62 million.

Garuda Indonesia wants to more than double its passenger numbers by 2015. The airline's president, Emirsyah Satar, said early this year that Garuda would only achieve this if Indonesian airports were expanded and access infrastructure was improved. He wanted to see new link roads and railways to major airports.

Meanwhile, in July, work on a $2 billion expansion of Bangkok's Suvarnabhumi International Airport began. In August, the green light was given to the building of its third runway.

Singapore has allocated 1,000 hectares of land for the expansion of multi-award winning Singapore Changi International Airport, a move that will almost double the airport's size and will include a third runway.

In 2010 and 2011, Changi handled record numbers of passengers, topping 42 million and 45 million respectively. It is likely to top 50 million this year.

In March, the Hong Kong Government gave its in-principle approval to the construction of a third runway at the city's Chek Lap Kok airport.

Fiercely opposed by environmental groups, the project is forecast to cost $17.4 billion, the largest single development in the city in monetary terms. A final decision is not expected until 2015 and the runway will take eight years to build. It will require 650 hectares of sea reclamation.

The Airport Authority of Hong Kong has not ruled out a levy on airport users to finance the project.

If ever there was proof of the runaway success of LCCs in Asia, it was the decision by Malaysia Airports Bhd early this year to almost double the previously planned size of its second low-cost carrier terminal (LCCT).

Currently under construction at the Kuala Lumpur International Airport, and to be known as KLIA2, the terminal will be completed in mid-2013. It will have its own runway and control tower.

The LCCT will cater for 45 million passengers a year, up from the original estimate of 30 million. It will have a four kilometre runway instead of the initially planned 2.5km, with 68 gates and eight remote stands. The planned two-storey terminal building has been upgraded to nine stories on a 257,000 sq. metre site, an expansion from an original 150,000 sq. metre site.

Political upheaval in Japan has resulted in a privatisation plan for 27 regional, state-managed airports being put on hold.

A bill to encourage private sector investment in the airports that could lead to lower landing fees was passed in March. It had been expected to meet with cross party approval in the Japanese legislative assembly (Diet) and be introduced in the summer.

Currently, the management of most airports in Japan is split between the Ministry of Land, Infrastructure and Transport (MLIT), which controls landing charges and flight operations.

The operation of passenger and cargo terminals and ancillary services, such as car parks, is usually controlled by specially created companies at each airport.

Once the bill has passed through the Diet, the MLIT will sell airport management rights to new, privately-owned airport operating companies that will have the power to set landing fees in a more competitive business environment.

Eventually, the government wants to include another 67 airports, now controlled by local governments, in the plan. Only 21 of Japan's 97 airports are making money.

In November, Narita airport cut its landing charges for international flights by 5.5%. Apart from a temporary reduction during the 2008 financial crisis, this is the first time the airport has cut landing fees since 2005.

Philippine Airlines (PAL) surprised many people in September when president Ramon S. Ang told local media the carrier wanted to build its own airport.

However, there are major hurdles to overcome. For example, winning government approval and finding 2,000 hectares of land on which to build the airport. Ang is confident of overcoming any obstacles. He has predicted that work could start as early as next year on the facility and be completed in three years. ■

Taking the strain

FREIGHT

The red flags were raised earlier this year when Seattle-based consultancy, Air Cargo Management Group (ACMG), said unless air freight demand increased at historic rates, freighter fleets would need to be cut back and orders for new planes slashed, in the next five years. There could be bankruptcies or airlines may cease full freighter fleets, said ACMG.

Certainly 2012 has not been a good year for Asia-Pacific fleets, which have a 40% share of the world market. Cargo giants, Korean Air (KAL), Cathay Pacific and Singapore Airlines (SIA) have all seen their revenue go south during the year.

Cathay and SIA have parked or plan to park aircraft in coming months. Cathay, in fact, has had a slight resurgence recently on the back of Christmas orders, but the volume is still below peak 2010 numbers.

SIA chief executive, Goh Choon Phong: freighters on the market

Cargo revenue for the first half of 2012 was down 7.6%, compared with the same period in 2011. Yield declined 0.4%, while load factor fell away by 4.1 percentage points, to 64.3%.

Demand for shipments from the group's two key markets, Hong Kong and Mainland China, was well below expectations. However, Cathay introduced three new cargo services to Zhengzhou, China (March), Hyderabad, India (May) and Colombo, Sri Lanka (December) during the year.

Losses at SIA Cargo tripled from a year earlier in the quarter ending September 30. It is parking one of its 13 B747-400 freighters from next month until May 2014.

CEO Goh Choon Phong told media recently that SIA would consider selling freighters if the offers were good enough. This also applied to passenger planes, he said.

Meanwhile, at Korean Air, cargo traffic was 8% down in the third quarter, compared with 2011.

Commenting on the statistics of Asia-Pacific carriers for the first nine months of 2012 (the latest figures available), the director general of the Association of Asia Pacific Airlines, Andrew Herdman, said: "For air cargo markets, after experiencing a 3.9% year-on-year volume decline for the first nine months of the year, September was a relatively good month, only marginally below last year's figure."

The question is: will it continue? Herdman said the operating environment for the region remained "quite challenging". SIA's chief Goh went further, describing the outlook as "very challenging". ■

CSA flexes its global muscles

CHINA

China Southern Airlines (CSA) gave notice of its global ambitions in mid-year when it launched the Canton Route, linking Australia and New Zealand with Europe.

CSA, which carries more passengers than any other airline in Asia, is the world's third largest carrier by market capitalization and the sixth largest by fleet size. Now, it is looking to cement its place in the major league of international operators.

The Qantas-Emirates alliance, yet to be confirmed by Australia's competition regulators, which would see the Kangaroo Route hub move from Singapore to Dubai, has been one of the big stories of the year. But CSA chairman, Si Xianmin, believes its Canton Route would make an even better gateway to Europe than the Singapore or Dubai hubs.

CSA launched its inaugural service from its home base, Guangzhou, to London's Heathrow airport in June with three flights a week using A330s. This has been increased to a daily service. The carrier also flies to Paris and Amsterdam and through its Skyteam membership has a significant European network across the continent.

It's no coincidence, therefore, that CSA has been developing its Australasian market during the year. It has added 10 flights to Australia in 12 months and today operates 42 services a week to five cities in Australia and seven a week to Auckland. Si has set a goal of 110 flights a week on the routes by 2015.

CSA was "unswervingly pushing forward in the process of internationalization and our Australian strategy is key to this development", said Si earlier this year on a visit to Australia.

The carrier is expected to use its A380s on the route from next year. Its fifth, and last A380 on its order book, will be delivered early in 2013.

The Canton Route, linking Australasia with Europe, is a declaration of war by CSA against big boys like Qantas, Emirates and Singapore Airlines, said *Orient Aviation* in June.

The route from Sydney to London via Singapore is 17,152 kms, pointed out Si. Through Dubai it is even further, 17,519 kms. By way of Guangzhou, it is 16,995 kms.

"From a sheer geography standpoint, Guangzhou is the most logical transit point with the shortest transit distance," said Si.

As China's airline industry grows faster than anywhere else in the world, congestion in the skies and on the ground has become a major problem for the Mainland. It's not unknown, for example, for flights between Hong Kong and

Agony for Kingfisher

INDIA

It's not been a good year for India's airline industry. Nobody has come off worse than Kingfisher Airlines whose depleted fleet at press time was grounded and its licence suspended by the regulator, the Directorate General of Civil Aviation.

The airline's fall was spectacular. It started the year with 64 aircraft, but by February only 22 were flying, a figured reduced to nine by October as Kingfisher limped from financial crisis to financial crisis. As the year progressed, about 30 planes were reclaimed by lessors as bills remained unpaid.

There were strikes and walk-outs by staff, many of whom had gone unpaid for months. Striking engineers refused to certify the airworthiness of its remaining fleet of jets.

A year ago, Kingfisher was India's second largest operator. By August, its market share had plummeted to just 3.2%, the smallest among India's six largest airlines.

The Indian government's long-awaited decision to approve foreign direct investment (FDI) in the country's airlines could have come too late to save Kingfisher. Ironically, founder and chairman, Vijay Mallya, had led the lobbying campaign to force New Delhi's hand to make the change.

Under the new rules foreign carriers will be allowed to take up to 49% of an Indian operator. However, interested parties will have to receive clearances from India's Foreign Investments Promotions Board and the aviation ministry. Also, 75% of the local airline's directors will have to be Indian nationals.

The big question now is will overseas carriers come to

Kingfisher Airlines: from second biggest to smallest of India's six largest carriers in a matter of months

China Southern Airlines: taking on the 'heavy hitters' with its Canton Route

the Mainland to be delayed for up to four hours, longer than the flight itself.

In January, China began introducing changes in its airspace procedures in an attempt to ease its congestion hotspots, particularly Beijing and Shanghai.

The Civil Aviation Administration of China (CAAC) announced that flights delayed more than two hours would be given priority to take off. It added that it would coordinate with the military to open provisional airspace and routes during large scale flight delays. But with more and more overseas carriers, particularly LCCs, applying to fly to the Mainland and domestic fleets growing, congestion will be a fact of life for some years to come.

The CAAC is restricting the number of LCCs using airports in Shanghai and Beijing to avoid more congestion. It is probably only a matter of time before the regulator clamps down on the growing number of overseas budget operators on its international routes.

* Instead of being deadly rivals, China's domestic carriers and high speed rail (HSR) companies started to work together in 2012. The rail companies were seriously eroding the profits of carriers, especially on routes of less than 500km. However, in June, *Orient Aviation* reported that at least two airlines were using the high speed trains as supplementary feeder traffic, bringing more passengers to both sides.

China Eastern Airlines (CEA) was the first airline to sell HSR tickets. In May, in cooperation with the Shanghai Railway Bureau, it announced enhanced connections between Shanghai's Pudong and Hongqiao airports to Hangzhou, Suzhou, Ningbo, Wuxi and Changzhou. HSR frequencies were increased from 22 to 92 a day.

Meanwhile, CEA and Hainan Airlines partnered with the Shanghai Railway Bureau and the Yuhei Railway respectively in partnerships that allowed passengers to transfer between domestic rail travel and international air travel on one single ticket.

* Relations cooled between China and Japan in recent months as the dispute over the Diaoyu Islands in the South China Sea intensified. Air ticket sales between the two countries slumped.

However, China's only LCC, privately operated Spring Airlines, announced in September that it intended to launch an LCC in Japan, in conjunction with a local investor. ■

---

the party? Last year, the combined losses of Indian airlines amounted to $2.5 billion and the same amount of red ink is expected for 2012. Only low-cost operator, Indigo, made money in 2011.

Most industry observers and analysts rate SpiceJet as the best bet among India's carriers for investment. The carrier's chief executive, Neil Mills, has expressed interest in selling equity to a foreign carrier if the offer was right.

Meanwhile, *Orient Aviation* reported in October that executives of Gulf carrier, Etihad Airways, had had talks with Mumbai-based Jet Airways' chairman, Naresh Goyal, and chief executive, Nikos Kardassis.

Sources said Etihad was interested in a minority stake.

The greatly over-staffed and heavily indebted national carrier, Air India (AI), must have thought many of its problems would have been resolved five years ago when it merged with leading domestic operator, Indian Airlines (IA). Wrong.

IA was in the news again this year when its former pilots at AI found themselves at the centre of a strike by the Indian Pilots Guild. The guild was unhappy with the B787 training schedule, which, they alleged, favoured ex-pilots from IA.

As many as 300 pilots went on strike or sick leave. AI's B777 fleet was grounded and the carrier was said to have lost as much as $60 million in the multi-week strike. In response, the government dismantled the pilots' guild.

In September, 400 AI pilots went on mass "sick leave" about 25%-50% cuts in productivity-linked bonuses. The action led to many flight cancellations, including international operations.

Jet Airways pilots also went on strike in mid-year over the sacking of two of their colleagues. A week later they returned to work when the pilots were re-instated.

AI's huge financial burden was made somewhat lighter in May when the Indian government agreed to another life-saving injection of funds - $5.8 billion through to 2020, including $1.3 billion in the current financial year.

They are not alone. India's carriers are said to be collectively in $20 billion of debt.

"India's carriers are said to be collectively in $20 billion of debt"

Before AI was granted its handout, the government had to agree to turnaround and financial restructuring plans.

The airline will take delivery of 27 B787s under a sale-leaseback arrangement. It will also spin off its maintenance, repair and overhaul and ground handling divisions, which will be run as profit centres. ■

Asia leads from the front

ENVIRONMENT

The environment headlines were dominated during the year with the row between the European Union (EU) and the rest of the world over its emissions trading scheme, which was suspended last month (see page 11).

But elsewhere, companies and airlines in the Asia-Pacific were busy working in their own ways to improve the airline industry's contribution to "greener skies".

In August, the Commercial Aircraft Corporation of China (COMAC) and Boeing opened an aviation energy conservation and emission reduction technology centre in Beijing. It is currently researching how to treat and clean used cooking oil to use as jet fuel. Boeing is also researching other biofuel materials, such as jatropha oil, with other institutes in China.

Earlier this year, the Chinese government announced it would invest $8.04 million in flag carrier, Air China, for engineering and fuel efficiencies. The funds were to install winglets on the carrier's fleet and rationalize fuel use where possible. Air China was the first Mainland Chinese airline to operate a flight using biofuels.

* In April, an All Nippon Airways (ANA) B787 delivery flight completed a transpacific flight partly powered by biofuels. The Dreamliner flight between Seattle and Haneda airport, Tokyo, used a biofuel produced mainly from cooking oil. Emissions were reduced by 10%. ANA was the launch customer for the B787.

* In mid-year, Taiwan's China Airlines (CAL) began operating the world's first transpacific climate observation flight. The A340-300 is equipped with a sampling port extending from its fuselage which collects data on atmospheric gases, water vapour, ozone, carbon monoxide and nitrogen oxide during each flight.

The flights are in support of the Pacific Greenhouses Gases Measurement Project (PGGM), jointly run by Taiwan's Environmental Protection Administration, the National Science Council and Taiwan's National Central University.


China Airlines: two world firsts this year

In October, CAL achieved another world first when it began labelling carbon footprint and calorie content of its inflight meals on the PGGM plane on services between Taipei and Frankfurt.

* Cathay Pacific Airways will ban sharks' fins from its cargo flights from this month. "Due to the vulnerable nature of sharks, their rapidly declining population and the impact of over fishing for their parts and products, our carriage of [the sharks' fins] is inconsistent with our commitment to sustainable development," said an airline statement. ■


Launch customer 747-8 Intercontinental
Boeing strong since 1960.
Lufthansa
Lufthansa Technik services for Boeing. Never change a winning team! Over 50 years ago, Lufthansa started into the jet age with a Boeing. Since then, we've been providing full technical support for Boeing aircraft, engines and components. With the latest addition being the 747-8 Intercontinental. Lufthansa Technik and Boeing—a partnership with a long tradition and a bright future.
www.lufthansa-technik.com/787
E-mail: marketing.sales@lht.dlh.de
Headquarters: +49-40-5070-5553
Hong Kong: +852-2846-6370
More mobility for the world
Lufthansa Technik