Orient aviation
Vol. 31 No. 2
April-May 2024
orientaviation.com

A NOW OR NEVER PANDEMIC MOMENT

MAG CEO Captain Izham Ismail transforms flag carrier's COVID pain to financial health

Orient aviation 31 YEARS

Asia-Pacific low fare airlines prosper post-pandemic

Can new leadership restore customer and passenger trust in Boeing?

Scoot's new Embraer jets target region's second-tier destinations

Orient aviation 31 YEARS

ORIENT AVIATION MEDIA GROUP
Editorial: +852 2865 1013
Website: www.orientaviation.com

Publisher & Editor-in-Chief
Christine McGee
E-mail: christine@orientaviation.com
M: +852 6438 3379

Associate Editor & Chief Correspondent
Tom Ballantyne
Tel: +61 2 8854 1458
M: +61 4 1463 8689
E-mail: tomball@ozemail.com.au

North Asia Correspondent
Geoffrey Tudor
Tel: +81 3 3373 8368
E-mail: tudorgeoffrey47@gmail.com

Photographers
Rob Finlayson, Graham Uden, Ryan Peters

Chief Designer
Chan Ping Kwan
E-mail: production@orientaviation.com

ADVERTISING

Asia-Pacific, Europe & Middle East
Defne Alpay
Tel: +44 771 282 9859
E-mail: defne.alpay@alpayassociates.com

The Americas / Canada
Barnes Media Associates
Ray Barnes
Tel: +1 434 770 4108
E-mail: ray@orientaviation.com

Download our 2024 media planner at: orientaviation.com/advertising

CONTENTS

Volume **31**, Issue **2**

COVER STORY

Can new leadership restore Boeing's reputation?

The latest claims by a Boeing whistleblower that the company took shortcuts in the manufacturing of its B787s and B777s – dozens are operated by Asia-Pacific airlines – are being investigated by the U.S. Federal Aviation Administration (FAA).

Boeing insists the aircraft are safe, but coming on top of the company's latest problems with the B737 MAX, it is yet more negative publicity for one of aerospace's manufacturing giants. There have been five years of ongoing controversy about Boeing's production issues, beginning with the fatal crashes of two B737 MAX jets in 2018 and 2019, flown by Indonesian and Ethiopian airlines, respectively. They were tragedies, but more so because they were caused by a new system on the MAX that pilots did not know had been installed on the aircraft type

In January this year, after the mid-air blow out of a door panel on an Alaska Airlines B737 MAX, investigators found bolts that help secure the panel in place were missing after repair work at a Boeing factory. The findings of an investigation by the U.S. Federal Aviation Administration (FAA) were damning.

Boeing passed 33 of 89 product audits. The FAA found multiple instances of failure to comply with manufacturing quality control requirements as well as non-compliance issues in Boeing's manufacturing process control, parts handling and storage and product control.

Clearly, this is totally unacceptable in a company building passenger carrying jets for the world's airlines.

It also highlights the critical need for leadership change at Boeing. It has finally happened. CEO of the company's commercial airplane unit, Stan Deal, has gone. Boeing CEO, David Calhoun, will step down prematurely at the end of this year. Boeing chair, Lawrence Kellner, will not stand for re-election.

The question is: will Calhoun's successor be from within Boeing or an outsider? There is no shortage of analysts who believe the latter is necessary to instill discipline into Boeing's operations.

The aviation industry needs Boeing, but it needs a Boeing producing aircraft with the highest quality control standards. Repairing the company's damaged image and restoring public and industry confidence in its airplanes will not happen overnight.

There is another lesson to be learnt from the Boeing crisis. A regulatory system that allows a company to be responsible for oversight of its own products comes with serious risk, particularly in a market that involves intense competition with such a rival as Airbus.

Governments, not only in the U.S., must sufficiently fund their aviation regulators to ensure they have the staff resources to provide independent oversight of all aircraft manufactured, whether it is Boeing airplanes or the aircraft of rivals, that roll off their Final Assembly Lines. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

Blows to Boeing's reputation keep coming

As Boeing concedes market share to Airbus, the aerospace company continues to suffer more hits to its once iconic global reputation.

Near to press time, another Boeing whistle blower, an ex-quality control manager at major Boeing fuselage supplier, Spirit AeroSystems, Santiago Paredes, took to global television networks to allege new 737s left the Spirit factory with "serious defects" because its staff were placed under pressure to speed up production output. Boeing declined to comment on the allegations. Spirit "strongly denied them" and said it would "vigorously defend them".

Additionally, a U.S. Federal Aviation Administration six-week audit of 737 production processes at Spirit and Boeing has identified multiple incidents of failed quality control at the two factories. More recently, another investigation came across possible safety issues with the wiring of some 787s that could require checking the in-service global Dreamliner fleet, significantly impacting airline network schedules and thus their revenue.

The cascade of bad news has resulted in a downgrade of Boeing's credit standing. Fitch Ratings cut Boeing to negative from stable after the aviation OEM revealed severe cash flow shrinkage. The Fitch downgrade was announced not long after Moody's downgraded Boeing to Baa3. S &P followed with its own downgrade, from stable to negative, a few days later. S&P said Boeing will take longer for its cash flow and credit ratios to recover than previously forecast. As a result, reported the Financial Times, analysts are asking if Boeing may have to issue new equity despite the fact its shares are trading at half pre-pandemic prices.

Fitch Ratings said: "The negative outlook reflects Boeing's heightened execution risks in the next 12 to 24 months as it eliminates legacy inventory, stabilises and increases aircraft

Bonza creditors "could fill a stadium"

At press time, Bonza's five 737-800s repossessed by their lessor, AIP Capital, were on their way to new homes beyond Australia. In the meantime, the LCC's administrator, Hall Chadwick, said it remained on the hunt for new investors so the very young domestic LCC could return to flying.

On May 9, 737-800 "Bruce", co-owned by Canadian carrier, Flair, departed Australia. The other four ex Bonza 737s, Shazza, Malc, Sheila and Bazza, also will soon have new operators as worldwide demand for the single-aisle type is healthy.

Bonza creditors have been told ticket refunds, trade invoices, staff salaries for April and any severance entitlements cannot be paid.

In the same week, another Pacific carrier, Air Vanuatu, bit the dust, after a lessor filed an insolvency claim against the South Pacific airline. By week end on May 11, only five days after the lessor claim was lodged with the courts, the flag carrier's government owner had put the airline into voluntary administration with "Big Four" consultancy, EY, leaving the island nation with disintegrating air transport connections to the world. ■

Global lost baggage rates slide 60%

Between 2007 and 2022, the global rate of mishandled bags was reduced to 7.6 per 1,000 passengers, an International Air Transport Association (IATA) survey of 155 airlines and 94 airlines shows. IATA said industry adoption of its Resolution 753, which requires tracking baggage at acceptance, loading, transfer

and arrival, has been introduced by 44% of airlines with another 41% of carriers in the process of adopting article 753. "Tracking bags at acceptance, loading, transfer and delivery will give the industry the data it needs to improve, reduce overall mishandling and help airlines reunite mishandled bags with their owners faster, IATA director ground operations, Monika Mejstrikova, said. Optical barcode scanning has been adopted by 73% of airports. Tracking by more efficient RFID, which has a 54% usage rate at mega airports (40 million passengers and above a year), has been implemented by 27 airports. ■

production rates, navigates seasonal cash flow volatility, pursues additional corporate actions that should enhance longer-term operations and fulfills its commitment to repay debt and return to [investment grade] metrics."

Separately, the Financial Times has reported a former U.S. Treasury official, Brad Setser, has suggested Boeing is strategically important enough to warrant government financing as Airbus has received in the past.

Late in April, GlobalData's dashboard, Commercial Aircraft Orders and Deliveries, showed airlines and leasing companies in India, China and Singapore, from 2020 to 2024, had fortified the position of Airbus in the Asia-Pacific commercial aircraft market as Boeing's woes had not abated.

"As it is being scrutinized for multiple mishaps involving its 737 MAX aircraft line, Boeing continues to lose ground in the region to its biggest competitor, GlobalData said. Asia-Pacific customers ordered 1,489 Airbus airplanes between 2020 and to date 2024 compared with 561 orders for Boeing aircraft in the same time frame.

"Notable Airbus customers in the region, including IndiGo, Air India, China Eastern Airlines, China Southern Airlines and BOC Aviation, either have chosen not to order from Boeing or have ordered fewer units from Boeing compared with Airbus, GlobalData's Gone Sai Kiran, said.

"IndiGo has the highest number of Airbus orders, at almost 1,000 aircraft against none for Boeing," he said.

"On the other hand, Air India has ordered 250 Airbus jets and 220 Boeing aircraft. BOC Aviation and China Eastern Airlines have committed to 107 and 100 Airbus aircraft, respectively, omitting Boeing from their procurement portfolios. But a major reason for Chinese airlines to avoid Boeing purchases could be the U.S.-China trade war," globalData said. ■

Scoot swoops into second tier destinations with new Embraer jets

From associate editor and chief correspondent, Tom Ballantyne, in Singapore

Watch this space. That's the message from Brazilian plane maker Embraer as its first E190-E2 regional jet to operate in the Asia-Pacific entered service with SIA LCC, Scoot, on May 7. Embraer Asia-Pacific vice president, Raul Villaron, believes there are potential customers for the jet in Vietnam, Thailand and Malaysia where the air framer is engaged in campaigns to clinch deals for the jet.

"We can feel it in our hands," was his assessment of Asia-Pacific opportunities. He said Vietnam Airlines and Vietjet were observing the E195 operations of fellow Vietnamese carrier, Bamboo Airways, on exclusively profitable routes, indicating the Southeast Asian country would be a key market as the two airlines are ramping up capacity post-pandemic.

Scoot's first E190-E2, Explorer 3.0, departed Singapore on May 7 for Thailand's paradise of Krabi with another service to Hat Yai, also in Thailand, to commence at a later date.

The second E190-E2 has arrived in Singapore and is in the final phase of preparations for operations. Another seven aircraft are to be progressively delivered to the end of 2025. Later in May, Scoot will add Koh Samui in Thailand, Miri in Malaysia and then Kuantan and Sibu, also in Malaysia, to the E190 network.

The deal to supply nine of the jets to Scoot, all leased from Florida lessor, Azorra, marks a major breakthrough in the region for Embraer even though other Embraer types operate in the Asia-Pacific: Bamboo Airways, Japan Airlines, Fuji Dream Airlines, Alliance Airlines in Australia and Tianjin Airlines in China.

In another development shortly before the Scoot launch, the Wall Street Journal (WSJ) reported Embraer is exploring a new aircraft to compete directly with the 737 MAX and A320neo families. It is hardly surprising, given Boeing's problems and supply chain issues that the Brazilian manufacturer is considering new designs. The WSJ report indicated Embraer's internal assessments have determined the company has the ability to develop a next-generation narrow-body aircraft. Its current stable of single-aisles – the E195-E2 and the E192-E2 are essentially regional jets and are much smaller than the 737 and the A320 series.

Following publication of the story, Embraer said it "certainly has the capability to develop a new narrow-body aircraft. However, we have a young and very successful portfolio of products produced in recent years. We are really focused on selling those products and making Embraer bigger and stronger".

Scoot put on a gala show for the launch of its first E190-E2. In attendance before the aircraft's departure from Changi airport were Singapore's Minister of Transport and Second Minister of Finance, Chee Hong Tat, Scoot CEO, Leslie Thng, and Singapore Airlines chief executive Goh Choon Phong. The carrier also flew in media from around the region, including from China, Japan, Australia, India and Taiwan, to witness the inaugural flight.

Guests had a first look at the aircraft interior: 112 seats in a 2-2 single class configuration, a standard seat pitch of 29" and large cabin windows. Embraer describes the E190-E2 as the industry's quietest and most fuel-efficient single aisle aircraft.

"Today's launch of our first E190-E2 would not have been possible without the support of our partners and unwavering commitment of all our staff to ensure a successful entry into service. The E190-E2, with its modern operating capabilities and fuel-efficient credentials, was a natural choice as we looked to grow Scoot's fleet," said Thng. "We are confident this new-generation aircraft will continue our presence in the region, enhance our connectivity to non-metro destinations and provide our customers with even more memorable travel experiences."

"We would like to congratulate Scoot on this momentous occasion," said chief commercial officer of Embraer Commercial Aviation, Martyn Holmes, "We are proud to see the modern and fuel-efficient E2 aircraft grace the skies over Singapore and Southeast Asia and would like to thank all the involved stakeholders who worked tirelessly to make this possible."

The addition of the Embraer jets increases Scoot's fleet from two types to three including 787s and A320 family aircraft. This mix adds complexity to the LCC's operations, but Thng said the Embraer jet was chosen after a thorough evaluation and he was confident it made business sense. SIA pilots flying 787s or A320s have been retrained to crew the Embraer, but a recruitment drive is underway to employ more pilots to fly the E190s as they arrive at the carrier in the next 18 months.

Thng stressed Scoot's decision to acquire the Embraer was made in full cooperation with SIA.

The deal to sign and deliver the planes was completed in a relatively short span of 14 months as the acquisition is part of the SIA Group's plan to quickly enter the market and take on untapped, lean routes. The Embraer will replace A320s to some short-haul routes and enable an increase in frequency. Linking Singapore directly with second and third tier destinations in the region will allow passengers flying into Singapore on SIA or Scoot to easily travel on to popular resort destinations in Thailand, Malaysia and Indonesia. The Embraer has a range of some six hours so it is expected Scoot will operate the E190-E2 to markets further afield. Scoot flies to 67 destinations across 15 countries and territories in Asia-Pacific, the Middle East and Europe. In first quarter 2024, Embraer swung to a US$29 million profit boosted by a surge in business jet deliveries. ■

Good times at region's airlines

All categories of most Indo-Asia Pacific carriers reported robust profit increases at first quarter 2024 close. Energetic LCC, Cebu Pacific, more than doubled its net profit, to US$39 million, in the quarter, as did regional airline, Bangkok Airways. It turned in a net profit of US$51 million for the three months as travel to Thailand has boomed. And although fellow Thailand airline, Thai Airways International (THAI), reported an 80.7% profit decline, the US$66 million result for the first three months of this year was a major improvement over years of THAI losses. Elsewhere in the region, Taiwan's EVA Airways delivered a quarterly profit of US$145 million to its shareholders and Fiji Airways recorded its first fiscal year in the black, with a profit of US$58 million, since 2019.

Japan's appeal to the region's travellers continues to attract several of the region's airlines

into the market, particularly in the LLC sector, creating intense competition for the country's own airlines. But in the recent Golden Week peak holiday – from April 27 to May 6 – domestic traffic was healthy. All Nippon Airways flew 1.2 million domestic passengers in the 10 days, up from 1.1 million passengers flown in the year ago holiday. Its rival, Japan Airlines, did not fare so well, with a 7.1% decline in domestic customers transported in the 10 days, but passenger load factor held at 72.1%. Although not within the region, the results of Gulf carriers reflect air travel demand as so much passenger traffic emanates from Asia and is fed to Europe from the United Arab Emirates. Dubai's home carrier, Emirates Airline, has reported an impressive full-year profit of US$4.7 billion to March 31, up 63% from a year ago. Revenue improved by 12.9% for the 12 months, it said, because Emirates had moved quickly to capture the rapid post-pandemic industry recovery. ■

Asia-Pacific LCC international networks proliferate post-pandemic

Most Asia-Pacific low-cost carriers are back in the money after the horrible headaches of the pandemic. Established budget carriers are expanding their networks beyond pre-Covid operations and more low-fare start-ups continue to enter a crowded market. Despite the intense competition in the sector, the future of LCCs in the region looks brighter than ever, reports associate editor and chief correspondent, Tom Ballantyne.

If there was ever evidence the region's low-cost airlines (LCCs) are brimming with confidence about their prospects, industry observers need look no further than the budget arm of the Cathay Group, HK Express. The LCC intends to double its network into China in the next two years and increase its overall capacity by year-end 2024.

In an interview with local media, the airline's CEO, Jeanette Mao, forecast capacity growth of 20%-30% by next December and for its flying to be 170% of pre-pandemic levels compared with its present 140%. In anyone's language that is substantial expansion.

And HK Express is not alone in its ambition. Across the region, LCCs are adding seats and expanding their networks. In a sector dominated by single-aisle jets, more and more budget airlines are introducing wide-bodies into their fleets as they venture on to longer haul routes. It all adds up to a global LCC sector dominated by Asia-Pacific operators.

Indeed, Precedence Research, a Canada/India based company and a leading provider of strategic market insights, estimated the global LCC market at $200.18 billion in 2022 but predicts its value to be $949.97 billion by 2023, delivering an annual growth rate of 16.85%.

In 2022, the Asia-Pacific LCC market was estimated at $145.7 billion, 46% of worldwide LCC sector, trailing in its wake was North America (26%), Europe at 22% and the Middle East and Africa reporting single digit 6%. The region's dominance in the sector is forecast to sustain. In Southeast Asia alone, booming economies like India, Singapore, Indonesia, Thailand, Malaysia, Vietnam and the Philippines are experienced a huge surge in LCC business. According to forecasts, LCCs in the Asia-Pacific's sub regions are poised to bring in revenue of $43.57 billion in 2028.

LCC aircraft orders underpin the projections of phenomenal Asia-Pacific LCC growth. India's IndiGo has committed to 939 A320 and A321 jets. Vietjet has 345 planes in the pipeline, including 22 A330 family types. Indonesia's Lion Air has an order book of 238 MAX variants. Further north, Malaysia-based AirAsia has booked 367 A320s and A321s.

Other LCCs across the region have ordered hundreds of new jets for delivery in the next two decades.

At the same time, the red ink that washed over all airlines during the pandemic has turned black for most LCCs. Some examples: Philippines LCC, Cebu Pacific, has reported a profit of near $141 million in 2023 on the back of resurgent air travel demand. It was a reversal of a net loss of $247 million in fiscal 2022, clearly demonstrating Filipinos have regained confidence in flying. Vietjet has recorded consolidated revenue of $2.55 billion in 2023, an increase of 56% year-on-year and booked a profit of $14 million for the full year.

In Kuala Lumpur, Capital A, parent of AirAsia, announced its first 12 months of profit since pre-COVID 2019 thanks to a strong air travel and freight rebound. Net profit was $107 million for the year to last December 31 from a loss of $695 million in the previous year. Capital A CEO and co-founder of AirAsia, Tony Fernandes, said the group has emerged "stronger and more resilient than ever" helped by its diversified business model.

In April, China LCC, Spring Airlines, posted revenue of $560

million in its first quarter of 2024, up 63.6% year-on-year. Net profit for the three months was $49.2 million compared with a $60.4 million loss in the same period a year ago. Last year was devastating for China's air carriers as people stayed home and COVID restrictions killed off air travel

Before 2020, China's civil aviation business had been profitable for 11 years. In the past three years, the industry lost an estimated $50 billion.

In Australia, Qantas Group LCC, Jetstar, has expanded its international capacity by 38% year-on-year as it added routes like Melbourne-Fiji and Brisbane-Tokyo to its network. Driven by leisure demand, Jetstar International has increased its latest profit before tax (PBT) to $150 million despite lower fares. Flying 15% more capacity and with less operational disruption, Jetstar Domestic has reported its most recent PBT profit was $175 million, a massive 35% increase.

And the market is hotting up with more LCC airlines starting across the region. AirAsia's newest subsidiary, AirAsia Cambodia, will commence operations on May 2 with three domestic destinations - Phnom Penh, Siem Reap and Sihanoukville. The LCC's operational base is Phnom Penh International Airport (PNH). Initially, it will operate with two A320s.

All Nippon Airways (ANA) has embraced the LCC model with the launch of AirJapan, a former charter carrier established in the 1990s. The new LCC has transitioned to an all-B787-8 operator. Its first routes as a medium to long-haul LCC are to Bangkok and Seoul, both launched in February, with more destinations to come as its fleet grows.

An interesting development is the LCC sector's increasing use of wide-bodies. OAG data has reported Asia-Pacific LCCs have a combined in-service fleet of 116 wide-bodies, up 10% from pre-pandemic 2019 and equating to 75% the global LCC twin aisle fleet. In comparison, 17 wide-bodies are operated by LCCs in Europe, 11 in Latin America, seven in North America and three in the Middle East.

Operators include Japan Airlines subsidiary, ZIPAIR, which started flying less than four years ago. It is expanding utilization of its eight B787-8s. Initially launched as a cargo-only carrier in June 2020, it has increased its network to eight destinations from Tokyo Narita, including Los Angeles and San Francisco and from last month Narita to Vancouver.

South Korea's second largest LCC, T'way Air, has been flying wide-bodies for two years, operating A330-300s from Seoul Gimpo to Jeju island, a 280-mile flight that is the busiest domestic passenger route in the world. Seoul Incheon to Bangkok Suvarnabhumi and to Singapore Changi have followed as has the carrier's first long-haul route, to Sydney. CEO Jeong Hong-geun said its A330s helped T'way enjoy its best ever year in 2023, facilitating expansion in markets such as Osaka and also better matching supply and seasonal demand to cities like Ulaanbaatar, the capital of Mongolia.

IndiGo has ordered 30 A350-900s this month. India's largest airline inducted its first B777-300ER into its fleet in February last year on a wet-lease from Turkish Airlines. It has since added three more of the type to its operations, serving Delhi-Melbourne and Mumbai-Istanbul.

It has not been happier times for everyone. Vietnam Airlines LCC, Pacific Airlines, suspended all flights in March 18 as it restructures with all of its aircraft returned to their lessors. Passengers impacted by the LCC's sudden grounding were transferred onto Vietnam Airlines-operated services or provided with alternative options.

Nevertheless, there is little doubt, given no Black Swan events, that the Asia-Pacific LCC sector is on an impressive upward trajectory. ■

BOEING'S BATTLE TO REBUILD CUSTOMER AND PASSENGER TRUST

Problems continue to plague aerospace giant Boeing as it struggles to rebuild its reputation, particularly its safety culture. The company's biggest senior management change in years is underway. The new team must establish how much damage has been done to the Boeing brand and then restore confidence in the quality and safety of the aircraft it builds. Associate editor and chief correspondent, Tom Ballantyne, reports.

Analysts and aviation industry insiders had been calling for leadership change at Boeing for months, believing a renewal of top management was critical to rebuilding the company's battered image. In March their advocacy became reality when it was announced Boeing CEO, David Calhoun, will retire at the end of the year. Previously, he had been expected stay in the job until 2028.

That was not the end of it. Also out, the head of the company's commercial airplanes unit, Stan Deal. He was replaced immediately by Stephanie Pope, who had been chief operating officer since January 1. Boeing chair, Lawrence Kellner, a former head of Continental Airlines, also announced he would not stand for re-election in May at the company's AGM.

"It seems they finally caved in to global pressure", analyst Shukor Yusof, head of Endau Analytics, said. "While many would welcome the much-needed substitution at the top, this has come a tad too late."

Shukor believes the damage has been done. For many Boeing airline customers, disruption to deliveries is a loss of revenue and opportunity. Malaysia Airlines, as an example, was expecting to accept 10 B737 MAX8s this year, a circumstance now unlikely.

"Moreover, despite these minor and unsurprising rejiggings of executives, I am not convinced there will be a change in attitude. Old (bad) habits die hard. It will take time for genuine change to happen. In the meantime, we can only hope there will not be more mishaps until the end of 2024, when Calhoun is to depart," he said.

The leadership changes followed another incident involving a B737 MAX. In January, a door panel blew off a Alaska Airlines airplane midair. Then, in April, there was more controversy for Boeing when a whistleblower claimed the company dismissed safety and quality concerns in the production of its B787 and B777 jets. The Federal Aviation Administration (FAA) confirmed it is investigating the allegations.

Boeing engineer Sam Salehpour said he faced retaliation, including threats and exclusion from meetings, after he identified engineering problems affecting the structural integrity of the jets and claimed Boeing employed shortcuts to reduce bottlenecks during B787 assembly.

He alleged these practices could dramatically shorten the life spans of aircraft as they age, potentially leading to catastrophic failures. Boeing halted deliveries of the B787s for more than a year until August 2022 as the FAA investigated quality problems and manufacturing flaws.

In a statement, Boeing said it was fully confident in the B787 Dreamliner and added the claims "are inaccurate and do not represent the comprehensive work Boeing has done to ensure the quality and long-term safety of the aircraft". It insists extensive testing, overseen by the FAA and inspections of the Dreamliner fleet in service show gaps found in the fuselage joins are not a safety risk.

But Salehpour alleges Boeing used shortcuts to reduce bottlenecks during the B787 assembly process that placed

"excessive stress on major airplane joints and embedded drilling debris between key joints on more than 1,000 planes". Dozens of B787s and B777s are operated by airlines in the Asia-Pacific.

Calhoun, a Boeing director since 2009, took over as CEO in January 2020 following the fatal crashes of two B737 MAX jets in 2018 and 2019. He said the decision to leave at the end of the year was his own and the timing will allow for an orderly transition.

But he has been under increasing pressure and relentless criticism since the Alaska Airlines incident. In a note to Boeing employees, he called the Alaska Airlines blowout a "watershed moment for Boeing" that requires a "total commitment to safety and quality at every level of our company. The eyes of the world are on us. I know we will come through this moment a better company, building on all the learning we accumulated as we worked together to rebuild Boeing over the last number of years".

Boeing has lost more than $23 billion since Calhoun took over, although most of that is residual damage from the two MAX crashes in Indonesia and Ethiopia. Boeing shares have fallen more than 40% in that time and by some 24% since the Alaska Airlines incident.

And the hits keep coming for the company.

As recently as March, a LATAM Airlines B787 Dreamliner en route from Australia to New Zealand took a terrifying plunge injuring 50 passengers. It was the latest episode in five years of bad publicity for the plane maker. As it happened, the event was reportedly caused by a mistake made in the cockpit and not flaws in the Boeing jet.

The Wall Street Journal, citing unnamed U.S. industry officials briefed on preliminary evidence from an investigation of the incident, said a flight attendant may have mistakenly hit a switch on the pilot's seat while serving a meal, leading a motorized feature to push the pilot into the controls and push down the aircraft's nose. The pilot eventually recovered control and landed the plane safely.

While the incident was likely caused by human hands and not a mechanical fault, for Boeing it returned the company to the spotlight; the latest incident in its litany of woes of thelast five years.

Separately, Boeing has been subjected to an extensive audit by the Federal Aviation Administration (FAA) and an investigation by the NTSB.

The findings were damning. According to the FAA, Boeing failed 33 of 89 product audits. It also examined Spirit AeroSystems, the maker of the B737 MAX fuselage that blew out the door panel over Portland. In the Spirit audit, a hotel key card and dish soap were observed being used on a door seal. Boeing has confirmed it is in discussion with Spirit, which it divested nearly 20 years ago, to bring it in-house, a move it hopes will give the company more control over the quality of manufacturing key components.

The FAA found multiple instances where the two companies allegedly failed to comply with manufacturing quality control requirements. It identified non-compliance issues in Boeing's manufacturing process control, parts handling and storage and product control. In February it released a report on the findings of a review of the safety management processes and effectiveness of these safety management processes within Boeing. In summary, the report acknowledged gaps within Boeing's safety management and acknowledged a disconnect between senior management and rank and file employees about the firm's safety vision.

In late February, during an all-day safety discussion at FAA Headquarters, FAA Administrator Mike Whitaker told top Boeing officials the planemaker must develop a comprehensive action plan to address its systemic quality control issues to meet FAA's non-negotiable safety standards. "Boeing must commit to real and profound improvements," said Whitaker following the meeting with Calhoun and his senior safety team. "Making foundational change will require a sustained effort from Boeing's leadership. We are going to hold them accountable every step of the way, with mutually understood milestones and expectations."

Whitaker told Boeing he expects the company to provide the FAA with a comprehensive action plan by the end of May that will include the steps it will take to mature its Safety Management System (SMS) program. Boeing also must integrate its SMS program with a Quality Management System, which will ensure the same level of rigor and oversight is applied to the company's suppliers and create a measurable, systemic shift in manufacturing quality control. The FAA has forced Boeing to slow down, capping production of the B737 MAX at 38 jets per month.

So, what impact is all this having on Boeing's brand and reputation? "Beyond the decline in its stock price, the harm events in the past five years (starting with the two MAX tragedies) have had on Boeing - while not insurmountable - requires a complete overhaul of the company," says Endau's Yusof. "Clearly the brand is suffering greatly in the eyes of the public. That said, its MAX jets - as well as the 787 - are still selling well and have the confidence of many top carriers and lessors. This indicates the market has faith in Boeing and the planes it produces, despite the frequent mishaps we have seen since the start of 2024".

Ratings agency, Morningstar DBRS, also warns the re-emergence of safety concerns at Boeing will materially affect the company, including its ability to make timely deliveries, which is affecting airlines. It says airline growth plans are being slashed because of delivery delays and operational disruptions may occur. These disruptions could result in higher airfares, and decarbonization targets could be affected because of delays in fleet modernization.

"We previously expected the airline sector to continue its growth trajectory, with high single-digit growth in 2024 despite a weaker macroeconomic environment. However, with Boeing's recent issues as well as existing capacity constraints, that growth forecast may be optimistic," said Rohit Kumar, Morningstar Assistant Vice President of Corporate Ratings, Diversified Industries.

There is little doubt the MAX problems are having an effect on Boeing production. U.S. airlines have been the worst affected. United Airlines chief executive, Scott Kirby, speaking at a JP Morgan conference, acknowledged the carrier is considering an A321neo order to replace previously ordered 737 MAX 10s, certification of which remains subject to delays.

Speaking at the same conference, Southwest Airlines chief executive, Bob Jordan, cited B737 MAX delivery delays as causing the carrier's highly constrained 2024 growth plan. "Fix the culture, whatever is at work here. We all need Boeing stronger two years from now, five years from now, 10 years from now. And that takes precedent over delivery delays. Boeing needs to become a better company – and the

deliveries will follow that."

There may be another beneficiary of Boeing's problem, as well as delivery issues at Airbus. In a March investor report, Morgan Stanley declared Brazilian planemaker Embraer as it's new "Top Pick" for investors. "We see Embraer as a third Commercial Aerospace player rising to the occasion and breaking into the duopoly of Boeing and Airbus. After decades of investments, Embraer is entering a harvest period," it said. "As Boeing struggles with aircraft production and delivery, and with Airbus' backlog already filled until the end of the decade, Embraer is the third commercial aircraft manufacturer rising to the occasion. We expect Embraer to be a beneficiary of commercial aircraft orders in an environment where aircraft demand exceeds supply," he said.

It said Embraer is poised to thrive in this upcycle because the company has a refreshed portfolio of new products like the E190-E2 and E195-E2 in the commercial passenger jet portfolio, as well as expanded maintenance, repair and overhaul (MRO) services. "Embraer has matured from a niche aircraft manufacturer to a globally prominent diversified Aerospace & Defense company poised to win market share".

Trade winds are shifting in Embraer's direction after American Airlines ordered 90 Embraer E175s, with purchase rights for 43 additional aircraft in March this year, says the report. "We highlight that Embraer received more aircraft orders than both Airbus (85 A321neo) and Boeing (85 737 MAX 10) in this announcement, supporting the value that Embraer provides. Even though the E175 is still in the regional jet category and therefore not quite an apple to apples to Airbus and Boeing, the American Airlines order is strategic in that it fills Embraer's backlog through 2026 and production stability helps Embraer to compete toe-to-toe with the A220/ A319neo and the 737 MAX 7 with the Embraer E190-E2 and E195-E2."

Another emerging threat to the two big planemakers, although not in the short term, is the Commercial Aircraft Corporation of China (COMAC) entry into the single-aisle jet market, the C919. It appeared at this year's Singapore Air show, and did a promotional tour through the fast-growing aviation markets of Singapore, Vietnam, Laos, Cambodia, Indonesia and Malaysia. At each stop, the Shanghai-headquartered enterprise presented its C919 to potential buyers as a viable alternative to the A320 and B737.

As the C919 tour progressed, COMAC said its goal was to showcase the aircraft and lay "the groundwork for future market expansion in Southeast Asia". However, the aircraft is certified only by the Civil Aviation Administration of China, which approved it in September 2022. The narrow-body jet entered commercial service with China Eastern Airlines in May last year. COMAC says it has more than 1,000 orders for the C919, but most of those are from Chinese airlines and aircraft lessors. At the Singapore Airshow, COMAC took orders from Tibet Airlines, a Chinese entity, for 40 C919s. China has said it wants to secure broader international recognition for the C919 and plans on pursuing European Union Aviation Safety Agency certification.

Boeing and Airbus don't appear to be concerned by any potential threat from the Chinese jet. At a media roundtable during the Singapore show, Airbus commercial business chief executive, Christian Scherer, said the C919 is "not going to rock the boat in particular," adding it was a "legitimate effort" by China but is "not very different" from Airbus and Boeing aircraft.

Dave Schulte, Boeing's commercial marketing managing director for the Asia-Pacific, said airlines in Southeast Asia may consider ordering C919s, but warned that COMAC will face the same supply-chain disruptions as Boeing and Airbus as post-pandemic demand for air travel increases. Assembled in China, the C919 relies heavily on components, including engines, from companies outside China such as GE and Honeywell International.

Boeing's road to reputational recovery isn't going to be a short trip. Even with the major leadership changes it will take lots of time and a great deal of effort to restore public and industry confidence in the brand and a halt to the seemingly endless incidents involving its planes. ■

NOW OR NEVER PANDEMIC MOMENT TRANSFORMS MALAYSIA'S FLAG CARRIER

After more than a decade of losses, Malaysia Airlines has a balance sheet in the black and a growth trajectory. The flag carrier is on a tear to catch up with its full-service peers and regain its position as one of the world's best airlines. Associate editor and chief correspondent, Tom Ballantyne, reports.

It is ironic that COVID-19, the worst crisis in aviation history, turned out to be the savior of Malaysia Airlines. "Malaysia Airlines Group managing director and CEO, Captain Izham Ismail, told Orient Aviation last month. "I don't deny that in the first weeks of the pandemic I lost all hope. Then I realized this was actually an opportunity for us," he said.

With a debt-laden balance sheet, Malaysian Airlines had been battling for years to negotiate better contracts with individual creditors, some 75 of them, including aircraft lessors and OEMs. In mid-pandemic 2021, the airline negotiated, through a scheme of arrangement in a UK court, the gathering of all its creditors into one basket. With the support of major shareholder, Malaysia' sovereign wealth fund Khazanah, and the Malaysian government, an agreement for a way forward for the airline group was reached.

Today, that way forward is paying off. Izham and his team have hauled the airline back from the abyss. In 2023, MAG's LCC Firefly, regional MASwings, engineering and cargo divisions, AeroDarat Services and an aviation training academy, recorded a positive operating profit for the second consecutive year of $186.4 million. It was a 64% improvement from $113.2 million in 2022. Cash balance stood at $900 million with no capital injections from main shareholder, Khazanah, since October 2021.

MAG recorded its first net profit after interest and tax in fiscal year 2023 of $160.6 million, a swing of $230 million from a negative $72.1 million the previous year. The airline division last reported a profit in 2010.

The shift in strategy, implemented by Izham and his team, has produced significant movement in the airline group's sources of revenue. Historically, 55% of revenue generated by Malaysia Airlines (MAS) came from domestic operations and 45% from international travellers.

"Today, as I speak to you, close to 90% - yesterday's number was 88% - was driven by international," Izham said. "It shows we are encroaching into the market share of very strong premium airlines. It is actually a mammoth task for MAS to arrive at that space. We know it cannot be overnight. It requires a journey of resilience and ensuring we smartly invest in hardware products that enable us to compete."

For the last two decades, MAS has been trying to find its footing, he said. "There were times we were going head on with low-cost carriers and there were times there was uncertainty about our business model and strategy. Was it moving forward?" he said.

"Most importantly, we had to acknowledge it was quite tough for us to move forward with the type of balance sheet we had."

But MAS has moved forward in several key areas. It stopped competing with LCCs and focused on premium travellers. It put effort into increasing international services. It thought outside the box when it came to paying its bills which, as a global company, mostly were written in U.S. dollars.

With a weak Ringgit, exchange rates were a problem. "By focusing on international flow and putting a lot of focus on our international points of sale, a natural hedge was created for our weak Ringgit. By October 2021, it actually benefitted itself. Everything fell into place at that time," Izham said.

"We have generated positive cash flow since October 2021. Today, I would say, we have a comfortable cash balance that is more than 50% in US dollars. It means we don't have to convert Ringgit to U.S. currency to pay our creditors. It's a direct transaction and reduces financial pressure on us."

Diversity is another key aspect of the airline group's strategy. A lesson learnt from the pandemic was the group could not over-rely on the airline passenger business, Izham told Orient Aviation.

"By 2027, we aim to drive topline revenue from non-airline businesses by 30%," Izham said. "Historically, we are doing 90% plus on airline revenue. So, we are diversifying more towards non-airline [businesses] like MRO, our [crew training] academy, our cargo business and so forth," he said. Last year, non-passenger revenue contributed 22% to the group's bottom line.

Introducing the latest generation aircraft into the fleet underpins the drive to be the best premium product for MAG customers. The group has 76 Airbus and Boeing jets with orders in place for 45 aircraft.

Current fleet composition is A330-200s (20), A330-300s (15), A350-700s (7), 737-800s (42), B737 MAX 8s (3) and three A330-200 freighters. It has ordered 20 A330-900s, three A350-900s and 22 737 MAX-8s. Malaysia Airlines subsidiaries, Firefly and MASwings, operate 17 ATR 72-500s and 72-600s. Some 90% of the MAS fleet is leased and all new planes will be on lease.

Problems at Boeing have been an issue. The airline was expecting to accept 12 MAX-8s this year, but delays have reduced deliveries to eight of the type, Izham said.

"It is such a very unstable environment Boeing is facing today, but I am confident, to a certain extent, Boeing will put its act in order. We hope we will receive the airplanes. It is important, not only because of the hardware product, but because the MAX -8 promises more efficient fuel consumption," he said.

If deliveries are pushed back again, the airline group has initiated a conversation with its B737 NG lessors to potentially extend leases to fill gaps, Izham said. In the meantime, enhancements are well underway on MAS's existing fleet with 27 jets retrofitted with new seats.

More aircraft orders are on the cards. It has 20 lease options on A330neo. Izham said it is likely these options will be activated allowing for wide-body fleet growth. It also has issued a Request for Proposal for new narrow-body jets.

Izham is optimistic the airline group will be flying 50 narrow-bodies and 50 wide-bodies by 2033. "We are putting a lot of emphasis A330neo because our journey ahead is basically to focus a lot on the Asia-Pacific. We added new destinations last year and this year we are launching to certain points in India, Thailand and Maldives," he said.

"The network expansion will continue more aggressively once we have the three additional A330 neos with us. New destinations in Europe are not being discounted, depending on market viability."

Important pillars in the airline's strategy are strengthening its position as the premium airline in Asia, that is to reinvent itself.

And also having deep collaboration with partners, such as its recently announced partnership with IndiGo, India's biggest airline.

"We don't have 500 airplanes like IndiGo. We don't have 1,000 airplanes like American Airlines. So partners are very important to us in taking our customers beyond the network Malaysia Airlines physically flies," Izham said. "I am proud to share with you that Malaysia Airlines, with its partners, flies to nearly 1,100 destinations in 170 countries."

India in particular is a very important market for MAS, Izham said. "IndiGo serves more than 100 airports in India. To us, a partner for domestic India is very important. Our offering to IndiGo is to strengthen its international Asia-Pacific network. It is a very good synergy we believe will benefit both organizations," he said.

Izham has declared 2024 the "a year of building credibility" for MAS with its top priority being restoration of its reputation for premium service. The Long-Term Business Plan 2.0 (LTBP 2.0) has five main pillars: to become a premium Asia-Pacific carrier, to recapture its domestic and Asean markets, to drive deeper commercial partnerships, to diversify its revenue streams and make digital the cornerstone of its business.

It has set out three customer value propositions (CVPs) to achieve by 2030. "The first of the three CVPs is cabin comfort, which comes with new airplanes. We will retrofit our older planes at new cabin standards to align with the new A330neos. We intend to do that with our fleet of seven A350s in 2025. If any of our passengers walk into the cabin of these aircraft, they will not notice the difference," he said.

"The second CVP will address our cabin services. We must uphold customers as our centre of gravity and serve them with empathy.

"When we say 'Malaysian Hospitality', what does it actually mean? It is welcoming our passengers and staff as if we are welcoming them into our home. Not only in the cabin, but from the point of booking, shopping and the check-in counter. That is until customers arrive at their destinations. This starts from our staff and then to our suppliers, vendors and partners," Izham said.

"The third CVP is enhancing customer experience through in-flight dining."

Izham believes MAS has a responsibility as the national flag carrier to encourage tourism inflow into Malaysia. The airline has created products to attract travellers to stop over in Malaysia. "As an example, take a customer travelling from London to Sydney. Historically, these passengers are VFR (visiting friends and relatives) traffic with no desire to have a stop in Kuala Lumpur," he said.

"So Malaysia Airlines introduced a bonus. For the same fare family you purchase for London to Sydney, we throw in a free ride for you, a side trip to Langkawi or Penang. Or another location, we also have partnered with a few hotels to offer as much as a 45% discount on

> We are responsible enough to reroute our customers due to cancellation of flights and we will do that at a very advanced stage, not on the day of departure. The timeline we have established internally is seven days beforehand. We will decide [then] if an airplane is available or not. We give early warning to our customers

Captain Izham Ismail
MAG CEO

accommodation. It induces tourism," he said.

Digitalization is another critical area of development for MAG. "Digital is one of our key pillars. In the long-term business plan we rolled out in 2017 and improved in 2021, the fifth pillar is digital," Izham said. It is vital to improving efficiency and speed of execution and it is a cornerstone of customer service. It contributes to a hassle-free travel experience, a hassle-free shopping experience and a hassle-free management of travel portfolios," he said.

In the second half of this year, as part of MAG's digitalization, MAS and Firefly will begin using an online chatbot, powered by AI (Artificial Intelligence), to respond to customer calls.

Question? What keeps Izham awake at night? Answer. Foreign exchange rates, the value of the Ringgit, interest rates and the price of fuel. But as MAG CEO, Izham is very confident about the airline's commercial strategy.

"I am worried about macroeconomics driven by geopolitics. The reality is, as professionals we must embrace and accept that another pandemic is bound to happen. I believe very strongly we cannot discount there is high potential for more economic pressure or a disease related issue," he said.

"With that in mind, MAS has to future-proof itself against any potential economic downturn driven by geopolitical conflicts such as what is happening in the Middle East. We have to brace ourselves."

Whatever lies ahead, Izham said, MAS has established a pathway for moving forward in the next five to 10 years. "We want to be the most improved airline by 2025-2026. We want to be in the top ten league in the world by 2030. "We will put all our energy and focus on ensuring we deliver these positions," he said. ■

Orient aviation

31 YEARS