

# Orient aviation

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## PAL'S PILGRIMAGE TO PROFIT

Jaime Bautista returns to  
Philippine Airlines after the  
carrier is set free from brewer

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**21**  
years

THAI's tough road  
to transformation

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## Solutions for safer skies

Air traffic providers are straining to cope with accelerating capacity and route development across the region. That's not news. Many Asia-Pacific countries are operating in an environment equipped with mismatched technology of varying sophistication across flight information zones. That's not news either.

But what is news, more extensively reported since the fatal crash of Indonesia AirAsia flight QZ8501 on December 28, is the progress being made in developing a more efficient system of Air Traffic Flow Management (ATFM).

At present, countries with superior ATM systems offer their airline customers separation of up to 10-15 nautical miles. In countries not so well equipped, to ensure safe flying, it can be 30 nautical miles. In the Asia-Pacific, this lack of ATM standardization adds up to hundreds of flight delays every week, wasted fuel and, consequently, extra costs for carriers.

However, the combined efforts of the International Civil Aviation Organization (ICAO), the International Air Transport Association (IATA) and national regulators are assisting a number of Asia-Pacific nations to put in place an upgraded ATFM.

Initially, the upgrade will be applied in groups of three, four or five states, but eventually all participating countries

will come together and offer ATFM across the region.

But this will take time and it is only part of the solution. In the Asia-Pacific, as elsewhere, countries vary enormously in their application of ICAO aviation safety rules. Examples include licencing of pilots, engineers and other service providers.

A single regional aviation safety organization, as proposed by AirAsia group chief, Tony Fernandes, and Indonesia and China's civil aviation regulators, to align safety standards across the Asia-Pacific, appears a good idea.

But closer examination of the idea reveals what airlines already know: persuading all countries in the Asia-Pacific, with their diverse cultures and political systems, to agree to a common set of safe flying rules will be easier said than done.

Fernandes and his supporters of an Asean (Association of South East Asian Nations) aviation regulatory organization argue if the association's member countries, from sophisticated Singapore to evolving Myanmar, and from fast-growing Indonesia to emerging Laos, could successfully implement a standard set of ICAO based safety and technical rules, their success would encourage other countries in the region to follow suit.

As with ATFM, the concept could gradually be phased in until region-wide standardization is achieved. ■

**TOM BALLANTYNE**

*Chief Correspondent*  
Orient Aviation Media Group

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## Clearing skies

What a difference six months made for the **Qantas Group**. After announcing a full year loss of US\$2.2 billion for the fiscal year to June 30, 2014, **CEO Alan Joyce** has reported an after tax profit of \$160.1 million for the six months to December 31, its best interim result for four years. Analysts have predicted a \$1 billion income for the group for the full year, a forecast that drew no comment from Qantas management.

Joyce, who has been heavily criticized for a series of massive losses at Qantas in recent years, said the return to profit was due largely to the group's \$1.6 billion three-year business transformation plan, which has produced savings so far of \$290.7 million. **Qantas International** was profitable for the

first time since the global financial crisis, with underlying earnings of \$45.9 million, compared with a loss of \$249.5 million, over the previous year.

Interim results at **Virgin Australia** also were encouraging with **Virgin Australia CEO, John Borghetti**, reporting a pre-tax profit of \$7.9 million, compared with a \$35.3 million loss 12 months ago. However, the airline group was still in the red for the six months, with a loss of \$41.3 million, albeit a 28.5% improvement over the previous 12 months. Borghetti has put on record that his airline has built a 20%-25% share in the corporate and government sector and that it is on target to achieve its goal of 30% of the lucrative sector.

**Virgin Australia's 100% budget subsidiary,**

**Tigerair**, announced a \$19.3 million loss, but was reported to be improving, with Borghetti expecting both airlines to produce better performances in the second half, to June 30.

Across the Tasman, star performer, **Air New Zealand**, continued its robust results run when it reported a record \$159.5 million profit for the period, a 20% increase over the same months in 2014. The carrier's **CEO, Christopher Luxon**, attributed the results to strong revenue growth, underpinned by increased capacity and improved yields. He forecast capacity expansion of 12% as new aircraft arrived at the airline and said that continued sales momentum should result in a significant improvement in earnings for the full year to June 30. ■



## PEOPLE

**All Nippon Airways (ANA)** has announced that **senior vice president, Shinya Katanozaka**, will succeed **Shinichiro Ito** as **president and CEO of ANA Holdings** on April 1. Ito, who has led the airline group through a transformative period of growth, will take over from **Yoji Ohashi** as **chairman of ANA Holdings**.

*Jet Airways* has promoted **Ravichandran Narayan** from **vice president finance to acting chief**



*financial officer, a position that has been vacant at the Indian carrier since former CFO, Ravishankar Gopalakrishnan, who also had been acting CEO, left the airline last May.*

**Dr Fang Liu**, **director of the department of international affairs at the Civil Aviation Administration of China (CAAC)**, is expected to succeed **Raymond Benjamin** as the **secretary general of the International Civil Aviation Organisation (ICAO)** when he retires in mid year. If

successful, Ms Liu will be the first woman to lead ICAO and its 191 states. A lawyer by training, who completed her PhD in air and space law at Leiden University in The Netherlands, Liu joined the CAAC in 1987. In a distinguished career, which included formulating China's emerging air services agreements legislation, Liu has been elected as **chairman** of the air services group of the **Asia-Pacific Economic Conference (APEC)**, chosen by China to be its representative on the Air Transport Regulation Panel of ICAO and has been a long time representative on ICAO's Air Transport Regulation Panel. ■

# Tough road to transformation

Struggling Thai Airways International and AirAsia X aim to come back from the dead under new leadership.

**TOM BALLANTYNE reports**

**T**hai Airways International's (THAI) new president, Charampom Jotikasthira, has not received much leeway from the country's ruling military junta. Its State Enterprise Policy Committee, the so-called "Super Board", met in late January and laid down the law. THAI, it declared, won't be allowed to go bankrupt, but it has to cut 30% from its costs, increase revenue, drop unprofitable routes, restructure its assets and sell aircraft.

The committee, chaired by the Prime Minister, General Prayut Chan-o-cha, was in no mood for compromise. Under a rehabilitation plan it has approved in principle, the airline will have to make changes to management, personnel and also staff benefits. While no time frame has been identified, THAI will be required to reduce its employees from 25,000 to 20,000 in a program it hopes can be executed on a voluntary basis.

Charampom, a former Stock Exchange of Thailand (SET) president, got the message. He had cancelled the Bangkok to Johannesburg route in January and days later ordered services to Madrid and Moscow from Bangkok, and from Phuket to

Seoul, to end this month. Flights to Los Angeles are also on the list for termination, but a decision won't be made until the second quarter of this year. The cancelled destinations were all in the red with the Bangkok-Los Angeles flights suffering the same fate, the president said.

Charampom plans to sell 22 of the carrier's 102-strong fleet by the end of July. He said the job cuts will only be carried out if all other measures to save money fail. All the airline's assets will be evaluated, he said. Divisions in THAI that don't deliver good returns will be sold, he added.

Charampom is the carrier's sixth president since 2000. Most of his predecessors departed prematurely, with the sackings largely blamed on Thailand's divisive politics. THAI has reported consecutive losses for the last five quarters and has not released full year figures for 2014. It made a loss of \$284 million for the first nine months of the year, to September 30. Analysts expect it to post one of its largest annual losses ever for the full 12 months.

The transformation plan, announced five weeks after Charampom accepted the presidency, includes a strategic framework covering six major areas, aimed at introducing

stability and sustainability at THAI and restoring respect for the national carrier.

It involves three stages: mitigating losses by cutting perennially loss-making routes, building THAI's competitiveness in product offerings, service, and human resources and re-building the airline on the back of new organizational strengths.

The six strategic initiatives are:

- Network strategy: Improve the network's destination selection and route performance
- Rationalise the number of aircraft and aircraft types. Apart from selling 22 aircraft some deliveries will be postponed
- Develop a commercial strategy to deliver more revenue
- Adopt international best practices for operations and improve cost control
- Adopt a structure suited to the new competitive environment along with an appropriate remuneration policy
- Adopt a systematic approach to manage core and non-core businesses

THAI has been operating for years with managements that have had to endure political interference that eroded the airline's image, morale and

productivity. Most recently, after months of political upheaval that led to a damaging decline in visitors to Thailand, a military junta took control of the country last May.

In 2014, THAI passengers declined by 17.4%, the biggest drop off since 2004. Competition from the increasing number of low-cost carriers either based, or flying into Thailand, also eroded the carrier's passenger traffic.

"THAI's 2014 performance was clearly impacted by a prolonged period of civil unrest and political instability. But THAI also has myriad long-term issues - both internal and external - that it failed to address in prior restructurings," said consultancy CAPA.

As THAI sets off on its hopeful trek to recovery, in neighbouring Malaysia, long-haul LCC, AirAsia X, launched its own turnaround, including the departure of long-time chief executive, Azran Osman-Rani, who stepped down on January 30.





The airline's co-founder, Kamarudin Meranun, is running the carrier, in the new role of group chief executive that will involve overseeing all the airline's brands, encompassing AirAsia X Berhad in Malaysia, AirAsia X Thailand and Indonesia AirAsia Extra. Benyamin Bin Ismail, who joined AirAsia in 2010 to head up investor relations, has been appointed acting chief executive of AirAsia X Berhad.

No reason has been given for Azran's departure, but the carrier has been struggling to make money for some time. In the three months to last September, it posted a net loss of \$58 million, its worst quarterly result since its listing in July 2013.

Operating A330s, mainly on routes to Australia, Japan and China, it faced increasing competition and suffered from



the fallout of two Malaysia Airlines accidents last year. The recent crash of an Indonesia AirAsia A320 on a flight from Indonesia to Singapore is expected to have an impact on the brand, although some analysts believed the airline could return to profit this year

because of lower fuel costs.

Kamarudin said he would spearhead strategy for the AirAsia X group while he and Benyamin would lead the reorganization and turnaround at the carrier. "Over the past few months, we saw the company facing challenges

in a difficult environment. After a thorough review, a decisive turnaround plan was initiated to put the company on a substantially better financial footing to ensure we bring back confidence to the market," said Kamarudin.

"With this robust plan in place, AirAsia X will advance to the next chapter of growth and uphold its leadership position in the long-haul, low-cost market. The AirAsia X board and the co-founders, including myself, have confidence in this plan. We will be executing a rights issue and will fully underwrite our portion in support of the company. I am truly confident in turning this company around and bringing it to profitable growth."

No details of the timing and the price of the shares for the \$109 million equity rights issue were disclosed. ■

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# ICAO rapidly revises aircraft tracking rules

The 191 member states of the International Civil Aviation Organization (ICAO), often accused of lumbering decision-making, achieved an unusual feat in February. In a single meeting, they agreed to revise the rules for real time, global tracking of commercial aircraft.

**Tom Ballantyne reports**

It's not official yet, but ICAO's Second High Level Safety Conference (HLSC2015) last month backed new rules that will make it obligatory for all airliners to be tracked in real time from November 2016. Airlines will be required to track their aircraft using a system that routinely identifies their positions at 15 minute intervals.

The decision, announced at the conclusion of the ICAO meeting in Montreal in early February, will apply to aircraft wherever they are flying. The new rules are expected to be ratified at ICAO's Council meeting in November this year.

When an airplane is in distress, the system will repeat the signal every minute," explained ICAO chairman, Olumuyiwa Benard Aliu. "Global tracking will not prevent

accidents, but it will mean no more lost jets,"

The trigger for minute-by-minute reporting would include any unexpected change in altitude or deviation from a flight path. These changes will allow search and rescue teams to more accurately pinpoint a flight's last known location within six nautical miles (11 kilometers).

The outcome of the Montreal gathering, attended by more than 850 aviation safety professionals representing regulatory authorities and air transport industry stakeholders, was a win for airlines. They had been concerned the ICAO gathering would order them to add expensive equipment on their aircraft to track their flights.

Most big airlines, operating new, high technology aircraft, have the capability to meet the

## Support grows for ejectable black boxes

*Delegates at the International Civil Aviation Organisation's (ICAO) Second High Level Safety Conference in Montreal last month agreed, in principle, to the equipping of ejectable and floatable black boxes on all commercial jets to facilitate easier retrieval when aircraft crash into the sea.*

*Earlier this year, Airbus announced it would install the ejectable devices on its A350 and A380 jetliners. The manufacturer is awaiting regulatory approval for the design modification. Boeing said the technology needs more study. The in-principle agreement pointed to the mandatory fitting of ejectable, floating black boxes on all aircraft designed after 2021.*

new rules with little change to their operations. In the end, the ICAO conference decided to allow airlines to choose how they will comply with the proposed new rules.

Welcoming the proposed adoption of a new standard for global aircraft tracking,

Association of Asia Pacific Airlines (AAPA) director general, Andrew Herdman, said it would be "performance-based, non-prescriptive and not technology limiting. Global airlines would be able to meet it effectively, using a range of available technologies and appropriate operating procedures developed in conjunction with other relevant service providers".

International Air Transport Association (IATA) director general and CEO, Tony Tyler, said: "The move will continue the industry's successful record of working with governments to improve safety through global harmonization. We are all moving in the same direction. The conference conclusions should be a reassurance to all travelers



International Civil Aviation Organisation keen to set up a central information centre that monitors and assesses risks to safe travel of commercial airliners after MH17 was shot down.

## Singapore to upgrade aircraft tracking

Singapore's safety regulator announced on the sidelines of the Second High Level Safety Conference of the International Civil Aviation Organisation (ICAO) in Montreal last month that it intends to upgrade its aircraft tracking capabilities.

The director general of the Civil Aviation Authority of Singapore (CAAS), Yap Ong Heng, said he had signed a Memorandum of Agreement with Aireon, a U.S. air navigation provider, that will deploy a space-based Automatic Dependent Surveillance-Broadcast (ADS-B) service to cover the entire Singapore Flight Information Region (FIR).

It may come as a surprise to some in the industry that parts of the Singapore FIR, such as remote areas and over oceans, are not under surveillance coverage. The present system requires air traffic controllers to maintain a larger separation between aircraft to ensure safety.

When the ADS-B is in place, Yap said, the real-time positions and en route status information of all ADS-B equipped aircraft



flying in the Singapore FIR could be tracked.

"This new space-based ADS-B capability represents the next level of surveillance capability. It will complement our existing ground-based air traffic surveillance systems. This technology, together with the right operational procedures, can potentially enhance flight efficiencies and help reduce fuel costs for airlines," the CAAS director general and chief executive said.

Virginia-based Aireon LLC delivers to air navigation service providers the capability to

track aircraft anywhere in the world in real time, including coverage over oceanic, polar and remote regions.

Don Thoma, the company's president and chief executive, said: "Singapore is a leader in air traffic management deployment and implementation, and we will be working closely with CAAS to explore and define how Aireon's capabilities can greatly improve aviation operations in the Singapore FIR and in the region."

Separately, global mobile satellite communications services provider, Inmarsat, has successfully launched its second Global Xpress (GX) satellite (Inmarsat-5 F2) on board an International Launch Services (ILS) Proton Breeze M rocket launched from Kazakhstan in Central Asia.

Built by Boeing Satellite Systems International, Inmarsat-5 F2 is part of a \$1.6 billion investment in next gen global mobile broadband communications. A third satellite will soon be launched, with the goal of achieving global satellite coverage.

that safety is always aviation's top priority."

In substance, the ICAO recommendation is for aircraft to report their position every fifteen minutes during normal operations. It applies only to remote areas that are not covered by surveillance or by air traffic services. The IATA-coordinated Aircraft Tracking Task Force noted in its recent report that tracking over remote and oceanic airspace could be achieved through existing means of reporting and that new space-based technologies may play a key, future role.

"Through a combined effort of all stakeholders we can reach performance-based provisions that are founded on proper research and operational experience. We look forward to working with ICAO in the pursuit of effective and sustainable solutions that do not create unnecessary redundancy nor have unintended impacts on safety," said Tyler.

As well as the key issue of

tracking, the Montreal gathering had three major themes on its agenda: reviewing the current situation, the future approach to managing aviation safety and facilitating increased regional cooperation.

It focused on emerging safety issues, along with tracking the risks to civil aviation arising from conflict zones (an aftermath of the shooting down of Malaysia Airlines flight MH17 over the Ukraine last July) and the protection of safety information.

ICAO has proposed that a centralized repository of factual information and potential threat evaluation be set up to support comprehensive risk assessments

by airlines and other industry stakeholders as is necessary.

But developing a fact based and risk assessment information base will not be easy. The information gathering crosses into issues of data privacy and may impinge on the national security of individual nations.

At the ICAO High Level meeting Russia and Europe and the U.S. clashed in discussions about the industry's response to MH17, the airliner that was allegedly brought down in the Ukraine by Russian-backed rebels armed with a sophisticated ground-to-air missile.

A senior Russian official told the ICAO meeting plans for

a central information-sharing system "posed legal risks" that could only be addressed by a full meeting of all 191 member states in 2016. Patricia Hayes, Britain's top aviation official responded: "I think it would reflect on us very badly if we did not see these ideas through to delivery."

The Netherlands representative, speaking for the European Union said there was no need to delay setting up an information-sharing prototype. One hundred and ninety six Dutch citizens died when MH17 was fatally attacked. ICAO's chairman said most members supported the scheme, but a final decision is not expected to be made until later this year.

Governments need to demonstrate greater efforts towards full compliance with globally agreed ICAO standards and recommended practices, supported by efforts of the region's operators, working in close partnership with regulators and other involved stakeholders," said Herdman. ■

**Under the new regulations, airlines will be required to track their aircraft using a system that routinely gives their location at 15-minute intervals**

**International Civil Aviation Organisation  
Second High Level Safety Conference  
February 2015 Montreal**

# UNDER THE SAFETY MICROSCOPE

Airline and national regulatory bodies are working towards “Seamless Skies”, but it will be several years before they become a reality. In the meantime, airlines are stymied by mismatched and widely divergent standards of air traffic technology and safety regulations.



**TOM BALLANTYNE**  
reports

In January, when AirAsia group chief, Tony Fernandes, called for a Southeast Asian regional aviation regulator to streamline the region’s fragmented safety framework, it was not the first time such a plan had been mooted.

Fernandes made his plea in the wake of the Indonesia AirAsia A320 accident that took the lives of 162 passengers and crew. And he was speaking not only from the heart but from experience.

For all those involved in investigating the Indonesia AirAsia crash into the Java Sea on December 28, including AirAsia’s management, it became clear that the Air Traffic Management system of Indonesia, like several others across the region, was operating under stress that often was extreme.

In 2013, when the Asia-Pacific’s director generals of civil aviation (DGCA) gathered for their annual meeting, held that year in Bangkok, Indonesia proposed a similar regional body to Fernandes’s suggestion, but the idea was rejected. Many delegates believed it would add another layer of bureaucracy to a system already burdened with rules and regulations that varied between countries and jurisdictions.

Orient Aviation has learned that when the DGCAs again met, in Hong Kong last November, representatives of the Civil Aviation Administration of China (CAAC), also suggested a regional body should be set up, although there was no formal submission made. Industry insiders expect China will return



to this year’s conference with a more formal proposal for Asia-Pacific DGCA to consider.

Whether the influence of China will persuade doubters to set up a regional air safety body remains to be seen, but the Indonesia AirAsia tragedy has again concentrated the spotlight on inefficiencies and inadequacies of an air traffic system that is choking from congestion in several flight zones across the region.

While the industry awaits Indonesia’s release of the final report into the Indonesia AirAsia loss, it is now better understood that cockpit crews experience long delays in awaiting air traffic control clearance when they request permission to change altitude or alter course. Basically, air traffic controllers have too many planes to manage often with



outdated systems and equipment.

With hundreds of aircraft scheduled for delivery to the region's carriers in the coming decades, including a giant order from Indonesia's Lion Air Group, the situation can only worsen. The Asia-Pacific accounts for 31% of global air passenger traffic, according to the International Air Transport Association (IATA). In 20 years that figure is forecast to be 42%.

But this explosive growth is only part of the problem. Lack of regulatory oversight of airlines in some countries remains a major issue when it comes to air safety in the region. A U.S. Federal Aviation Administration (FAA) safety downgrade of Philippines carriers was lifted only last year. A ban on Indonesian carriers by Europe remains in place, although a small group of Indonesian airlines, including Garuda Indonesia have been exempted from the ban.

Now, although there has no been an official announcement, it is understood the International Civil Aviation Organization (ICAO) is considering a downgrade of Thailand's safety rating following an audit conducted in January (see page 14).

Industry experts point out that Seamless Skies and proposals for some sort of overall regional regulatory body are different issues. In Asia, there is no plan to move towards a Single Sky as is the goal of Europe, which is a single community. The U.S. is different again because it has the FAA.

In the Asia-Pacific, the strategy is focusing on Air Traffic Flow Management (ATFM) between national Flight Information Regions (IFR). The main reason? Because individual countries jealously guard the sovereignty of their own air spaces.

Director general of the Association of Asia Pacific Airlines, Andrew Herdman, said: "Congestion is a major concern in China, for example, where traffic growth has been tremendous. We also see it in congested air routes around other parts of Asia and indeed other parts of the world. The challenge is, as the traffic growth continues, for air navigation services to keep up."

At present said Herdman, all air traffic control is ground based instruction. If requests are

made controllers have to work out conflicting traffic, which can involve other air traffic navigation service (ANSPs) providers. "Obviously, that takes time," he said.

"It's all done by voice communication between the ground and the aircraft and between different providers. It's far from being automated so that's why these things take time. The more congested it is, the more troublesome it may be," he said.

The International Air Transport Association's (IATA) Asia-Pacific regional director for safety, operations and infrastructure, Ken McLean, said each state has an obligation under ICAO to deliver Air Traffic Control (ATC) services within the standards and practices laid down by global organization.

"How they do that is up to the state. But what we've seen around the Asia-Pacific is that each state is in various stages of upgrade or has obsolete equipment. There's a mismatch of technology between states. In some places, the equipment is old, sometimes very old," said McLean.

"Two things happen. One, it is not reliable so they have to exercise caution about the separations standards they can apply. Secondly, in many countries the air traffic controllers – this is not a reflection of their ability – are dealing with very rapid expansion.

"The traffic is growing quickly, but they are operating with obsolete equipment. If they are not provided with a modern suite of tools then [to manage air traffic demands] they will impose additional separations above the operating norm for safety reasons."

"Some countries will impose a 30 nautical mile separation, but with good technology and capability, they could allow 10 to 15 nautical miles between aircraft, which would result in an immediate increase in capacity. There is a wide range of capabilities across the region that creates problems as aircraft transit from one to the other," McLean said.

Despite these funding and logistical obstacles, progress is being made in achieving Seamless Skies, which was set in motion in 2009 at a meeting of the region's DGCAs in Japan. It was agreed a plan should be developed in accordance with ICAO's system of bloc upgrades.

"Essentially, these bloc upgrades advise that countries implement today what can be used today," explained McLean.

"In other words, with no new technology on the aeroplane and not much new technology on the ground we should do today what we can.

"And one of those things is air traffic flow management (ATFM). IATA financed a study last year, with ICAO's agreement and with the States' involvement, intended to develop Asia-Pacific ATFM.

"We are now embarking on stage two, which is how we implement the plan. By the end of this year, with ICAO's



**What we've seen around the Asia-Pacific is that each state is in various stages of upgrade or has obsolete equipment. There's a mismatch of technology between states. In some places, the equipment is old, sometimes very old**

**Ken McLean**

IATA Asia Pacific regional director for safety, operations and infrastructure

## Thailand threatened with ICAO air safety downgrade

The director general of Thailand's Department of Civil Aviation (DCA), Somchai Piputvat, has downplayed reports that the International Civil Aviation Organization (ICAO) could downgrade the country's air safety rating following an audit of Thailand's safety systems in January.

Although the United Nation's aviation body has not formally released its findings from the audit, it is understood some serious safety concerns arose, including a lack of oversight personnel and the fact the DCA did not send staff to ICAO-sanctioned training on specific aviation standards, but nevertheless issued licences covering these standards.

Somchai told local media his department had issued safety licences to 10 airlines operating international flights, 10 domestic and chartered airlines, and one cargo carrier. It also checked the safety standards of other relevant operators, including Aeronautical Radio of Thailand, Airports of Thailand, hangar operators and agencies responsible for aviation training.

He said ICAO may have reservations about air-safety standards in Thailand, but his department had high standards of aviation certification. ICAO, he added, also might be concerned about the role of the DCA, as it acts both as aviation regulator and operator of 28 regional airports.

Those dual roles, he speculated, might represent a conflict of interest. While Somchai said he personally believed the department's regulatory and operating roles should be separated, it would be difficult to achieve because other operators, such as Airports of Thailand, would not be interested in running some of the loss-making regional airports that are kept open for public and security reasons.

ICAO was scheduled to hand over its audit report to Thai authorities by the end of last month. The DCA will then have 15 days to respond and propose measures to resolve any issues. If the issues are not resolved, ICAO will publish the findings on its website at the end of May. **By Tom Ballantyne.**

support, a good implementation plan should be set out. Then comes the challenging part: for all of the states to meet their obligations in accordance with that plan."

Herdman said: "There's been a lot of multilateral activity, involving small clusters of countries in North Asia and Southeast Asia. I notice, from the reports that come out of the annual meeting of the director generals of civil aviation, that the number of countries involved in those activities is growing.

"It might involve five or six countries or authorities working together to change procedures. It essentially means that the flow is optimized, even though it's kept going through several different FIRs," he said.

McLean said IATA has been working with a North Asia group made up of China, Hong Kong, Korea and Japan, a southern group including Australia, Indonesia and the Philippines, and a South China Sea group of Hong Kong, Singapore and Thailand.

"Between them, they are working on their own flow management agreements and will eventually join up. Not many states have their own internal

flow management. So, for a start, they have to sort that out

and then agree with their neighbours about the best means to exchange information.

"The most mature group, involving Hong Kong, Singapore and Thailand, will conduct trials later this year. We want to bring all that good effort together into a regional plan so we don't end up with different outcomes in each of these pockets."

As for a regional regulator, it appears it will be even harder to achieve than Seamless Skies. "It's time for Asean institutions to step forward, for commonality, for standardization and for quality," Fernandes said. "We should have one Asean regulator for air traffic, one Asean safety standard and one pilot training qualification, so there will be mobility of workforce.

"So Asean is not just about Open Skies (to be implemented this year), it's about having Asean standardization and institutions to advance the Asean aviation industry."

Herdman said there are discussions taking place among Asean member countries about harmonization of regulatory oversight, including licencing of pilots, engineers and MRO facilities.

"Asean is very, very diverse in its development and capabilities. In Europe each country has its own regulatory oversight and they are all national authorities. Over time, they centralized into EASA (European Aviation Safety Agency) and transferred responsibility from the nation States into that regulatory authority.

"The necessary first step to that end is that regulatory oversight performance is comparable across the different countries. In Asean, until you have more commonality of performance, it is premature to believe you could move to a set

“Obviously, the recent accident in Indonesia highlighted again that Indonesia is among the poorer performers in terms of regulatory oversight. They have an action plan, but they still have a lot of work to do”

**Andrew Herdman**  
AAPA director general





of standards. There won't be agreement.

"The more developed States, who score better in ICAO audits, regulatory oversight, implementation of ICAO standards and guidelines, would want a high standard established and would not accept a lower standard.

"So, if there is disagreement about an appropriate standard and how it should be enforced, you have to recognize there will be political difficulties that will take effort to overcome."

Herdman believed the first step towards a regional body would be to recognize countries that are below average. "Obviously, the recent accident in Indonesia highlighted again that Indonesia is among the poorer performers in terms of regulatory oversight. They have an action plan, but they still have a lot of work to do."

McLean said he certainly sees the advantages of a regional body. Although ICAO provides rules for civil aviation, each state implements them in its own way and a body that could harmonize the rules between the states would be beneficial, he said.

"It would, however, be difficult initially to secure agreement across the entire region. Asean, as it moves into Open Skies, perhaps could provide an opportunity to set something up that could be expanded to other parts of the region," he said.

Another industry challenge is ensuring standardization is

established for the satellite systems being developed to improve ATC and aircraft tracking. Communication providers such as Inmarsat and Iridium are launching constellations of satellites, but they won't be ready for full operations until 2017-2020.

"There is rivalry between the different consortia. A degree of competition is helpful, but we want common standards. You don't want to equip aircraft with multiple boxes for different schemes. If you look at ADS-B (automatic dependent surveillance – broadcast) it is implemented in slightly different ways in different parts of the world, which is obviously a headache for global carriers that operate worldwide," said Herdman.

Upgrading the system isn't an easy task. "We are talking about a global system that is not based on ground-based stations. It has to have a satellite component to it and the system has to keep operating with 100,000 flights a day, ranging from modern commercial jets to much smaller aircraft which may not be equipped. So, you're not allowed to stop the system at any time to switch to a new type of technology," said Herdman.

"In a way, it's deeply conservative. You have to keep maintaining the system as it is and embrace new layers of technology and adoption. But you can't give up. You can't obsolete the older methods because these still underpin vast amounts of aviation." ■



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# PAL'S PILGRIMAGE TO PROFIT

Philippine Airlines (PAL), under the leadership once again of Jaime Bautista, is on the path to renewal after PAL chairman, Lucia Tan, bought back control of the carrier from brewing conglomerate, San Miguel.

— Tom Ballantyne reports —

**A**t the turn of the year, PAL president, Jaime Bautista, found himself aboard one of PAL's A340s, en route to Rome, a destination the airline does not serve. With its call sign, Shepherd One, the aircraft had taken off from Villamor Air Base in Manila with a special passenger onboard, global Catholicism's leader, Pope Francis. The pontiff was flying home after a triumphant five-day visit to the deeply Catholic Philippines.

A month later, when Bautista spoke to Orient Aviation at

PAL's headquarters in Manila, the PAL president was clearly still moved by the honor of having Pope Francis aboard PAL. Bautista, who retook the reigns of PAL last year after Tan bought out San Miguel's holding, said it was just the morale booster the airline needed as it maps its future after almost three years under the management of the huge brewing conglomerate.

During that period, from 2012 to late 2014, Lucio Tan retained 51% of PAL and remained as chairman, but management control was held by the new shareholder, the San





Miguel brewery, and its boss, Ramon Ang.

Since the management change, PAL's performance has weakened, and not only because of the decisions made when the brewer's management called the shots. After the first nine months of its 2013 fiscal year - annual comparisons are difficult because during this period the airline changed its financial year from the twelve months ending March 31 to the calendar year - the airline's deficit ballooned by 332% over 2012, to \$267 million. Fierce and effective competition from both domestic and regional carriers, particularly in the budget sector, had eaten into a significant chunk of PAL's once loyal passenger base.

But Ang had also made a massive order for new aircraft that the new and present management, as well as many analysts, said was too much capacity, too soon.

More recently, the figures have improved, but Bautista, who had led PAL until management control shifted to the brewer, now faces challenges in reversing some San Miguel decisions.

Luckily for PAL, industry veteran Bautista knows the

carrier inside out. Armed with this knowledge, he has slipped effortlessly into his old role at PAL and quickly laid out his objectives for a return to profit for the flag carrier.

Top of his agenda has been the renegotiation of Ang's US\$9.5 billion order for 64 new Airbus planes. The commitment meant PAL would have too much capacity arriving too quickly for market conditions. In the past two years, PAL has taken delivery of 15 A330s, 14 A321s and a Bombardier Q300. It was due to accept another 10 A321s this year and 10 more in 2016. Then, in 2017, deliveries of 14 A321neos were scheduled to commence.

"That's a lot of capacity," said Bautista. In a matter of months however, he has sorted out the situation. No official announcement has been made by PAL or Airbus, but it is understood a new agreement has been signed. There will be no cancellations, but delivery of around half of the 20 A321s due to arrive in the next 48 months will be deferred for at least two years.

PAL has a fleet of 50 aircraft: six B777-300ERs, six A340-300s, 14 A330-300s, 14 A321-200s and 10 A320-200s. Its subsidiary, domestic low-cost carrier, Air Philippines, has 23 planes: 13 A320-200s, one A330-300, four Bombardier Dash 8 Q300s and five Bombardier Dash 8 Q400.

PAL's domestic market share has slipped to 40%, well behind rival, budget carrier, Cebu Pacific, with 50%.

Internationally, Bautista is focusing on long haul operations that made, or can make, money. The strategy is to boost U.S. services, while searching for a key partner in Europe, one of the airline's operational black spots. At the same time, he is reviewing other aspects of the carrier's business systems, workforce efficiency and its service levels, areas he believes are critical to success.

With the fleet planning issue resolved, Bautista is now taking advantage of the U.S. Federal Aviation Administration's (FAA) 2014 decision to upgrade the Philippines' safety rating from category 2 to category 1. For years, PAL was permitted to fly to the U.S., but it was banned from changing aircraft types or adding new destinations to the country, which forced the carrier to operate from Manila to San Francisco, Los Angeles, Honolulu and Guam with older, uneconomic aircraft.

Since the FAA ruling, PAL has replaced its A340s with B777s and A330s, increased frequency to San Francisco from daily to 11 flights and lifted capacity into Honolulu. Most importantly, it will launch services to New York this month. Some 250,000 Filipinos live in New York, another 90,000 in East Virginia, 75,000 in Washington DC and 31,000 in Philadelphia.

Filipinos resident on the east coast of the U.S. account for 15% of the 3.4 million Filipinos in the country, making it a natural market for PAL. Bautista said the airline is studying other U.S. destinations, but has no plans to add to the North American network this year, apart from New York. "We want to do it one by one," he told Orient Aviation.

Europe is a different story. PAL only flies to London and Bautista is extremely wary about launching other European destinations. "We are not doing very well in London. Our

## Pontiff chooses PAL

During Pope Francis' flight to Rome on a PAL A340, Bautista not only presented him with a specially prepared model of an A340 bedecked with the Papal insignia with his name engraved on the stand. He also handed over an identity card making him an honorary member of the Aircraft Owners and Pilots Association of the Philippines. "I told him that the members consider him as the 'wind beneath their wings,' and he was very happy about it," PAL president, Jaime Bautista said.

load factor is 60% to 65%. One reason is the high level of competition. The second is we are carrying point-to-point traffic," he said.

"Most of our passengers are flying between Manila and London and not on to other destinations. One of the reasons for this is we have not been able to enter into a codeshare agreement with a European carrier that will carry passengers beyond London."

It's a situation Bautista wants to change. "We have many Filipino passengers from Italy so we are looking at the possibility of perhaps operating a triangulated flight, maybe Manila – Rome – London – Manila, or Manila – London – Rome – Manila. But it would still be key for us to get a partner."

It's hardly a surprise who that might be. PAL has a strong codeshare partnership with Abu Dhabi's Etihad Airways, which is a part owner of Italy's Alitalia. "If we operate Manila to Italy then Alitalia would be a possibility [as a code share partner] since we have a relationship with Etihad. So we could have an arrangement with Alitalia to fly our passengers on to other destinations in Europe," said Bautista.

But not all Gulf relationships are beneficial to PAL. The carrier is confronted by a challenge that is familiar to every Asia-Pacific carrier: the Gulf carriers' expanding market share across the region.

Emirates Airline bleeds away traffic from PAL, particularly corporate travelers who are bound for Europe. "If you look at the performance of the Middle East carriers, some 60% of their passengers (Emirates flies double daily from Manila) aren't going to Dubai, but on to other destinations, said Bautista.

"If you consider third and fourth freedom traffic, we are only one flight a day to Dubai, but almost all the passengers are flying just to Dubai. It puts us at a big disadvantage and that is what we are telling our government.

"But if we were able to accommodate these passengers who fly from Manila to the Middle East to London, particularly business travelers who demand schedule and one-stop wherever they're going, we should have a lot more flights."

PAL also flies to Abu Dhabi, Riyadh and Amman in the Middle East. It wanted to fly to Jeddah in Saudi Arabia, but was offered a landing slot in the middle of the night. "So we decided not to fly until we negotiate a slot that would allow us to offer passengers flights at the time they want to fly," he said.

Domestically, where PAL's loss of market share to nimble competitors is significant, Bautista said one of the reasons that Cebu Pacific leapt ahead of PAL during the San Miguel period of control was the decision by the brewer to terminate PAL's hub operations on the popular holiday island of Cebu.

"We used to fly planes from Cebu to the major cities in the Philippines. When that was stopped PAL's share of the market went down. From April we will re-open the Cebu hub and begin flying from there to major cities across the country," he said. "By operating that hub again we should close the gap in our market share on domestic operations."

He dismissed suggestions PAL should focus on international flying and retreat from the domestic market. "There is definitely a good future for PAL as a full service airline domestically. PAL has a very strong position domestically because we cater to the low-cost (through Air Philippines) as well as the legacy market," he said.

Bautista laughed as he described recent meetings with business groups. He said they wanted PAL to continue to offer business class on domestic flights. "They were telling me that although our competition (Cebu Pacific) promotes itself by declaring 'Every Juan can fly', they said they were not only Juan, but could be Pedro or Thomas or anyone else. You have to give people choice," he said.

But costs must be considered. There has been a rationalization of services between PAL and Air Philippines. The two used to compete against each other, operating as separate airlines. Now they are partners with code-sharing between flights. "That made sense," said Bautista.

Regionally, PAL already has an extensive network servicing all Asia-Pacific's major hubs, except Kuala Lumpur, where it has a code-share with Malaysia Airlines. Across its regional network the competition continues to intensify.

At least in the Philippines, he pointed out, there has been some consolidation, not only with the coming together of PAL and Air Philippines operations, but with AirAsia and Zest now operating as AirAsia Philippines and Cebu Pacific absorbing the local Tigerair. Nevertheless, he said, the opposition is active and very aggressive. It is part of the challenge PAL must meet.

In China, PAL flies to Beijing, Shanghai, Guangzhou and Xiamen and will launch flights to Jinjiang in next month. "It is not too far from Xiamen,





**PAL has renegotiated its new aircraft delivery schedule to reduce a capacity overload**

but there are many Chinese Filipinos whose roots came from that area," he said.

Ironically, Bautista is now seeing the results of decisions implemented before he stepped down in 2012, including outsourcing of several parts of PAL's operations, achieved after bitter union opposition and costly strikes. "Now, we can control our costs [with these services] because it became a variable cost rather than a fixed cost," he said.

"Working with the service providers we have reduced catering, ground handling, maintenance and engineering costs." As for current staff numbers, Bautista said he is reviewing manpower levels. "There is always room to improve efficiency. There may be a need to cut manpower, but not by that much," he said.

Bautista considers the current year is looking "quite good". He's not forecasting specific profits, but recent quarters have been in the black. The last time PAL reported a full-year profit was for the 12 months before Bautista stepped down. "Then, during the time of San Miguel they did some restructuring and reported a huge loss in 2013. They planned to dispose of old planes, four B747-400s, four A340s and eight A330s," he said.

"They decided to write down these planes in preparation for the disposal of these aircraft. It had a major impact on the result. However, the outcome is a younger fleet. We still have six of the newer A340s, but the older planes we bought in 1997 are all gone.

"I think we should be able to control our costs, particularly the major costs, which are fuel, maintenance and engineering. For the last three months we have been successfully controlling costs."

The lower price of fuel is already helping although Bautista expects to change PAL's hedging strategy. San Miguel had 50% of the carrier's annual fuel hedged under a contract that ends this month. "Our policy will be to protect us against increases in the fuel price, but not if the price goes down. Most of the losses that airlines incur is because of the reduction in fuel price," he said.

"Although, we have not entered into new hedging contracts we're thinking of having a bit of insurance in case the price goes up. But yes, we will reduce the percentage of hedging."

Another of Bautista's goals is to transform PAL into a five-star airline. "We have to improve our service. We need a good fleet, on time performance and cabin service at par with other five-star airlines. It will take a lot of work," he said.

Earlier this year, it introduced an inflight wireless streaming service on its A330 fleet. InAir Wireless, an OnAir product, allows inflight entertainment to be streamed directly to passengers' own tablets or mobile devices. The airline also carries tablets on board to offer to passengers who don't have

their own devices.

"We have now taken delivery of 14 A321s, which are used for regional flying. They don't have any IFE on board at the moment," Bautista explained. "We are working on having the same system that is on the A330 placed on all these planes. We are putting together a program to improve the whole service offering across the entire fleet. That's the priority we would like to do."

It is ironic that when Lucio Tan first proposed investing in PAL, in 1993, his group executives were against the idea. More than 20 years later, after a short hiatus, his emotional return, with Bautista, late last year has given the company a surge of optimism.

Bautista said the return was emotional because Tan "really loves this company. He has invested so much effort, time and money into PAL. This is one way of saying thank you to the Filipino people for the good fortune that he has had in this country. He wanted to do something good for the country. Supporting the airline is one of these things".

While there will certainly be more challenges ahead, there are strong signs that second time around the Tan-Bautista leadership team won't want to waste "this gift" to the people. ■

## Bautista's other passion

When Jaime Bautista stepped down as president of Philippine Airlines (PAL) in 2012, after Ramon Ang's San Miguel took management control, he intended to spend more time with his family and on the golf course. But it was not quite like that, he told Tom Ballantyne.

"I didn't actually retire," he said. Bautista continued to be deeply involved with several companies in PAL chairman Tan's vast conglomerate, either as a board director or consultant.

But what kept him busiest was the University of the East, a private university founded in 1946 and purchased by Tan in 1991.

Bautista has been a long time member of the university's board and is now its vice chairman, working closely with the university's president. It is a role the PAL president thoroughly enjoys and which he is continuing now he is back in charge at the carrier. Widely known as UE, the university has 27,000 students and offers degree programmes in commerce, business administration, law, dentistry, engineering, arts and sciences, fine arts, education, computer technology, nursing, physical therapy, medicine, hospitality management and graduate studies. Apart from the main complex, it has two other campuses: in Caloocan and in Quezon City, where more than 3,000 medical undergraduates and post graduates are studying at the UE Ramon Magsaysay Memorial Medical Center.

# Growth chokes airports

Massive passenger growth in key cities across the region is overwhelming airport capacity, despite multi-billion dollar investments in new terminals and runways.

Tom Ballantyne reports

A recurring theme of any gathering of Asia-Pacific airline leaders is the inability of the region's airports, with a few exceptions, to keep pace with passenger growth.

At the annual Association of Asia-Pacific Airlines (AAPA) Assembly of Presidents last November, director-general, Andrew Herdman, said facilities were being built, but rarely fast enough to match regional airline expansion. It was an enduring "headache", he said.

In China alone, said the AAPA, infrastructure needed to double every six years to keep up with Mainland Chinese passenger demand. These "doubling periods" meant that by the time airports were opened, they were operating at full capacity. Herdman identified Indonesia, particularly Jakarta, the Philippines, India and Hong Kong as "trouble spots".

In a recent OAG report, Airport Infrastructure: Keeping up with demand in the Asia-Pacific, its authors included Singapore, South Korea's Incheon, Taipei, Kuala Lumpur, Bangkok and Tokyo/Haneda on the list.

So what is happening on the Asia-Pacific airport development front? Consultancy CAPA said projects valued at US\$115 billion are planned or in the pipeline for the region. The OAG report acknowledges this investment,



Beijing forecast to become the busiest airport in the world in 2015

but argued while there is an abundance of airport projects either planned or commenced in the region, there can be a gap between intention and infrastructure delivery.

Several airport projects have been announced in the last two months. Indonesia's government-owned airport operator, PT Angkasa Pura II, has earmarked \$240 million for a third runway at Jakarta's Soekarno-Hatta International Airport, with construction to start in 2016.

Jakarta is the busiest airport in Southeast Asia. It processes more than 60 million passengers a year, nearly three times its design capacity of 22 million travelers annually. The airport is expanding two of its three terminals, to double capacity

from around 18 million travelers to 37 million a year, by 2017.

In Thailand, Airports of Thailand (AoT) recently approved the construction of a reserve runway and a passenger terminal at Bangkok's Suvarnabhumi airport, at a cost of \$147 million. AoT board chairman, Prasong Phunthanet, said the 2.9 km reserve runway, estimated to cost \$61 million and to be operating in 2017, would be built in the same area as a planned full third runway. The new \$86 million passenger terminal, which will lift the airport's capacity from 45 million passengers a year to 65 million per annum, will be completed in 2019.

The Philippines transportation secretary, Joseph Emilio Abaya, recently said the government

plans to develop an international airport for Manila at Sangley Point, although no details of the cost or a date for construction was specified, despite Abaya's statement that the new facility should be built by 2025. Sangley Point, formerly a U.S. naval facility, is the Philippine Air Force's Danilo Atienza Air Base, 17 kms from Manila. The airport will replace Manila's Ninoy Aquino International Airport, one of the region's most congested facilities.

Chengdu, the largest city in southwest China, joined the January rash of announcements with the news it had received regulatory approval to build a \$11.2 billion, three runway airport. The new Chengdu airport will replace the 77-year-old Shuangliu Airport, which is

the fifth busiest airport in China. Passenger numbers increased 12.8%, to over 37 million last year, more than doubling the volume of 13.9 million passengers in 2005.

Last month, star global architect, Zaha Hadid, and ADP Ingenieure unveiled the “starfish” design of the terminal complex of Beijing’s planned airport, in Daxing, south of the city. The \$13 billion airport will have up to eight runways, 150 passenger aircraft parking bays and 24 cargo airplane spaces. At its opening, scheduled for 2018,

it is planned to process up to 45 million passengers a year, building to 72 million passengers, two million tonnes of cargo and 620,000 airplanes per annum by 2025. Inclusion of a low-cost carrier terminal in the project is being considered.

Beijing Capital International Airport is the world’s second largest airport, in capacity terms, after Atlanta in the U.S., but it is expected to overtake the southern American city this year. The airport is operating beyond its design capacity of 80 million passengers per year. It reached

83 million passengers annually in 2013, despite the fact the facility’s terminal 3 is the second largest passenger terminal in the world. Passenger volumes are forecast to rise to 113 million in 2015 and 142 million in 2020.

Several other Chinese cities are planning new or expanded airports to handle fast rising passenger demand. Dalian, which is close in latitude to North and South Korea, will invest \$4.2 billion in an airport on a 20.9 sq. kms artificial island off the city’s coast.

The OAG report said 10

airports opened in China last year and another 50 to 60 airports will come on stream in the short-term, adding to the country’s 200 airports. Chinese airports handled 754 million passengers in 2013. Aircraft manufacturers have estimated an average of one new plane a day must take to Chinese skies for the next 20 years to meet passenger demand.

India opened no new airports last year. Indonesia built six new facilities, but labours under the inadequacies of its capital city airport, which is operating at

## Airport hot spots

### Hong Kong

According to Hong Kong International Airport (HKIA), traffic volumes are running one to three years ahead of the HKIA “Master Plan 2030” and the airport is pressing the case for a third runway which has recently been granted its environmental permit. The design capacity of 420,000 aircraft movements annually is now in sight as there were 370,000 movements in 2013. Even with a new runway in place, scheduled for 2023, the airport said the planned capacity increases at HKIA and the other four Greater Pearl River Delta airports will leave a shortfall in capacity equivalent to 100 million passenger trips by 2030.

### Singapore

Like Hong Kong, Singapore Changi International Airport operates with two runways. The airport handled 343,765 aircraft movements in 2013 and, although traffic growth has been sluggish, there are plans for a much needed new runway, expected to open for commercial service in 2020. Changi is on schedule to open its fourth terminal in 2017 with a fifth planned for operation in another decade. From its current

capacity of 66 million, the five terminal and three-runway system will increase Changi’s capacity 135 million passengers a year.

### Seoul Incheon

South Korea’s Incheon International Airport opened in 2001, with a long-term four stage development plan. Phases 1 and 2 are completed, with the airport operating with three runways and one terminal. Construction of phase 3 construction, a new passenger terminal, began in September 2013 and is scheduled to be finished in 2016, taking capacity to 62 million from 44 million a year. By 2020, additions to the facility will allow it handle 100 million passengers a year, in an expansion that could include

a fourth runway beyond 2020.

### Taipei

Taipei Airport handled 30.7 million passengers in 2013 with two terminals and two runways, with a design capacity of 32 million a year. A planned third terminal, which will increase capacity to 43 million passengers a year, will be finished in five years. A third runway is also planned, but is not likely to be in place before 2030.

### Kuala Lumpur

Kuala Lumpur International Airport saw 51.4 million passengers through its doors in 2013, well beyond its operating capacity. The airport opened its third runway in October 2013 and completed its low-cost

terminal, KLIA2, in May last year. The LCC terminal enables the airport to handle up to 70 million passengers annually. The airport is ahead of most other hub airports in the region in terms of capacity. “The design of KLIA2 “reflects the evolving mode of operations of low cost carriers’ operations in connecting passenger journeys and is possibly a standard bearer for the future of airport terminal development”, said the OAG report.

### Tokyo Haneda

Tokyo’s four runway Haneda Airport handled more than 68 million passengers in 2013 and has a capacity of 90 million per year. Extension of one of the runways and expansion of the terminal building has increased slots to 447,000 in March in 2014. More slots are to become available since recent regulations for flight paths into and out of Tokyo have been eased.

Haneda and Narita are forecast to reach capacity around 2022 or shortly thereafter. Government strategy aims to triple foreign visitors to 30 million annually by 2030 with proposals in place for possible post 2020 infrastructure needs including a fifth runway.



\* Information source: Airport Infrastructure: keeping up with demand in the Asia-Pacific provided by aviation data provider OAG.

twice its intended capacity.

While OAG's projections may be speculative, most analysts agreed statistics reveal capacity growth forecasts, particularly for the booming Asia-Pacific, often fall short of the mark.

The region's airlines added an average of almost 300,000 seats every day last year. OAG's business development director, Mark Clarkson, said: "In 2014, scheduled airline seat capacity to, from and within the Asia-Pacific region reached 1.6 billion for the first time, continuing a trend of rapid growth that has seen capacity more than double in 10 years.

"Annual growth has averaged 8% every year for the last decade. Looking forward, there can be no doubt that the focus of growth in the aviation industry is shifting east. IATA confirmed this in October 2014

when they published their first 20-year passenger forecast, which put China firmly at the forefront of future demand for air connectivity," he said.

IATA forecast China will overtake the U.S. as the world's largest passenger market by 2030, to reach 1.3 billion.

"Whilst propensity to fly (number of air trips per capita) is a standard measure of demand for air travel, seat capacity per capita can also be used as a proxy measure," said OAG. "On average, there were 326 airline seats per 1,000 people across Asia in 2014. Compare this to Europe where the equivalent figure was 1,482 seats and the U.S. where it was 2,938.

"It is clear that airline capacity in Asia could triple or quadruple and individuals would still not be flying at the same rate as in Europe or the US." ■

## Are growth forecasts too conservative?

Aviation data provider, OAG, in a recent published study, has developed three scenarios to analyse future Asia-Pacific airline capacity per head of population. It examined what could happen if passenger growth outpaced the International Air Transport Association (IATA)'s forecast of annual growth of 4.9% for the next 20 years, which translated into capacity of 2.3 billion seats in ten years and 3.7 billion in 2034.

"What if capacity per capita were to double?" posited OAG. "The first scenario considered this and leads to projected capacity of 7.4 billion seats by 2034, five times greater than today.

"The second and third scenarios asked what would Asian air transport capacity be if Asian travellers flew at the same rate as Europeans or Americans? These figures are quite staggering in terms of the potential capacity generated and are well in excess of the capacity levels that could be accommodated by airport developments in the pipeline," said OAG.

OAG business development director, Mark Clarkson, said: "International airline seats to and from China grew by 9% last year and domestic capacity expanded by 12%. Indonesia and India experienced similar rates of capacity growth. All three economies are expanding and the rise in air travel is associated with the increasing numbers of middle class consumers in each country, as well as population growth."

## Down side of a booming business

China and India hog the headlines when it comes to passenger growth, but the region's third largest market, Indonesia, is discovering that passenger thirst for travel is being stymied by outdated infrastructure and equipment and teeming airports.

According to Bayu Sutanto, chairman of the Indonesia National Air Carriers Association (INACA), the country's airline industry has reached saturation point, with the lack of infrastructure development, particularly airports, preventing airlines' expansion.

He illustrated his point with recent figures from Badan Pusat Statistik (BPS or Central Bureau of Statistics) which revealed a decline in Indonesian outbound international travel of more than four percent. But while overall

international growth is slowing, some key international airports are coming under tremendous stress as passenger demand outstrips airport capacity.

At Kualanamu International Airport in North Sumatra outgoing passenger numbers surged 37.3% in 2014, followed

by Jakarta's Soekarno-Hatta International Airport, up 34.68%, and the Sultan Hasanuddin International Airport in Makassar, South Sulawesi, with an increase of 24.14%.

"The data from the BPS showed the airline industry has reached saturation because

the increase in seat capacity was not supported by an increase in airport capacity and improvements in infrastructure," said Bayu.

"The lack of infrastructural development did not only affect Soekarno-Hatta. There are other airports across the [Indonesian] archipelago similarly affected. The fact that not all airports are operating 24 hours a day contributed to the slowed growth in the number of passengers."

While the government has airport expansion and modernization plans these are expected to take several years of construction. At Jakarta's international airport, its operator, Angkasa Pura II (AP II), has been working to increase movements from 72 flights an hour to 86 from June to ease congestion. ■



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