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# VISTARA'S VIBE

CEO of the country's newest airline, Phee Teik Yeoh, tunes into a resurgent India

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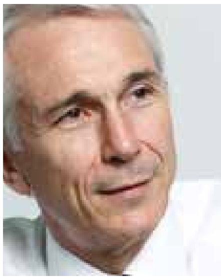






# LCC wunderkinds lose their sparkle

Many of the Asia-Pacific's low-cost carriers (LCCs) have had a new experience in the last 12 months. They have lost money. Among them are AirAsia, its long-haul subsidiary, AirAsia X, Tigerair, Nok Air and Jetstar.

The unpleasant experience is in stark contrast to the heady years that followed the global financial crisis. Back then, full service carriers were falling into the red as passengers, including corporate travelers, were forced to down-size their budgets and become LCC customers.

Today, it's a different story. It is generally accepted that in the Asia-Pacific there are too many LCCs bringing too many aircraft into service too quickly. A perfect example is Thailand, where there has been domestic passenger growth of 10.1% in the past year, but an 18.6% increase in airline capacity.

Analysis of the region's LCC expansion shows the combined seat capacity of the sector in the 10-member Association of Southeast Asian Nations (ASEAN) has jumped to 57% in 2013, compared with 13.2% in 2003. Ticket discounting has been the general knee jerk response to declining load factors and the evitable consequences have been falling yields and eroding profits.

Some carriers, such as China's Spring Airlines and Vietnam's VietJet are making money, but generally Southeast Asian LCCs have been hardest hit by the overcapacity trend. At last count, 22 of the region's more than 50 LCCs were operating in this emerging market zone, flying a combined fleet of 550 aircraft.

The situation will almost certainly deteriorate. As an example, Malaysia-headquartered AirAsia, combined with Lion Air, have orders in place for 800 airplanes.

A dramatic drop in the oil price since last June has brought some relief to LCCs. Fuel averages 50% of their operating costs, but no-one should take it for granted that the lower oil price will last. The recent escalation in the conflicts of the Middle East already has triggered increases.

LCC managements across the region, particularly in Southeast Asia, need to seriously review their expansion plans and work towards restoring equilibrium in the market. The alternative must be a consolidation of the sector across the region. ■

**TOM BALLANTYNE**
*Chief Correspondent*
Orient Aviation Media Group

## Thailand "a significant safety concern" says ICAO

Japan and South Korea have announced it will ban all new chartered and scheduled services into their countries that were to be operated by airlines registered in Thailand. The decision followed the news that the **International Civil Aviation Association (ICAO)** said its investigators were concerned about "Thailand's accident investigation and airline operations oversight, airworthiness assessment and certification and personnel licensing and training". It is believed that Thailand failed to meet 70 of the standard benchmarks required when ICAO conducts audits on a country's aviation systems. Thailand-based media has said Thai aviation bodies "are struggling" to meet ICAO's compliance requirements within the allocated 90-day grace period. If Thailand does not reach compliance standards in the time required, the **U.S.'s Federal Aviation Administration** could downgrade Thailand to a category 2 safety rating, which would deliver a blow to the country's expansion oriented budget carrier sector. ■

## Airlines rush to implement two person cockpit rule

At press time, **Australia** had quickly followed **New Zealand** and **Canada** in revising standard operating procedures for Australian registered commercial aircraft. With immediate effect, there must be two people in the cockpit of a commercial aircraft at all times during a flight. If either the captain or the co-pilot leave the flight deck, a flight attendant must stand in for the absent cockpit crew member. Several other airlines in the region, including Cathay Pacific Airways and Dragonair, have had this requirement in place for a long period, as have U.S. carriers.

**Air New Zealand** revised cockpit procedures within 24 hours of the Germanwings 9525 accident, which killed all 150 passengers and crew when it crashed in the French Alps on March 24. It is alleged the 27-year-old co-pilot, Andreas Lubitz, deliberately steered the plane into a French mountainside.

Ironically, the tragic accident happened a few weeks after the **International Air Transport Association (IATA)** said that statistically 2014 was the safest year on record for air transport, as measured in hull losses per one million flights. The industry had an accident rate of one hull loss for every 4.4 million flights last year, compared with one accident for every 2.4 million flights a year earlier.


The Asia-Pacific accident rate fell from 0.63 to 0.44 and North Asia from 0.06 to zero. However, the number of fatalities did increase in 2014 mainly because of the heavy loss of life from the two Malaysia Airlines accidents and the crash of an **Indonesia AirAsia** jet on December 28 last year.

IATA said there were 12 fatal accidents involving 641 fatalities last year, compared with an average of 19 fatal accidents and the loss of 517 lives annually for the five years from 2009.

The destruction of Malaysia Airlines MH17 by anti-aircraft fire on July 8, 2014, is not included as an accident in the globally recognized accident classification criteria. ***By Tom Ballantyne.*** ■

## China legal expert to head ICAO

A veteran Chinese air-safety official has been confirmed as the next **secretary general** of **the International Civil Aviation Organization (ICAO)**, the first woman and only the second Asian to hold the position. **Fang Liu**, who will succeed **Raymond Benjamin** in August, has been director of ICAO's Bureau of Administration and Services since 2007. Industry insiders said the appointment marks a significant shift in ICAO's culture and a recognition of the growing influence the Asia-Pacific will have on the aviation world. Before joining ICAO Liu held various posts within the **Civil Aviation Administration of China (CAAC)**. She joined the CAAC in 1987, working as a counsel of its Legal Affairs Division for two years before becoming director of the International Affairs Division, where she played a key role in many bilateral air consultations between China and foreign countries, developed the draft model of China's bilateral air services agreement, formulated international air transport policy and regulations of China, and dealt with Hong Kong and Macao's aviation affairs related to international organizations and third countries. She was also in charge of China's multilateral relations with international or regional organizations, such as ICAO, the WTO, APEC, the EU and ASEAN. She has a Ph.D in law from Wuhan University of China and a degree from Leiden University of the Netherlands, majoring in air and space law.

ICAO said she has led many improvement initiatives in ICAO in recent years and served as the chairperson of some of its most important internal committees. "She has also represented ICAO at the High-Level Committee on Management under the UN Chief Executives Board for Coordination, and separately served as Chairperson of the Security Advisory Group and vice-chairperson of the Security Management Team for all UN Organizations in Canada," the association said.

Underscoring the rapid growth of commercial aviation in China and other Asian countries, Liu will take the reins of an agency in which the top position historically has been held by men from Europe, North America or the Middle East. The only previous secretary general from the Asia-Pacific was India's Shivinder Sing Sidhu, who served in the post from 1988 to 1991. ■

# ASEAN backs away from open skies

## Is this the year Southeast Asia opens its skies? Maybe not. A senior Association of Southeast Asian Nations (ASEAN) official recently conceded full liberalization will not happen as planned.

***Tom Ballantyne reports***

A leading ASEAN official has told a high level gathering in Bangkok there is "over-expectation" and "misunderstanding" about achieving ASEAN open skies this year.

Director of finance, industry and infrastructure at the association's secretariat, Tran Dong Phuong, told delegates at the European Union-organized ASEAN Single Aviation Market conference in March that ASEAN open skies will only be "partially opened", at best.

"We are not there yet. It's a long process. But we have created foundations," he said. All agreements and protocols required for the effective operation of the ASEAN Open Skies policy had been completed and ratified by "almost all" member states, he said.

But he warned less developed member countries needed longer to meet commitments. "You know ASEAN's way. It's done on a voluntary basis and we keep convincing them," he said.

The admission confirmed the views of industry analysts, who have said full open skies are going to arrive later in the region than announced. The main reason for the policy procrastination is that less developed ASEAN members are worried their markets will be completely swamped by larger carriers if ASEAN skies are fully liberalized.

Royal Brunei Airlines (RB) has repeated its view that while open skies would ultimately benefit Brunei as a whole, the tiny airline needed to prepare for challenges from competing airlines, particularly budget carriers.

"One of our concerns is that if and when low-cost carriers (LCC) come to Brunei Darussalam, they will take a piece of the passenger pie, and in Brunei Darussalam it is very hard to grow the size of the pie," said Karam Chand, Royal Brunei's chief commercial and planning officer. "So, we could be seriously impacted if there are more flights here from low-cost carriers."

"While this open skies policy undoubtedly provides new markets for Royal Brunei to serve as it expands its fleet, it also opens the door for larger regional airlines, as well as low-cost carriers, to access the domestic market," he said.

Airlines in other small ASEAN nations such as Myanmar, Laos and Cambodia have similar concerns, fearing, in particular, that budget carriers will dump capacity into their markets with rock bottom pricing.

Another view is argued by Professor Alan Tan, a National University of Singapore academic who specializes in aviation law. He has discussed the concept of an "ASEAN community airline" that he believes would facilitate funding for a capital-intensive airline and would be a way to foster economic integration.

"The benefits are that you have a strong airline that has capital around the region and can fight the big guys from China, India and Europe. As a small region, we need to unite ourselves and our resources and pretend to be a country. There is economic logic behind it," he said.

"Even if an airline was not majority-owned by investors in the country where it is established, that airline could still be considered an airline where it is registered."

In his remarks to conference delegates, Dong Phuong said the road to ASEAN integration of the aviation sector would not end with open skies, but would ultimately allow member states to expand and deepen integration in all aspects of the sector, including air service liberalization, aviation safety and security and air traffic management.

Some liberalization has taken place within ASEAN, but even with open skies there will not be a total lifting of restrictions as happened in Europe. Airlines will be able to fly from their own country to another member country and then on to a third, but they will not be allowed to operate independent flights that do not include their own country.

For example, airlines from Singapore could fly from Singapore to Brunei, on to Indonesia and back to Singapore, but they could not operate return flights solely between Brunei and Indonesia unless they were linked with Singapore. Domestic markets also will continue to be ring

**Professor Alan Tan, aviation law specialist National University of Singapore: advocating the establishment of an "ASEAN community" airline**

## Fernandes pursues ASEAN regulatory integration

Tony Fernandes, chief of the AirAsia Group, the region's biggest budget carrier company, is continuing his campaign for an ASEAN regulatory regime that would reform the rules of airline ownership in the 10-nation group.

He wants ASEAN members to allow majority ownership of airlines in each country by citizens of the region. Speaking at an EU conference in Bangkok last month, he said this would be one of the "key steps" required to ensure the success of single skies and strengthen aviation in the region.

He wants each member state to remove restrictions on foreign ownership of airlines and to allow citizens of fellow ASEAN countries to hold majority stakes in any ASEAN carrier.

Currently, each airline in all ASEAN countries must be majority owned by their own citizens.

Fernandes is arguing for full integration within the region, including a single ASEAN immigration lane, business travel cards, standardized bilingual immigration/customs forms and visas, an ASEAN civil aviation regulator and air traffic regulator, common ASEAN safety standards and pilot and engineer training qualifications and free movement of skills.

fenced for local carriers.

The other major concern is the perennial problem of inadequate infrastructure in several ASEAN states. Some countries will not be able to handle the projected increases in traffic. At a joint Philippine-Japanese Air Transport Seminar in February, the Philippines Transportation Secretary, Joseph Emilio Abaya, said: "Policy-wise, we are already open, but essentially it is still subject to slots. If you don't have slots in Manila, you can't operate there."

In Indonesia, ASEAN's biggest airline market, carriers are concerned they are not ready for open skies. They said Indonesia's tax regime, airport inefficiencies and high fuel costs make local airlines less competitive than their Southeast Asian counterparts, especially those from Singapore, Malaysia and Thailand.

Arif Wibowo, chairman of the Indonesia National Air Carriers Association (INACA) and the recently appointed president director of Garuda Indonesia, said open skies is a political goal of the government.

"We'll face it head-on. We are used to free competition after all," he said. Arif added some local airlines, including Garuda's low-cost unit, Citilink, have been applying or preparing to apply for permits to operate more flights to other Southeast Asian countries. "They're conducting procedures for that," he said.

Arif said the local industry's major concern about open skies was competitiveness issues. "Are local airlines competing on a level playing field with other airlines in the region?" he asked. As in the Philippines, Indonesia's already heavily congested airports are also an issue. ■


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# Asia-Pacific trials improved tracking systems

***By Tom Ballantyne***

Initiatives to eliminate gaps in aviation's global tracking system are gathering pace as regulators, equipment providers and airlines develop solutions to ensure aircraft are pinpointed at more frequent intervals as they travel the skies.

Global communications and aviation electronic solutions provider, Rockwell Collins, unveiled its new global flight tracking solution for the world's airlines last month, one of several companies offering airlines improved tracking systems that should ensure the unexplained disappearance of Malaysia Airlines MH370 is not repeated.

Earlier in March, Australia's deputy prime minister, Warren Truss, announced Australia, Indonesia and Malaysia had launched a trial that would allow air traffic controllers to more closely track aircraft flying across remote oceans. The new system has adapted technology already used by most long-haul jets and would greatly narrow search areas if aircraft are involved in accidents.

"This new approach enables immediate improvement in monitoring long-haul flights and will give the public greater confidence in aviation, without requiring any additional investment by airlines," he said.

Truss's statement coincided with the unveiling of a partnership been global mobile satellite communications and safety services provider, Inmarsat, Airservices Australia (AA), Qantas Airways and Virgin Australia to trial improved flight tracking on commercial airline flights to and from Australia.

They will develop the operational concept for the trial using Automatic Dependent Surveillance - Contract (ADS-C) satellite technology in Australia's oceanic regions. ADS-C provides air traffic controllers with a constantly updated surveillance picture of their airspace, designed to allow safe and efficient oceanic operations. Communications giant, SITA, also is marketing new products to improve aircraft tracking.

The advances follow an International Civil Aviation Organization (ICAO) resolution to adopt a 15-minute tracking standard for commercial aircraft, rather than the previous norm of 30 to 40 minutes. The resolution is expected to be ratified in November, with the industry being given twelve months to comply, by November 2016.

The Rockwell Collins ARINC MultiLink flight tracking service is a significant improvement on previous systems. It brings together multiple data sources to reliably report the location of an aircraft anywhere in the world. The sources include ADS-C, high-frequency data link (HFDL) performance data, ADS-B (automatic dependent surveillance-broadcast), and U.S. Aircraft Situation Display to Industry (ASDI) radar data, EUROCONTROL position information and Aircraft Communications Addressing and Reporting System (ACARS) position reports.

The company said combining multiple sources meant an aircraft's position can be reported more frequently. The service can notify airlines when an aircraft unexpectedly stops reporting positional data or has deviated from its expected path.

"In today's global aviation environment, no single source of data is sufficient to track aircraft globally," said Jeff Standerski, senior vice president, information management services for Rockwell Collins. "By merging multiple data sources, many of which airlines receive, we can automatically select the right combination of data feeds for airlines to pinpoint an aircraft's location anywhere in the world, in the most economical way."

Airlines support improved tracking, but are wary about regulations that may force them to install costly cockpit equipment. Many airlines already have sophisticated communications systems installed on their jet fleets, but they are not always utilised because ground transmission infrastructure is not available to receive the airborne information.

Statistics reveal that 11,000 commercial passenger aircraft are fitted with an Inmarsat satellite connection, which represented more than 90% of the world's long-haul commercial fleet. The Airservices Australia trial is valuable because it's coverage of long-haul flights involves roughly 11% of the world's surface, including vast tracts of the Indian Ocean where MH370 is believed to be.

Inmarsat chief executive, Rupert Pearce, said the trial is an important step towards improving international airline safety. "We are very pleased to be working with Airservices Australia and our industry partners to implement this enhanced flight tracking service. We applaud ICAO's decision to introduce a new tracking standard," Pearce said. ■

**Rockwell Collins senior vice president information management services, Jeff Standerski: no single source of data is sufficient to track aircraft globally**

# Not good enough IATA boss tells Indonesia

***By Tom Ballantyne***

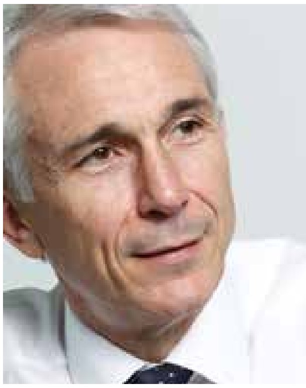
International Air Transport Association (IATA) director general Tony Tyler pulled no punches when he opened an aviation gathering in Jakarta in March.

An unusually plain speaking Tyler, regarded globally as the industry's ultimate diplomat, called on the Indonesian aviation industry to act as one in developing a national aviation master plan for improving safety, resolving airport and airway capacity issues and bringing the nation's regulatory framework up to world standards.

He told delegates safety is aviation's top priority and the biggest concern for the successful development of aviation in Indonesia. "Indonesia has had at least one hull loss every year since 2010," Tyler said.

"In the International Civil Aviation Organization's (ICAO) Universal Safety Oversight Audit Program (USOAP), Indonesia was assessed as below the global average. The U.S. Federal Aviation Administration (FAA) has downgraded Indonesia to Category 2 in its International Aviation Safety Assessment program. And the European Union continues to ban all but five Indonesian carriers."

Speaking at an IATA-organized Aviation Day, Tyler highlighted Indonesia's failure to implement some international conventions. An example was the Montreal Convention 1999 (MC99), a comprehensive instrument that governs liability in 110 states. Under MC99, the compensation limit for personal injury or death is set at around $160,000.



**IATA director general and CEO, Tony Tyler: "Indonesia has had at least one hull loss every year since 2010."**

"Indonesia AirAsia flight QZ8501, which crashed into the Java Sea on December 28, is an accident that provides a very sad example of the consequences of Indonesia's failure to implement MC99," Tyler said.

"The families of passengers who had bought return tickets from Singapore were covered under the MC99 limit. But the families of those who purchased their tickets and started their journeys in Indonesia have a treaty cap of around $12,000. I understand the Indonesian government took special measures to increase this amount, but having a treaty in place would have been a better solution."

He urged the government to ratify MC99 as a priority, especially as the potential of Indonesian aviation is huge. By 2034, it is forecast the country will be the sixth largest market for air travel in the world. By then, some 270 million passengers are expected to fly to, from and within the country. "That's three times the size of today's market. There is a big role for collective leadership among industry partners - including the government - to make the aviation sector flourish," said Tyler.

He said IATA is investing in improving air safety in Indonesia, but the country was not taking full advantage of its offered support. "The IATA Operational Safety Audit (IOSA) is a global standard and is at the core of our efforts to improve safety," he said.

"But of all the Indonesian airlines operating scheduled or chartered flights, only Garuda is on the IOSA registry."

Indonesia's traffic growth needs to be supported by aviation infrastructure, both on the ground and in the air. For Indonesia this means building a world-class hub, managing scarce capacity to global standards and modernizing air traffic management, he said.

He commended the government for its plans to expand infrastructure: building another 62 airports over the next five years and approving terminal expansions at Jakarta's Soekarno-Hatta International Airport.

"But the capacity problem in Jakarta is nowhere near being solved, even with the terminal upgrades. Indonesia needs a hub. The most efficient solution is to maximize the potential of one airport, Soekarno Hatta, where significant investment has been made. The terminal areas will, however, need major re-development," he said.

"The vision would be something like the super-terminals we see in Beijing, Hong Kong or Incheon. I am confident that we would achieve a world-class facility designed around key new technological innovations such as those in the IATA Fast Travel program or the new risk-based process innovations that Smart Security is developing." ■

## Indonesia should review its slot allocation system

Unfortunately, said Tony Tyler, the director general and CEO of IATA, there are a large number of instances where Indonesia is not playing by established international aviation rules. "There are two slot management processes at Indonesian airports - one for domestic flights and another for international flights - even though both are managing the same runway capacity," he said.

"There is no independent slot coordinator at the airports. The IATA team is ready to assist with the introduction of professional and independent slot coordination, which could bring the working procedures into line with global standards."


# TEMPO SLOWS FOR ASIA'S LCCs

*Asia-Pacific budget carriers are facing a new reality. Capacity growth and market penetration no longer translate into profits. Is this a temporary hiccup or a long-term flattening of regional LLC growth?*

***TOM BALLANTYNE reports***

When times were tough for full-service airlines after the global financial crisis, money poured into the region's budget carriers. Now, many Asia-Pacific LCCs are reporting losses, a trend that is continuing in 2015.

In February, Asia's largest budget airline by passenger numbers, Malaysia's AirAsia, reported its first quarterly net loss in two years, at $117.1 million, for the three months to December 31, 2014. It made a profit of $46 million for the same period last year. The result was recorded against a revenue increase of 15%, to $410 million.

The group's long-haul LCC subsidiary, AirAsia X, has had four consecutive quarterly losses. As a result, the CEO was disappeared and AirAsia co-founder, Kamarudin Bin Meranun, commenced restructuring the carrier with the support of acting CEO, Benyamin Bin Ismail.

As the reporting season continues, eight AirAsia branded airlines have announced losses. The most serious issues revolve around Indonesia AirAsia, which was thrust into the spotlight after the crash of flight QZ8501 on December 28. Formerly Awair, the AirAsia group bought 49% of the carrier in 2005, with 51% of its equity held by Indonesian investors. It has lost money ever since. Long-haul budget carrier, Indonesia AirAsia X, established last year, is expected to also suffer from the passenger fallout, by association.

Industry statistics reveal the budget carrier business in Southeast Asia alone has grown to 200 million seats in the last decade. But this growth slowed last year and is predicated to continue to flatten in 2015 as LLCs delay aircraft deliveries to reduce overcapacity.

The empire of the region's budget king, AirAsia group boss, Tony Fernandes, is hardly alone when it comes to bad news. In Thailand, Nok Air, part-owned by Thai Airways International (THAI), was in the red in its last full financial year, ending December 31. It posted a net loss of $14.6 million, compared with profits of $15.6 million in 2012 and $32.7 million in 2013.

Also among the region's loss-makers are the budget arms of Australia's Jetstar and Singapore Airlines' (SIA) Tigerair. Another SIA subsidiary, long-haul, low-cost Scoot, is losing money. In India, the fiscal bloodbath that has beset the nation's LCCs is well recorded.

In a poll conducted by *Orient Aviation* among analysts and airline management, overcapacity tops the list of woes for the region's LCCs. The direct result of that, vicious and often unrealistic price-discounting, was a strong second.

Other factors eroding profitability included higher operating costs such as airport charges, difficulty in securing suitable slots as a result of infrastructure congestion, foreign exchange losses - as local currencies depreciate against the U.S. dollar - fuel hedging losses triggered by the dramatic drop in the oil price and rising financing costs.

Mainland Chinese tourists, an important market for many LCCs, were turned off by the long period of political upheaval in Thailand and the two Malaysia Airlines accidents in March and July last year.

Nok is a prime example of several of the above problems. Its chief financial officer, Nuanwan Bhuprasert, attributed its losses to Thailand's sluggish economy, a fall-off in international visitors, a weakened currency, but most importantly, overcapacity and the intense price war seat oversupply generates.

He said there had been an 18.6% increase in LCC capacity into Thailand, exceeding the country's domestic passenger growth of 10.1%. In Thailand, airline executives have privately voiced concern about the particularly aggressive pricing of the Thai budget arm of Indonesia's Lion Air group, which they argued has wreaked havoc in the LCC market.

Fares of 300 baht ($9.26) for a one-way Bangkok-Chiang Mai flight, against the 1,500 baht ($46.30) charged by other airlines, is "dumping" said its rivals. And Thai Lion Air is adding 10 new B737-900ERs to its fleet this year, which is likely to make matters worse.

None of this comes as a surprise. Analysts and industry observers have been warning for some time that trouble was brewing. Former Cathay Pacific Airways and British Airways chief executive, Rod Eddington, who is now out of the airline business, recently pointed out Asian airlines have endured tough periods before, usually because of external events such as the 1997 Asian financial crisis or the outbreak of severe acute respiratory syndrome (SARS) in 2003.

"But this is different because it appears a lot of carriers are buying a lot of aircraft and putting them into the market at the same time, particularly no-frills carriers," he said. "This is clearly a tough time and the operating numbers for the airlines reflect that."

The problem is most severe in Southeast Asia. At a conference in Bangkok in March, senior Asean (Association of Southeast Asian Nations) official, Tran Dong Phuong, head of the group's Finance, Industry and Infrastructure Directorate, told delegates budget airlines' combined seat capacity in the 10-member ASEAN group jumped to 57% last year from 13.2% in 2003, a major contributor to the double-digit growth in ASEAN's air traffic in the four years to 2013.

At the same gathering, AirAsia's Fernandes pointed out the three biggest ASEAN LCCs alone flew 110 million passengers last year and that six of the world's 10 busiest LCC routes are in ASEAN, including Singapore-Jakarta, Singapore-Kuala Lumpur and Singapore-Bangkok. The latest count by aviation research body, CAPA, showed that 22 of the Asia-Pacific's more than 50 LCCs are operating in Southeast Asia with around 550 aircraft. The problem is likely to worsen before it improves. Two carriers, AirAsia and Lion Air, have more than 800 aircraft on order. Across the region, the budget order book exceeds 1,000 new single-aisle jets.

And it's not simply the problem of the number of aircraft arriving in the region's fleets, it's the ability of the infrastructure to handle the increased capacity. Shukor Yusof, principal of Kuala-Lumpur based aviation analysts, Endau Economics, believes overcapacity is a major issue.

"In my opinion, with the number of aircraft due to come in this year alone, airports can't cope with the numbers. If you look at KLIA 2, Kuala Lumpur's LCC airport, it can't cope with adding one or two aircraft every month for the next one or two years," he said.

Yusof did point out that not everyone is having a bad time. "I understand Lion Air is profitable. They are still making money. I spoke to someone from Lion recently and I have looked at the numbers and their loads and I think they are doing OK," he said.

He also said Vietnamese no-frills operator, VietJet, is "doing well", although it is another carrier with a big aircraft order, some 63 A320s worth $9 billion. "Airlines in Vietnam are generally doing very well, including Vietnam Airlines," he said.

"It is one of those countries in Southeast Asia that is bucking the trend. It has the right demographics, with a lot of young people, and a big population of around 90 million. A prevalence of LCCs is perfect for a country of that size and geography."

China's most successful LCC, Spring Airlines, which was listed in Shanghai in January, has reported a full year profit, to December 31, last year of 884.2 million yuan (US$142.4 million) compared with a profit of 732 million yuan in 2013. However, it is important to keep in mind that Spring benefits from a number of subsidies from provincial governments and other sources which could distort its results.

Analysts, including Yusuf, question why carriers such as

Tigerair and Scoot are not making money, given the current level of fuel prices. In the case of Scoot, they believed it had a lot to do with the business model and the equipment at the carriers.

"Although Scoot has begun replacing its B777s with B787 Dreamliners, the improved economics of the new aircraft are going to take a while to have an effect," Yusuf said. "I don't see the load factor on Scoot to be anywhere near the level that can make the carrier money in the next three to six months at least."

Scoot started operations in June 2012 and by the end of last year had reported cumulative losses of $25.2 million. Yusuf also believed that AirAsia X "has always" had an issue with its business model. "I have always felt it is not easy to run a long-haul, low-cost carrier. It's tricky. It's do-able, but you have to work within certain parameters that are going to be very tight. They have not got it quite right," he said.


Several forecasters also argue it is difficult to be optimistic about the profitability of budget operators across the region because of the slowdown in China's economy, a country which is a major target of LCCs and where many of them expect to make good profits. That market is becoming more competitive as Beijing strongly supports increasing the numbers of Mainland budget startups.

Eddington also cautioned that Asia isn't always the source of riches many prospective airlines perceived it to be. "People are mesmerized by the size of the market and the growing middle class, but that doesn't mean airlines that get started are going to be profitable," he said.

"There are a lot of airlines that have launched and most of them have lost a substantial amount of money. Your passengers can disappear quite quickly. The low-cost carrier market basically targets people who are discretionary spenders. Those who follow the dominant players, thinking it's an easy game, are often doomed for disappointment."

It is not all doom and gloom, however. Hedging losses for some carriers aside, the lower price of fuel should begin to flow through to the bottom line of LCCs in the coming year, lifting their income, according to analysts.

Also, carriers have recognized their over-ordering and reduced or sold off part of their order book. For example, AirAsia has deferred 24 of 29 A320s airliners scheduled for delivery in 2015 and Tigerair has suspended capacity growth. "This year and for the next couple of years, the group will not be taking in a larger number of aircraft every year like before, hence allowing the company to preserve cash," AirAsia group boss Fernandes said.

Last year, Qantas froze expansion of its Singapore-based LCC, Jetstar Asia. It will limit deliveries to five aircraft in Thailand, India and Japan.

Some rationalization is also occurring. A number of airlines have stopped flying, including Indonesia's Mandala. Conversely, Thailand's Nok and Singapore's Scoot are launching a new joint venture carrier, NokScoot, in May.

Yusof suggested NokScoot is two struggling airlines getting together in the hope they can achieve something as a joint venture they can't do alone. An opposite view is that a partnership of a short haul LCC and a long haul LCC, with its headquarters in Southeast Asia's largest international market and second biggest domestic market (CAPA figures), is a good way to go.

In Indonesia, Garuda Indonesia's budget subsidiary, Citilink, said it would be profitable for the first time this year. Its new chief executive, Albert Burhan, appointed in February, said the environment in 2015 is better.

"In 2014, sometimes competitors disrupted us with a campaign of low fares," he said, while also pointing out Citilink has benefitted from the exit of LCC Tigerair's Indonesian affiliate airline last year and the grounding of indebted State-owned Merpati Nusantara Airlines.

Overall the outlook for Asia-Pacific LCCs is positive. Buoyed by lower fuel prices, analysts said success in the LLC sector may be dictated by collaborations. Carriers needed to rationalize their operations and forge partnerships to provide them with a cross-feed of passengers and savings in base costs, such as joint maintenance agreements.

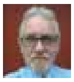
Demographics and the increasing prosperity of the region also bode well for budget airlines as increasing numbers of emerging market consumers have the discretionary income to become first time flyers. Their airline of choice is usually an LCC. And once they fly, they fly again when they can.

Nevertheless, there is a universal belief the sector will see more casualties in the coming years and that the high double digit growth of the past decade will not return. The market has matured and, like elsewhere in the industry, only the best will survive. ■

# VISTARA'S VIBE

## Tuning into a resurgent India

*Vistara has only been flying since January, but India's newest full-service carrier already has its sights set on skies beyond the crowded domestic market.*



***TOM BALLANTYNE reports***

Forty-six-year old Phee Teik Yeoh, CEO of India's newest airline, Vistara, is making no secret about his ambitions for the Tata/Singapore Airlines (SIA) carrier. After only four months of flying domestically, he confirmed the full-service airline has plans in place to fly internationally, to destinations as far away as the U.S., Europe including London, with Africa also within Vistara's long-term ken.

Luckily, Yeoh is a patient man. As of now a barrier to a global presence for Vistara remains in place: the infamous 5:20 rule, which requires Indian airlines to have operated for five years and have a minimum fleet of 20 aircraft before it receives permission to launch international services.

Civil Aviation Minister, Ashok Gajapathi Raju, has indicated publicly, on several occasions, that India's new government favours abolition of the rule. "We are glad the government is reviewing this policy and is in favour of abolishing it," Yeoh told *Orient Aviation*. "We definitely have international aspirations. However, to prepare for international flying, we need to do some preparation at our end as well. So, as and when the 5:20 rule goes away, we will re-strategize and gear up for international skies as soon as possible."

Yeoh said the U.S. is an exciting future market for the carrier, but "many cities in Europe will also be interesting for us". "Almost 70% of India's outbound traffic is westbound. But it is not only us who will benefit from 5:20 going away," he said.

"As you know, Indian carriers cannot fully utilize their bilateral flying rights for overseas destinations. This is not good for the economy as well as the sector. "In fact, once the 5:20 issue is ironed out, India can be showcased globally as an attractive tourism and investment destination that also will provide employment opportunities to millions."

Another important element in Vistara's strategy is its ability, as an Indian carrier, to fly more frequently to Singapore, a situation SIA would welcome after being knocked back on establishing new routes into India in the last 18 months.

At this stage, the Vistara team will require 12 to 18 months to source the aircraft needed to start long-haul operations. Despite the government signaling its intentions to abandon the 5:20 rule, the change won't come without some strong opposition to liberalizing Indian aviation.

The Federation of Indian Airlines, whose members include Jet Airways, IndiGo Airlines and GoAir, are fighting the proposed changes. They argue it would give Vistara and another new airline, AirAsia India, an unfair advantage over longer established carriers such as themselves.

Until now, long haul rivals Air India and Jet Airways, as well as other Indian carriers flying internationally, including SpiceJet and IndiGo, have limited their networks to regional destinations including Sri Lanka, Afghanistan, Singapore, Maldives, the United Arab Emirates, Nepal, Thailand, and Oman.

Campaigning for the end of the 5:20 rule won't be Yeoh's first battle with the famously infernal workings of India's Directorate General of Civil Aviation and its provincial counterparts. India's *Economic Times* summed up Yeoh's persistence in winning over aviation officials in an article in January. Unnamed ministry officials told the newspaper: "He used to come and sit with us, with a thick sheaf of application papers, and ask us politely, but firmly, to point out the mistake that was holding up a particular approval. He used to do this over and over again, whenever paperwork got stuck," the ministry official said.

> We are at a cusp in Indian aviation development
>
> **Phee Teik Yeoh**
> Vistara CEO

Nor should managing the transition from a solely domestic carrier to an international airline present any problem for the CEO, who moved to Delhi to set up Vistara, assisted by a small team, in late 2013. A first class honors chemistry graduate from the National University of Singapore, Yeoh joined SIA as a network planning analyst and worked his way up to senior positions with the airline in the U.S., Britain and then Singapore, where he was a divisional vice-president before he was appointed to run Vistara.

The board and Yeoh's executive team are balanced between Tata and SIA staffers. Chairman Prasad Menon, board director Mukund Rajan, chief financial officer, Niyant Maru and chief human resources officer and head of corporate affairs, S. Varadarajan, are from Tata. Chief commercial officer, Giam Ming Toh, is from SIA as is board director, Swee Wah Mak, SIA's executive vice-president commercial.

The board and the executive team reflect the airline's 51:49 ownership structure, but it is being made clear that SIA's corporate philosophy will shape the airline's development.

Yeoh told *Orient Aviation*: "SIA has grown over the years to a brand recognized internationally as one of the world's leading airlines. SIA's name and the famous Singapore Girl are synonymous with warmth, quality and efficient service.

"It is this customer-centric focus, both on the ground and in the sky, that SIA brings to this great partnership. We have tried to raise the bar for the industry by bringing in global best practices, out-of-the-box thinking and the best talent," he said.

"For instance, our FFP (Frequent Flyer Program) cross participation is a unique offering for the customers of both airlines. We will give customers of our partner airlines easier access to the sectors we service under the airline interline agreement. We would like to fly international as soon as the regulator allows us. When we do, I am sure there will be more opportunities to integrate with the SIA network."

Yeoh is acutely aware of the challenges of Indian aviation. "Aviation is a fiercely competitive sector, where the cost of operation is very high. To achieve sustainable growth and financial viability, the right support, in terms of reformist policies and tax revisions is required," he said.

"To improve the viability of operating in a market like India, we need to tackle some ground realities that continue to hinder progress in Indian aviation.

"We look forward to the government setting actionable goals related to reducing operating costs, developing the Hub concept, [realistic] fuel pricing, cutting state taxes, developing MRO facilities and establishing an environment

## The birth of Vistara

**2013**

**April:** Joint venture partners, the Tata Group (51%) and Singapore Airlines Ltd (49%) applied for a licence to launch a new full service carrier with the Indian regulatory authorities.

The application produced furious objections from several airlines and politicians, based on their view that only established airlines should qualify for direct foreign investment.

**2014**

Midway through the application procedure, the government changed some of the rules and the airline, which had yet to be named, had to re-start the application process. As a result, the launch of the carrier was put forward from October, 2014 to January 2015.

**August:** The Tata Group and Singapore Airlines (TSAL) christens its airline Vistara, which was derived from the Sanskrit word, vistaar, meaning limitless space.

**September:** Vistara accepts it first aircraft, an A320, and unveils its livery three weeks later.

**December:** After months of bureaucratic delays, Vistara CEO, Phee Teik Yeoh, announces the carrier has received its Air Operator's Permit (OAP). Bookings open for the inaugural flights from Delhi to Mumbai and Ahmedabad.

**2015**

**January:** Vistara's inaugural flight takes off for Mumbai from its Delhi hub on January 9.

**February:** Vistara's fleet increases to five Airbus aircraft and the Delhi-Goa route commences.

**March:** Vistara launches Delhi-Hyderabad services.

**April:** India's north eastern cities of Guwahati and Bagdogra are added to Vistara's network.


where market forces can drive growth, he said.

"An environment where the government allows the market forces to prevail would be the ideal condition both for the aviation sector and its passengers. If the industry is to develop as an engine for socio-economic growth, we need to get rid of archaic policies and treat this sector as an enabler for business and growth of the economy," Yeoh said.

The airline, which gained its AOP (Air Operator's Permit) last December and launched flights from Delhi to Mumbai and Ahmadabad in January, is initially focused on cementing its position domestically. It has now scaled up to 164 frequencies a week.

"Vistara connects Delhi, Mumbai, Ahmedabad, Goa and Hyderabad. This month, we will begin flying to Guwahati, Bagdogra and Pune," said Yeoh. "Our sixth aircraft arrived in March. By the end of this year our fleet will be nine aircraft. The aim is to have 20 aircraft by the fourth year of operations.

"We will soon announce more destinations and some exciting enhancements to our product and services offerings, which our customers will definitely welcome and appreciate."

He refuted suggestions the airline's launch in a market where most carriers are losing money was ill-timed. "I firmly believe Vistara has entered the market at the right time. More airlines mean a growth in infrastructure, better connectivity and a boost to tourism, thereby enabling businesses and growth of the economy. This means a win-win situation for all stakeholders," Yeoh said.

He said the establishment of Vistara followed extensive research "which helped us understand the needs and pain points" of Indian airline passengers. "We have designed our offerings with this research in mind," he said.

"We are hopeful and convinced that once customers experience us they will realise what they have been missing as airline passengers. India has yet to witness a real full-service airline. We are here to redefine the flying experience, both in terms of service and operational experience."

With most of India's market dominated by low-cost carriers, Vistara is only the third full-service airline, offering business, premium economy and economy cabins, after Air India and Jet Airways, that is operating on the sub-continent. Its arrival marked the return of the Tata group, the founder of Air India in 1946, to aviation and two failed attempts, in the 1990s and 2001, to set up an airline in India.

Vistara has taken a different approach to its rivals in its launch phase. It has refused to become embroiled in ruinous fare wars, although, like every carrier, it will use

discounting at various times.

It also has tried to make fares simple for passengers to understand. Compared with Jet Airways, which has 12 to 14 fare categories, Vistara has seven. According to industry insiders, Vistara's early load factors have been well below the 75% to 80% airlines need to operate profitably. During the first weeks of operations, the load factor was below 60%, albeit its launch took place at a bad time in the Indian weather cycle. Northern India was blanketed in thick fog and most travelers had booked their holidays before Vistara tickets were available.

Yeoh is untroubled by any of this. He pointed to several positive developments in the industry, including recent fuel price reductions and the stabilization of India's currency. "At the moment, we are concentrating on scaling up our network and offering our customers the highest service standards," he said. "We will be focusing on exceeding customers' expectations consistently, and when we do, breakeven will follow naturally."

Its A320 148 seat three class cabin accommodates 16 business class passengers, 36 premium economy passengers and 96 economy passengers. It is the first Indian domestic carrier to offer auto check in, designated queueing and premium economy. Its frequent flyer programme rewards members based on the ticket price rather than miles flown.

One early benefit for Vistara has been a three-month exemption from a government requirement to operate flights to financially unviable regions in the country, such as the North East. The exemption has ended and Vistara has had to include in its scheduled services a certain number of its flights on routes that will almost certainly lose money.

Vistara plans to start beaming in-flight entertainment (IFE) content directly to passengers' personal electronic devices (PED), the first airline in the country to do so. Unlike Air India and Jet, its A320s don't have seat back screens.

"We are introducing wireless IFE systems. India does not allow Wi-Fi on board aircraft in terms of two-way connectivity, but one-way streaming of content like movies and music is allowed. This will be Wi-Fi one-way connectivity," explained Yeoh.

Business class passengers will be given tablets to watch IFE, but premium economy and economy passengers will have to stream their entertainment to their own tablets or smartphones.

The airline has stepped up marketing campaigns and offers on its loyalty programme to attract more passengers. It is looking at fly-and-stay tie-ups with Taj Hotels Resorts and Palaces, owned by Tata, and partnerships with international carriers.

Besides operational excellence and service excellence, Yeoh said cost leadership is one of his top strategic imperatives. "We strive to keep costs low by disciplined control of non-customer facing expenses and innovative use of technology. Additionally, we leverage the expertise and resources of our parent brands to reduce overhead costs," he said.

"We have a healthy mix of insourcing and outsourcing models to keep our operations lean and effective. Being a new organization, we could chose costs we wanted to incur and what we could avoid. We believe that profitability will follow naturally if we keep focusing on our services and cost efficiency."

Overall, Yeoh is optimistic about the pro-business and growth-oriented approach of India's newest government. "It is focused on developing the industry as an engine for socio-economic growth. We share the government's vision of creating world-class international hubs in India," he said.

"The new government's progressive outlook already aims at making India a success story, which is evident from the Union budget 2015. Harnessing India's potential in the global aviation market by opening up the skies would boost the growth of the aviation sector, the Indian economy and immensely benefit the end customer," he said.

"We are confident the government will do away with restrictive practices and allow Indian airlines their role in the global skies. International connectivity provided by Indian carriers will boost the economy through improved tourism and help India earn the tag of a great investment destination." ■

## Yeoh's Journey to India

At 46, Phee Teik Yeoh's appointment as CEO of Vistara is a perfect fit. Born in Malaysia, he was a gifted student who won a Singapore Airlines (SIA) scholarship to study chemistry in Singapore in 1981, aged 13. He graduated from the National University of Singapore with a first class honors degree in chemistry, but still found time to compete at university level in hockey and indulge his passion for Indian food. He was talent spotted by British pharmaceutical giant, GlaxoSmithKline, who offered to fund his MA studies at Oxford University.

Instead, a few months into his MA, he returned to Singapore to join SIA as a network analyst, where he quickly made his mark. A few years later he was posted to Frankfurt and then Berlin and also did a highly valued stint in the office of the SIA chairman, as an executive assistant. At the time of his appointment to head Vistara, almost 23 years after he joined the airline, he had returned to Singapore from Britain, where he was SIA's UK general manager, to become an SIA vice-president and member of the carrier's inner management circle.

To the delight of Indians, Yeoh is an Indophile, who is inspirational when he talks about Vistara and the future of aviation in the country. Ten days before the carrier flew its first flight, he said "Vistara is our new year's gift to India". Separately, he told Indian media: "My experience in India has been very good. There is a pro-business government and many progressive steps have been taken. There cannot be a better time to launch an airline."

# Land of plenty for global aerospace companies

**International aviation companies are increasing their joint venture and partnership investments in China in a Mainland industry that returns 10% annual growth.**

***Tom Ballantyne reports***

As the second largest domestic airline market in the world - and fast heading towards the number one spot – every aviation company that counts wants to be in China.

The economy of the Asian giant may have slowed to 7%, from 15% 18 months ago, but that's still good enough for global aerospace companies intent on building their businesses at the heart of the world's fastest growing aviation region.

However, as the leaders of some of the most sophisticated international aviation companies in the world learn every day, you can't win China's business or build businesses with Chinese partners unless you understand – and live - the ways of the world's most populous country.

Airbus Group China chairman, Laurence Barron, is quick to concede the big European manufacturer made early mistakes in its China strategy. Back in the 1980s, when sales representatives were flying into the country, they were struggling to sell aircraft.

"It doesn't really work covering China from outside China," he said. "You have to be on the ground. We learned that lesson after the first ten years when we had not make much impact here."

Barron cited a second lesson. "It can't be a one way street. You have to give back something. We've done that by sub-contracting aerostructures, both on aircraft and helicopters. We've done that with our engineering centre here in Beijing, the A350 program in Harbin, which led to the composite manufacturing centre. We have done it with the final assembly of A320s and A319s in Tianjin and possibly, in the future, A330 outfitting and delivery," he said.

At competitor Boeing Commercial Airplanes, Ihssane Mounir, the U.S. manufacturer's senior vice president sales for Northeast Asia (covering China, Japan, Korea and Taiwan), echoed the same message. He said acclimatizing to China's culture and learning how it worked was crucial for success.

"That is the one thing I would advise anybody to do. You really can't judge from the outside. You have to go in and become part of the fabric. Understand the people. Understand where they're coming from and then you see there's a lot of logic to the madness, there's a lot of logic to the order and it works," he told *Orient Aviation*.

> More and more, we want to be perceived as part of the scene in China, not just foreigners
>
> **Laurence Barron**
> Chairman Airbus Group China

China managing director of big U.S. communications and aviation electronics firm Rockwell Collins, Robin Ho, has another piece of advice.

"Number one, you need to be patient because sometimes the investment you put in may take a little bit longer to recoup than planned. But for sure this market is very promising," he said.

"Number two, Oriental cultures respect long-term friendships and relationships instead of just contractual relationships. You have to form a partnership here. If you're only doing it for one-way business you probably won't be here for long."

For those who learn the lessons the rewards are forecast to be massive. The country's commercial airlines are projected to need more than 6,000 new jets over the next two decades, worth more than $700 billion.

That's one new jet arriving in the country every 29 hours for 20 years. For aircraft manufacturers, engine makers, avionics and systems suppliers, maintenance, repair and overhaul (MRO) businesses and every link of the supply chain, China's aviation business appears to be an ongoing bonanza.

At the same time, Chinese aerospace is on the brink of producing commercial aircraft, backed by a government that is bent on seeing the nation become an aerospace superpower.

China is now well on the way, with AVIC (Aviation Industry Corporation of China, owner of the Xian Aircraft Corporation) and COMAC (Commercial Aircraft Corporation of China) working on home-built products, including AVIC/XAC's MA60 turboprop and COMAC's 90-seat ARJ21 regional jet and the 190-seat passenger jet, the C919.

It is little wonder that Western manufacturers such as Boeing, Airbus and Embraer, engine-makers such as Rolls-Royce, GE and Pratt & Whitney, MRO providers, and systems suppliers like Rockwell Collins and Honeywell, are investing billions of dollars in their China operations.

And as Barron, Mounir and Ho said, none of their efforts are one directional. They involve a deep commitment on the ground and development of long-term partnerships with local Chinese.

Boeing has more than 8,000 planes flying around the world fitted with parts made in China. It has been involved in China for more than 40 years. "When you come to today's landscape it's a lot more than just Boeing helping," said Mounir.

"It's a stronger partnership. They're not just buying from us. They're helping us on the supply side, the manufacturing side and the research front."

Boeing has partnerships with AVIC and COMAC that include a composite facility in Tianjin, manufacturing of parts for the 737, 747, 777 and 787, and a big MRO facility, Boeing Shanghai Aviation Services.

"So we have come a long way in what we do in China, what we do for China and what China does for us. From a dollar spent standpoint, we are somewhere between $800 million and $1 billion in spending with our suppliers in China. We are putting a lot of money into China," Mounir said.

Airbus, with more than 30 years in China, also has built a strong presence in the country with its main office, a training centre and a spare parts facility in Beijing, as well as the A320 final assembly line in Tianjin and a composite facility in Harbin.

It has an agreement with AviCopter, the helicopter division of AVIC, to co-develop a new helicopter, known as the EC175 in Europe and the AC352 in China. Some 5% of the airframe for the new A350 is supplied by Chinese companies.

"We're here for the long-term," said Barron. "As a result, you build relationships with government, with airlines, with industry, with cities like Tianjin and Harbin. More and more, we want to be perceived as part of the scene in China, not just foreigners."

It is interesting to examine how Airbus achieved its current strong position in the Chinese market, given that it trailed Boeing for years in aircraft orders. After the company sold its first plane to China - an A310 to China Eastern Airlines in 1984 - it continued to lag behind Boeing.

In the next decade it only had about 20 aircraft in China. Then there was a change in strategy.

Airbus opened a Beijing office and established a joint venture training and support centre with China Aviation Supplies (CAS), which was completed in 1997. As a result, Airbus' share of the in-China fleet rose to about 25%, albeit still well below Boeing's penetration of the market.

"Then, in 2004, we said to the Chinese Government that we wanted to catch up with Boeing and that we wanted to have half of the in-service fleet, not a quarter. We wanted to draw level. The answer was pretty much 'well if you want to be equal with Boeing in terms of in-service fleet you should be equal with Boeing in terms of purchasing or sub-contracting to Chinese industry'," Barron said.

"We discovered that while we had been sub-contracting since 1985, our volume was pretty low and was only a quarter of what Boeing was doing. It was pretty clear we had to improve procurement from China, which we proceeded to do.

"Management at the time set targets to match Boeing and to double the actual dollar amount of procurement. The original goal was to draw level with Boeing in 2007 and double the amount by 2010. All that was put in motion," said Barron.

> **They will be competitors, but they will be collaborators and partners**
>
> **Ihssane Mournir**
> Senior vice president sales
> Northeast Asia
> Boeing Commercial Airplanes

Airbus achieved its targets two years early.

Rockwell Collins' Ho said you can't sell your product without any investment in the market place. "You have to find a good partner that can help you to secure your business or expand your business in China. On the other side, the Chinese government is encouraging that kind of co-operation between the local company and an international company like us," he said.

Rockwell Collins' advanced avionics were selected for AVIC's new MA-700 regional airliner. Its joint ventures (JV) include an agreement with AVIC Bluesky to establish a commercial simulation joint venture in China that will design, manufacture, market and service flight simulators.

With the Xian Aviation Science and Technology Company it jointly developed a full-motion engineering simulator for the C919 and also has a JV with China Electronics Technology Avionics Company for developing and manufacturing the communication and navigation systems for the aircraft.

AVIC Leihua Rockwell Collins Avionics Company opened a facility in Wuxi in June 2013 to develop and manufacture integrated surveillance system products for the C919. Collins Aviation Maintenance Services Shanghai Ltd. is another JV, between Rockwell Collins and China Eastern Airlines, which provides aftermarket services and support of avionics and in-flight entertainment equipment for Chinese airline customers.

Clearly, most of these partnerships are working well. In December, Airbus celebrated the 200th delivery of an A320 assembled at Tianjin. "It's public knowledge that we have talked about and signed MoUs to potentially set up an A330 completion and delivery centre, which would also be in Tianjin next to the A320 facility, provided we have a significant number of orders," Barron said.

Unlike Airbus and Embraer, which had an E145 regional jet assembly line in Harbin (it was converted to assembling the Embraer Legacy business jet in 2012), Boeing has not opted to build or assemble planes in China.

"You have to look at what makes sense for the country. What makes sense for us. What makes sense for them at any given time," said Mounir. "It's not that we are not looking at it. It's not that we will do it. I can't really say whether we will do something like that or not.

"All I can tell you is we look at what adds value for both parties. We are doing some pretty advanced composite work in Tianjin. We have a very large joint venture facility doing that. Then, we look across the land and we have more than 6,000 people who are working on various projects. We are constantly asking ourselves what else could we do with the Chinese to add value for both them and us."

**Robin Ho, Rockwell Collins China**

To many, the perceived elephant in the Chinese room is the possibility that the country's aviation industry will become a major competitor for established global aerospace manufacturers. Boeing and Airbus are not daunted by this development.

"Yes, they will absolutely be a competitor and I think they will be a formidable competitor," said Mounir. "They will have their airplanes flying in the jet category, the C919, and we will just have to compete.

"Competition makes us all better. It will keep us on our toes. They will push us to be better. But I think there will be areas of co-operation where we can work with them to see how we can both bring value to the table. They will be competitors, but they will be collaborators and partners."

Barron agreed. "It is a perfectly legitimate desire on the part of a country like China to develop its own civil aerospace industry. I think it will be a long time before they succeed, but I believe one day they will," said Barron.

"As far as we are concerned, what's wrong with competition? Airbus was born into competition, to compete with Boeing, McDonnell Douglas, Lockheed, Fokker and a whole lot of manufacturers and we succeeded. We've been very good at it, so why should we worry about it.

"If one day the Chinese are better at something than us it would be a kick in the butt for us. We will have to go back to the drawing board and try to leapfrog them. That's what's been happening for years between Airbus and Boeing. Instead of just sitting back and saying let's make what we make and make money, we have constantly tried to outdo each other by launching better aircraft, better derivatives. It's a great fight and it's good for everyone."

Mournir said: "You do have an indigenous industry that is climbing the learning curve very fast and it is adding value to the global market of aerospace. It is something we can tap into because China is spending a lot of money on these developments and projects. As

## Profits for all

Airbus, Boeing and Rockwell Collins can very easily live with China's "new normal" annual growth of 7%, they said.

But Airbus China Group chairman, Laurence Barron, said air traffic growth is actually around 10%. Historically, it has been 15% or 16% annually. "But that was off a much smaller base. We are now 10% of a much bigger base and that is, in absolute terms, still growth. I think myself that it's more sustainable," he said.

"If we had 15% traffic growth today, it would be very difficult for everyone to keep up. There are the questions of availability of pilots, trained mechanics, airspace and aircraft. Everything would be in short supply.

"For Airbus, it is probably our largest aircraft market. And for Airbus Helicopters, the next 10 years it may become the largest, and if not, the second largest helicopter market in the world," he said.

Mounir said 7% growth is tremendous by any measure. "I'm not worried about it at all. Certainly, it is slower than we have seen, but put things in perspective. There are 1.3 billion people in China and a little over 2,000 planes installed.

"In the U.S., we've have more than 300 million people and more than 5,000 planes as an installed base. Then I look at the propensity to travel in the U.S. There are about 2.4 trips per capita. In China, it's 0.24. It's one tenth what it is in the U.S."

"What really needs to be considered is the tremendous growth in China's middle class, he suggested, because this is where the people who travel and who are going to purchase airplanes come from. "That tells me China can absorb as many airplanes as you can throw at it. More airplanes than all of us collectively can throw at it.

"The only thing that can stop us, all manufacturers, is the infrastructure itself. Can the infrastructure take it in? But in terms of demand, it is there. It's tremendous. It's going to stay there until the market reaches a mature level like the U.S. Then I'll start worrying about how the GDP growth affects traffic growth."

"I think 7% growth is still a pretty good number," said Ho. "But on the air transport side, as well as the OEM (original equipment manufacturers) side, we actually have not seen too much decline. GDP growth is composed of a lot of elements. But for aerospace and aviation the Chinese government, in its 12th five-year plan, is still promoting industry development. That is why they are pushing very hard to produce their own aircraft, such as the C919.

"There is still a lot of opportunity for a supplier like us. On the other side, if you look at the relaxation of airspace in China, there is a huge opportunity in the general aviation (GA) area, including helicopters. We are very focused on these areas now. A lot of new aircraft are being delivered, low-cost carriers are being launched and a lot of leasing companies are being formed by formed by Chinese banks, which also is driving demand."

such they are spending a lot of money, time and effort on growing the industry."

"So, it becomes very important and very interesting for us to look at what can we bring to the value chain of aerospace for everybody. That's why we are paying very close attention to it. Its an industry that has been pegged as strategic for China and therefore they are developing it and I think there will be some value add beyond what we have seen going forward."

At Rockwell Collins, Ho said it is better to be working together in the same market "so we can grow together instead of doing it on your own. If you have a trustworthy partnership, we can enjoy the benefit of the market together instead of ending up in a competitive situation".

One other issue that concerns many firms entering China for the first time is how to deal with the tough regulatory regime and a government that rules with an iron fist. But companies that have been in China for years said it is not really a problem.

"In fact, we've been having a pretty harmonious working relationship with the authorities. There's something to say about order and good planning," said Mounir. "I didn't understand it at first.

"I come from a culture where you've got to liberate and liberalize to the maximum possible. So you can imagine I had a little bit of a struggle with the concept initially. Even if you look at the five-year planning and how the planning occurs it's given us plenty of room to navigate and plenty of room to address market requirements.

"The CAAC (Civil Aviation Administration of China) has been doing an incredible job making sure the infrastructure is there, the safety measures are there, that the training is in place. From a regulatory standpoint, they are doing their job. They are doing it well and they are paving the way for success in the market for the airlines, especially for the start-ups and the LCCs."

Looking ahead, Mounir said: "We are looking at what can we do together, what can we do for one another because there is a strong appetite on the Chinese side to learn more and come up that learning even faster. And we do have to accommodate that desire curve because the partnership needs to be both ways. It can't be just that of a seller. So I am working very hard with my colleagues and others trying to figure out what you do next in China to keep going forward when it comes to industrial co-operation and collaboration." ■

CARGO EXTRA

# Air cargo breaks losing streak

***Tom Ballantyne reports***

Asia-Pacific air cargo business recorded a increase in 20.8% of demand in February that pushed up the region's air freight load factor and continues the positive results for the sector.

The Association of Asia Pacific Airlines (AAPA) said 2014 exports from manufacturing hubs across the region led to the rebound, a lift in business assisted by the relatively modest pace of available freight capacity, at 4.1% for the 12 months.

"Air cargo markets experienced a welcome upswing in 2014, with the second half of the year registering 6.0% growth compared with the same months in 2013, following several years of stagnant demand," said AAPA director general, Andrew Herdman.

Statistics released by the International Air Transport Association (IATA) confirmed the upswing was from strong Lunar demand in the Asia-Pacific.

IATA said the air cargo market expansion gathered momentum as 2014 progressed, finishing the year on a positive note, at 4.9% in December, compared with 12 months earliers.

Most of the growth was generated in the Asia-Pacific, and to a lesser degree, the Middle East, with an expansion in FTKs, at 46% and 29%, respectively.

IATA's director general and CEO, Tony Tyler, said the cargo revival was largely being driven by the uptick in world trade in the second half of 2014. "Recent concerns about the health of the global economy and a corresponding fall in business confidence have not yet impacted air cargo. But it is a downside risk that will need to be watched carefully as we move through 2015," he said.

IATA's reported that cargo transported by Asia-Pacific carriers grew 5.9% in December, compared with an average of 5.4% for all of 2014.

Increased import demand in addition to continuing manufacturing strength across the region, with a particular focus on Japanese and Chinese markets, built growth.

Tyler cautioned big challenges remained for air freight. "Yields declined for the third straight year in 2014, with no immediate prospect of improvement. Cargo revenues remained basically unchanged at $62 billion, some $5 billion below their 2011 peak," he said.

"To move forward, the industry is focusing on providing a stronger value proposition to meet evolving customer needs. That's what is driving efforts such as cutting shipping times, ensuring high-quality handling of temperature-sensitive goods, or benchmarking quality to improve customer transparency. It's all about delivering value as a supply chain with a strong vision of the future," said Tyler.

The focus on value in delivering change and an initiative to encourage more industry innovation was center stage at IATA's 9th World Air Cargo Symposium, which was held in Shanghai with more than 1,000 delegates in attendance in March.

At the gathering, the emphasis was on laying the foundations to "energise the sector, recapture market share and grow revenues", said Tyler. ■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