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ORIENT AVIATION PERSON OF THE YEAR 2019 AND LIFETIME ACHIEVEMENT AWARD WINNER

**TONY FERNANDES**

Co-founder and CEO
AirAsia Group

# AIRASIA GROUP CEO, TONY FERNANDES, IS TRANSFORMING THE AIRLINE GROUP INTO "THE AMAZON OF ASIAN AVIATION"

Orient aviation 26 YEARS

Crackdown necessary on transport of counterfeit lithium battery cargo

More profitable days ahead for Asia-Pacific airlines reports global airline body

Qantas postpones Project Sunrise decision to 2020

Orient aviation 26 YEARS

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# CONTENTS

Volume **26**, Issue **10**

## COVER STORY

# Profits up for 2020 predicts IATA

The International Air Transport Association's (IATA) somewhat unexpected prediction, announced at press time, that the world's airlines will collectively make more money in 2020 than in 2019 was certainly welcome. IATA forecasts a net profit of US$29.3 billion for the global airline industry next year, up from $25.9 billion in 2019.

For the Asia-Pacific specifically, the news was even better. The region's airlines will report a net profit of $6 billion for the full 2020 year against a profit of $4.9 billion in 2019. Given global economies remain fragile, social unrest is rife in many countries, trade disputes abound and severe and extreme weather events are on the increase, forecasts are extremely difficult to make.

So the optimism engendered by IATA's projections for next year should be considered in context and tempered by several factors. Firstly, the forecast is supported by a belief there will be a "truce" in the U.S./Sino trade war in the run up to the U.S. presidential election next November.

Given the roller-coaster nature of the disagreement, there is no guarantee of a temporary slowdown in the tit-for-tat tariff war. It also is expected the price of oil will be stable and even drop. Again, hardly a sure bet.

And then there are ramifications to consider following IATA's news that profits collectively produced by the airline industry in the last ten years were generated by only about 30 of IATA's almost 300 strong airline members.

"There is a long tail of airlines barely breaking even and a group making significant losses. For this long tail of airlines, performance has not improved in the past decade. This is the reason we have seen a series of airline failures in the last two years, despite relatively good financial results at the aggregate industry level," said IATA's chief economist, Brian Pearce.

"There is work to be done to move the industry to a more broadly financially sustainable position."

Pearce is right. The vast majority of the world's airlines need to make their operations financially sustainable. Observers of the Asia-Pacific industry would have no problem identifying carriers that are part of that long tail.

For some of the region's airlines, obstacles to greater profitability will be temporary. A case in point is Cathay Pacific Airways. Its declining passenger demand is a result of civil unrest in its home hub in Hong Kong, a situation that is out of its control. Several airlines in China and elsewhere in the region have been hit by the grounding of the 737 MAX, country-to-country political disputes and foreign currency fluctuations.

In the coming year, it is expected the volatile operating conditions for Asia-Pacific airlines will continue, whatever the forecasts may be. Longer-term, the future of the region's carriers is bright, but they would do well to prepare for another tough 12 months despite IATA's positive predictions. ■

**TOM BALLANTYNE**
*Associate editor and chief correspondent*
Orient Aviation Media Group

## Cathay Pacific cuts capacity as passenger traffic tumbles

Cathay Pacific Airways has revised downwards its planned capacity increase for 2020 as passenger numbers declined for the fourth month in November. At press time, Hong Kong had entered its seventh month of civil protests and unrest, a situation that particularly has impacted the travel and hospitality industries of the Special Administrative Region.

"In light of the immediate commercial challenges we are facing, we have reluctantly made the decision to reduce our seat capacity in 2020 by 1.4% year-on-year as opposed to our original plan of 3.1% growth, meaning that for the first time in a long while our airlines will reduce in size," Cathay Pacific Group chief customer and commercial officer, Ronald Lam, said in a company statement.

> Looking forward, we continue to see a significant shortfall in inbound Hong Kong advance bookings, particularly from mainland China and other regional markets, compared with the same snapshot last year
>
> Ronald Lam
> Cathay Pacific Group chief customer and commercial officer

In November, Cathay Pacific and Cathay Dragon carried 2,623,764 passengers, 9% fewer than in the same month a year ago. Passenger load factor was 80.1% for the month, a drop of 3.2 percentage points over November 2018.

Lam said: "November continued to be very challenging for both Cathay Pacific and Hong Kong with sentiment for travel still weak. Our inbound Hong Kong traffic dropped 46% compared with the same period in 2018 – a further slowdown from the 35% drop in October."

Outbound traffic was down 8% against the same time last year – a slight improvement over previous months, Lam said.

"Our increasing reliance on transit traffic through Hong Kong, which has been less impacted, together with intense competition, has meant overall yield has remained under significant pressure," he said.

The group's regional routes, in particular mainland China and Northeast Asia, were continuing to experience weak demand for travel into Hong Kong. Travel sentiment also "was soft" on routes to and from the U.S. before Thanksgiving week, a traditionally strong period for premium class travel, Lam said.

"There were a few bright spots in the network such as our India routes, which remained robust and generated good demand between India and North America. Europe to Southwest Pacific, an important transit stream for the airline's network, also remained healthy," he said. ■

## AirAsia Group CEO, Tony Fernandes, named Orient Aviation's 2019 Person of the Year and a recipient of the media group's lifetime achievement award


The Orient Aviation Media Group has named Tony Fernandes, the CEO of the AirAsia Group, as its 2019 Person of the Year and a recipient of an Orient Aviation Lifetime Achievement award.

Fernandes began his career as a university educated accountant who switched gears to the music business, working for both Virgin Communications and Warner Music. In 2001, with his partner Kamarudin Meranun, he took on the Asia-Pacific legacy airlines with the establishment of low-cost carrier, AirAsia, based in Kuala Lumpur. The rest is aviation history.

The awards will be presented to Fernandes in Kuala Lumpur before an invitation-only audience of his industry peers.

### Citation

"No one has done more to transform the Asia-Pacific aviation landscape in the last 18 years than AirAsia Group CEO, Tony Fernandes. On September 1, 2001, he and his partner, Kamarudin Meranun, acquired a small government-owned Malaysian airline, saddled with a US$11 million debt, for the princely sum of one ringgit, or US$0.25.

Within a year, the failing airline had been transformed into low-cost carrier AirAsia. It was in profit and spreading its fast growing wings across Malaysia with plans to fly to Southeast Asia and the regional Asia-Pacific.

Initially, full-service carriers were dismissive of the newcomer, but they soon learned, as had airlines in Europe and the U.S., that low-cost airlines were a threat to their operating model and budget flying was being embraced by the expanding middle classes of the region's emerging economies.

Fernandes has been relentless in his drive to bring affordable travel to the region, a passion he ascribed in his autobiography, "Flying High", to making sure "Now Everyone Can Fly".

His perceptive application of social media to reach and build the AirAsia Group audience was unprecedented in the industry as was the LCC's strategy of opening under-served routes across the region. The combination of technology and providing flights for passengers overlooked by legacy carriers fueled the LCC's growth and set the operating template rival budget carriers emulated.

The airline group established joint venture LCCs in India, Indonesia, Japan, Thailand and the Philippines and set up AirAsia X, a long-haul LCC. In the process, Fernandes and his team built AirAsia into one of the most recognizable brands in the Asia-Pacific.

The airline group also forced significant changes in strategy at the full-service end of the market. Several full-service airlines now operate their own LCC subsidiaries as budget carriers usurped legacy carrier demand for cheap, back-of-the-plane economy fares.

As the group enters its third decade of operations, Fernandes, his partners and his employees are transforming the AirAsia Group into a travel and lifestyle brand intended to be the "Amazon of Aviation" in the Asia-Pacific.

The AirAsia Group operates an all-Airbus fleet of 200 jets with another 353 on order. ■

**Christine McGee**
Publisher and editor-in-chief
Orient Aviation Media Group

**Tom Ballantyne**
Associate editor and chief correspondent
Orient Aviation Media Group

## Person of the Year roll of honour

| | |
|---|---|
| 2019 | **Tony Fernandes**, CEO, AirAsia Group<br>Mr. Fernandes is also the recipient of an Orient Aviation Lifetime Achievement award for his services to the aviation industry. |
| 2018 | **Goh Choon Phong**, CEO, Singapore Airlines |
| 2017 | **Shinichiro Ito**, Chairman, ANA HOLDINGS INC. |
| 2016 | **Alan Joyce**, CEO and Managing Director, Qantas Airways |
| 2015 | **Tony Tyler**, Director General & CEO, International Air Transport Association.<br>Mr. Tyler is also the recipient of an Orient Aviation Lifetime Achievement award for his services to the aviation industry. |
| 2014 | **Christopher Luxon**, CEO, Air New Zealand |
| 2013 | **Yoshiharu Ueki**, President, Japan Airlines |
| 2012 | **John Borghetti**, Chief Executive Officer, Virgin Australia |
| 2011 | **Shinichiro Ito**, President & CEO, All Nippon Airways |
| 2010 | **Emirsyah Satar**, President & CEO, Garuda Indonesia |
| 2009 | **Tony Fernandes**, Chief Executive, AirAsia |
| 2008 | **Idris Jala**, Managing Director, Malaysia Airlines |
| 2007 | **Jaime Bautista**, President, Philippine Airlines |
| 2006 | **Chew Choon Seng**, Chief Executive, Singapore Airlines |
| 2005 | **Geoff Dixon**, Managing Director & CEO, Qantas Airways |
| 2004 | **Kanok Abhiradee**, President, Thai Airways International |
| 2003 | **Ralph Norris**, Managing Director & CEO, Air New Zealand |
| 2002 | **Isao Kaneko**, President, Japan Airlines |
| 2001 | No Award |
| 2000 | **David Turnbull**, Deputy Chairman & CEO, Cathay Pacific Airways |
| 1999 | **James Strong**, Chief Executive, Qantas Airways |
| 1998 | **Dr. Cheong Choong Kong**, Deputy Chairman & CEO, Singapore Airlines |
| 1997 | **Fu Chan Fan**, President, China Airlines |

In **2012**, Orient Aviation awarded its second Lifetime Achievement award in its 18-year history of the Person of the Year. The recipient was Air New Zealand CEO, **Rob Fyfe**.

In **1998**, Cathay Pacific Airways chairman, **Peter Sutch**, was awarded Orient Aviation's Lifetime Achievement award.

# BETTER DAYS AHEAD FOR REGION'S AIRLINES

***The last 12 months have not been the best of times for Asia-Pacific airlines, but the International Air Transport Association (IATA) believes 2020 will be better. Despite higher forecast profits for the world's carriers, the devil could be in the detail with some problematic global issues a long way from resolution. Associate editor and chief correspondent, Tom Ballantyne, reports from Geneva.***

Despite trade wars, fragile global economic conditions and political unrest in several cities across the globe, the International Air Transport Association (IATA) has forecast airlines worldwide will turn in a collective net profit of US$29.3 billion in 2020, up from $25.9 billion in 2019.

If correct, it will be the industry's 11th consecutive year in the black. IATA also forecast the struggling air freight sector would grow by 2% in the next 12 months.

IATA said airlines were expected to earn a return on invested capital of 6%, up from 5.7% last year and also report a lift in net profit margins to 3.4%, from 3.1%. Average net profit per passenger was predicted to increase to $6.20, from $5.70, with overall performance boosted by a decline in the average price of fuel.

"Slower than expected global economic growth in 2019 contributed to lower energy demand, with crude oil prices averaging around $65 per barrel (Brent), compared with $71.60 in 2018. Oil supply also is plentiful, which boosted inventories. As a result, oil prices are expected to dip in 2020 to $63 (Brent) per barrel," said IATA's chief economist Brian Pearce. "The forecast industry fuel bill of $182 billion will represent 22.1% of expenses, down from $188 billion, or 23.7% of expenses, in 2019."

Speaking at IATA's Global Media Days in Geneva in early December, Pearce said Asia-Pacific carriers would experience a modest recovery in world trade and air cargo. The association forecasts the region's airlines would produce a $6 billion net profit in 2020, compared with $4.9 billion in 2019, and earn a 2.2% net margin for the coming year.

Asia remains the manufacturing centre of the world and revenues from transporting much of those goods are a significant proportion of sales for many of the region's airlines, IATA said.

"But the trade war is assumed just to be on hold. Trade tariffs are not reversed. Consequently, the rise in trade and cargo volumes is moderate. The net profit per passenger is anticipated at $3.34," it said.

IATA director general and CEO, Alexandre de Juniac, said a combination of various global factors had created a tougher than anticipated business environment for airlines. "Yet the industry managed to achieve a decade in the black, as restructuring and cost-cutting continued to pay dividends. It appears 2019 will be the bottom of the current economic cycle and the forecast for 2020 is somewhat brighter," he said.

"The big question for 2020 is how capacity will develop, particularly when, as expected, grounded 737 MAX aircraft return to service and delayed deliveries arrive."

Given the state of the market, the modest optimistic projections for 2020 may come as a surprise to the industry, but Pearce said IATA's working assumption for the forecast is similar to those of the International Monetary Fund (IMF) and the Word Trade Organization (WTO).

The prediction is that ahead of the U.S. elections in November 2020, there will be "a truce" in the U.S./Sino trade war, with no reduction in existing tariffs but with no additional tariffs implemented. "If so, then stronger economic growth in 2020 will produce a modest rise in international trade growth, from 0.9% in 2019 to 3.3% in 2020," said Pearce. This trend, he said, would be moderately supportive for the air cargo business.

Pearce delivered other news that was not quite as welcome as the 2020 profit forecast. He said only a relatively small number of airlines had driven an improvement in aggregate industry level profitability. Remarkably, while IATA has nearly 300 members, ranking carriers by economic profit showed only around 30 carriers had been responsible for improvements in profits in the last ten years.

"There is a long tail of airlines barely breaking even and a group making significant losses," he said. "For this long tail of airlines, performance has not improved in the past decade. This is why there has been a series of airline failures in the past two years, despite relatively good financial results at the aggregate industry level. There is work to be done to move the industry into a more financially sustainable position."

IATA did not identify individual airlines that are struggling, but examples in the Asia-Pacific include Malaysia Airlines, Thai Airways International, Garuda Indonesia and Air India.

IATA said air traffic growth would continue but at a slower pace than the historical average in the short-term.

## IATA urges crackdown on shippers illegally transporting counterfeit lithium batteries

Consumer demand for lithium batteries is growing by 17% a year, with the number of incidents involving mis-declared or under-declared batteries transported as air cargo also rising as a result of demand, said IATA.

"Dangerous goods, including Lithium batteries, are safe to transport if managed according to international regulations and standards," IATA said. "but we are seeing an increase in the number of incidents in which rogue shippers are not complying.

"The industry is uniting, including the Global Shippers Forum and the International Federation of Freight Forwarders Association, to raise awareness of the need to comply. This includes the launching of an incident reporting tool so information about rogue shippers is shared.

"And we are asking governments to get much tougher with fines and penalities," IATA said.

Currently, air cargo is scanned for items that pose a risk to security such as explosives but not for safety such as lithium batteries.

## Industry's new gender balance initiative attracts 59 airlines

IATA's 25by2025 gender balance in aviation campaign, launched in September this year, has recruited 59 airlines to its cause, representing 30.24% of passenger traffic. The 59 signatories are Europe (36), Asia-Pacific (10), the Americas (7) and Africa and the Middle East (6).

The goal of 25by2025 is to increase the number of women in senior airline positions to a minimum of 25% against current metrics and to apply the same goals for women in under-represented jobs at airlines, including cockpit crew, operations and MRO.

Passenger numbers are expected to reach 4.72 billion in 2020, up 4.0% or 4.54 billion, from 2019.

Freight tonnes carried will recover to 62.4 million, a 2.0% increase over the 61.2 million tonnes carried in 2019 – the lowest result in three years. Stronger economic growth should support passenger traffic (RPKs) growth of 4.1%, similar to 2019 at 4.2%, but below historical trends.

At the annual Global Media Days, it was clear IATA is putting a renewed focus on environmental issues. De Juniac said airlines had done a good job with their sustainability achievements but repeated his belief they had not done so well in getting the good news out to the general public.

IATA has asked the European Union to support aviation's energy transition to sustainable aviation fuels (SAF) as part of the bloc's recently launched Green Deal.

"Aviation has high hopes for the European Commission's Green Deal. We want to be part of Europe's building of a new energy economy. We will do everything we can to make sustainable aviation fuels a priority for aviation in Europe and around the world," said de Juniac, who recently took part in a Sustainable Innovation Forum that ran alongside the UN COP25 Climate Talks in Madrid.

Since SAF were certified for commercial use in 2009, more than 215,000 flights have taken off using some blend of this low carbon fuel. The industry believed achieving 2% of global jet fuel from non-fossil sources by 2025 could create a tipping point for production and cost of SAF. The 14 production facilities operating, under construction or in the final stages of financing and planning would take the industry a long way towards the 2% goal, IATA said.

"More progress is needed. Aviation should be a policy priority because it does not have a near-term electrification option. Traditional energy suppliers must prioritize investment in SAF," de Juniac said.

IATA emphasised SAF were critical to the industry's long-term efforts to cut its emissions to half 2005 levels by 2050. The industry's strategy to achieve this goal includes significant investment in new technology aircraft, research into electric and hybrid propulsion, programs to improve operational efficiency, and the world's first global sectoral climate mechanism, CORSIA (Carbon Offsetting Reduction Scheme for International Aviation). ■

# Qantas selects A350-1000 as preferred aircraft for Project Sunrise


Qantas announced mid-month an Airbus aircraft was the preferred type for the airline group's ultra-long-haul non-stop Project Sunrise flights. No orders have been placed, but the airline said it would work closely with Airbus to prepare contract terms for up to 12 aircraft ahead of a final decision by the board.

After evaluation of the A350-1000 and Boeing's yet-to-fly 777X, Qantas has selected the A350-1000, powered by Rolls-Royce Trent XWB engines, as the preferred aircraft for the Sydney to London and New York flights if they proceed, the airline group said.

Airbus will add a fuel tank and slightly increase the maximum takeoff weight of the aircraft to deliver the performance required for Sunrise routes, Qantas said. The Toulouse manufacturer also agreed to extend the deadline to confirm delivery slots to March next year.

The last of three research flights, this time from New York to Sydney, was conducted on December 17. The crew data collected from all three flights will be part of final discussions with Australia's Civil Aviation Safety Authority (CASA) intended to win approval for the ultra-long-haul services.

Qantas is continuing negotiations with the representatives for the pilots for crewing Project Sunrise flights. An agreement with the pilots will close the last gap in the Sunrise business case, Qantas said.

Based on 60 hours of flying on the research flights, it has become clear dedicated space for stretching and movement, in particular for economy passengers, was necessary as were the benefits of re-designing the service onboard to actively shift people to their destination time zones, Qantas said.

"Between the research flights and what we have learned from two years of flying Perth to London, we have a lot of confidence in the market for direct services to New York and London from the east coast of Australia," Qantas Group CEO, Alan Joyce, said.

"The A350 is a fantastic aircraft and the deal on the table with Airbus gives us the best possible combination of commercial terms, fuel efficiency, operating cost and customer experience.

"The aircraft and engine combination is next generation technology, but is thoroughly proven after more than two years in service. This is the right choice for the Sunrise missions and also the right economics to do other long-haul routes.

"We have done a lot of work on the economics and we know the last gap we have to close is some efficiency gains associated with our pilots. We are offering promotions and an increase in pay but we are asking for some flexibility in return, which will help lower our operating costs.

"Airbus has given us an extra month to lock in an aircraft order without impacting on our starting date, which means we can spend more time on hopefully reaching a deal with our pilots."

Airbus and Boeing submitted their aircraft proposals for Project Sunrise last August. After reviews of the offers, Qantas told Toulouse and Seattle "to go back to their drawing boards" with the offers.

At a November investor briefing in Sydney, new Qantas International chief executive, Tino La Spina, told his audience: "We've asked them to re-look at them, to sharpen their pencils. There was a gap," La Spina said. Qantas wanted the manufacturers to not only to consider price, but guarantees and conditions to deal with "what if" scenarios, he said.

"This aircraft is going to be in the fleet for the next 20 years. We want to cover off eventualities. Making sure it's future-proofed," La Spina said.

At the December briefing where it was revealed the A350-1000 was the preferred aircraft for Sunrise routes, Joyce said: "Can I thank both Airbus and Boeing for the tremendous effort they have put into Project Sunrise. It was a tough choice between two very capable aircraft, being made even harder by innovation from both manufacturers to improve what they already had spent years designing."

Before the final test flight on December 17, Qantas had completed ultra-long-haul test flights with a 787; one from New York to Sydney of 19 hours 16 minutes followed by London to Sydney at 19 hours 19 minutes.

Joyce said based on media coverage of the flights, there was "huge demand" for the new services. He expected the airline could earn a 30% price premium over other airlines for tickets on the non-stop routes. ■

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# Major Asia-Pacific leadership shifts in 2019

Change at the top of the region's airlines is a given and 2019 was no exception. Some appointments represented generational change. Some were the result of politics and others lost their jobs because of wrongdoing.

Resignations were suddenly submitted at Cathay Pacific Airways in August as the airline was progressing towards success in its three-year transformation program. Popular CEO, **Rupert Hogg**, and chief commercial officer, **Paul Loo**, abruptly resigned after Beijing made it clear it was unhappy with some of the airline's staff participating in anti-government protests. The carrier also lost a pivotal leader of the airline group, chairman **John Slosar**, who stepped down on November 6.

Former HAECO boss, **Augustus Tang**, is Cathay Pacific's new CEO. **Ronald Lam**, who only a few months earlier had been appointed CEO of the Swire Group's newly acquired LCC, HK Express, replaced Loo as chief customer and commercial officer.

**Mandy Ng** succeeded Lam as CEO of HK Express.

Managing director of Swire Coca-Cola Limited, a director of John Swire & Sons (H.K.) Ltd and a non-executive director of Swire Properties Ltd, **Patrick Healy**, (53) is the new chairman of the airline group.

"Being chairman of Cathay Pacific has been a singular honor for me and working together with all of you a singular pleasure. I would like to thank each and every one of you for your support, your dedication and your friendship. All of those have meant a great deal to me," Slosar said in November in his final message as chairman.

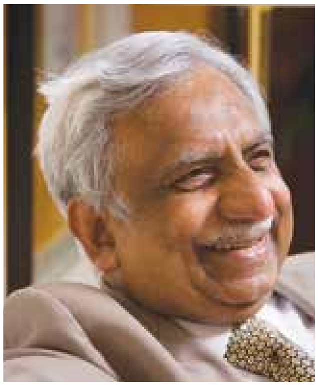
At Boeing Commercial Airplanes (BCA), the change of CEO was not so civilized. **Kevin McAllister**, only appointed CEO at the manufacturer 18 months earlier, exited the company in October in what the company called "a separation". In November, the top two BCA communications executives also left the company.

New BCA boss, **Stan Deal**, who was head of Boeing Global Services until the leadership change, has the enormous task of placating the families of passengers lost in the MAX Lion Air and Ethiopian Airlines crashes as well as airline customers, regulators and a public that has to be persuaded the 737 MAX is safe to fly.

At Air New Zealand, after a global executive search, **Greg Foran**, the former CEO of retail giant Walmart's enormous North American business, was chosen to succeed **Christopher Luxon** as CEO of the carrier. He will start his new job next month. The airline's chairman, **Therese Walsh**, said the airline was "thrilled to have attracted a world-class Kiwi back home".

At Guangzhou-based China Southern Airlines (CSA), the 54-year-old president of the carrier, **Tan Wangeng**, departed for aerospace manufacturer, COMAC, where he is tasked with adding marketing expertise to the aviation conglomerate.

He arrived at COMAC in late 2018, but as is common in China, the change went unreported for two months. His successor is **Ma Xulun**, until recently vice chairman of SkyTeam member, China Eastern Airlines (CEA). Before moving to CSA, Ma served for several years with the Civil Aviation Administration of China (CAAC)




and Beijing-based Air China.

In Thailand, **Captain Puttipong Prasarttong-Osoth** added the position of chief executive and vice chairman of Bangkok Airways to his existing responsibilities as president following the resignation of his father, 85-year-old **Dr Prasert Prasartthong-Osoth**, from the company. The change was announced after Dr Prasert was charged with manipulating the share register of the airline. Thailand's Securities and Exchange Commission (SEC) forced him to relinquish all involvement with the Bangkok Airways.

In late November, Garuda Indonesia boss, **Ari Askhara**, was accused of evading excise taxes on a Harley Davidson motor bike and a folding bike. He was alleged to have authorized the payment and then the transfer of the goods on a delivery flight from Toulouse of a new Garuda jet. Garuda Indonesia is a listed company. An extraordinary general meeting must be held to vote on a motion to dismiss Askhara.

In June, Philippine Airlines announced the surprise retirement of widely liked president and chief operating officer, **Jaime Bautista**. JJB, as he was known in the group, served as PAL president from 2004 to 2012. He returned to the airline in 2014 after **Lucio Tan Snr**. bought back the airline from San Miguel. The tobacco and brewer tycoon was increasing the presence of family members at senior levels at the flag carrier when tragedy struck in November.

Athletic **Lucio "Bong" Tan Jnr**, who recently had been handed oversight of PAL, died three days after he was injured playing basketball. In the same week, Cebu Pacific lost its founder, legendary businessman **John Gokongwei**, at age 93.

Credited with breaking up local business monopolies in the retail and property industries, he famously told his only son, Lance, to go run an airline after he launched Cebu Pacific in 1996 with four secondhand commuter airplanes. The LCC broke up the monopoly of Philippine Airlines and is now the biggest carrier in the Philippines.

The trailblazing career of India's Jet Airway's chairman, **Naresh Goyal**, came to a sudden halt in March when he and his wife were forced off the board of the airline he founded. A month later, floundering in an ocean of debt and unable to pay staff, the airline stopped flying.

In Australia, **John Borghetti** retired as CEO of Virgin Australia (VA) after nine years at the helm. He had led the carrier through its transformation from low-cost Virgin Blue to a full-service operator bent of competing with a dominant Qantas Airways. But the new VA did not produce profits for its shareholders, including Singapore Airlines, Etihad Airways - and until the sale of its shareholding to Chinese investors - Air New Zealand.

Borghetti's replacement is **Paul Scurrah**, most recently the chief executive of stevedore, DP World Australia. He has worked for Australian Airlines, the government-owned domestic carrier that merged with Qantas, Ansett Airlines and was a founding director of Australian regional airline, Regional Express (REX).

At the Qantas Group, the former CEO of the international unit, **Alison Webster**, abruptly left the airline in April. Her replacement is the group's former chief financial Officer, **Tino La Spino**, who started in his new job in October.

As the year drew to a close, the convulsions of indebted HNA Group continued. In the months following the accidental death of the group's co-founder, **Wang Jian**, in France in July, fellow co-founder, **Chen Feng**, appointed his son, **Chen Xiaofeng**, president of the group, pushing aside the group's leadership team to make way for Chen Jnr.

Further north, weeks before his April 8 death in a California hospital aged 70, **Y K Cho**, was voted off the board of Korean Air. A few months later, Asiana Airlines chairman, **Park Sam-koo**, resigned from the airline's board.

In December, EVA Air scion and former chairman of the carrier, **Chang kuo-wei**, moved closer to launching his revenge carrier, Starlux, with the granting of the carrier's air operator's certificate. The start-up's first flight is planned for January 23.

And making history in Indonesia is **Veranita Yosephine Sinaga**, the former deputy CEO of Indonesia Air Asia who has succeeded **Dendy Kurniawan** as boss of the joint venture LCC. Before she joined the airline in mid-year, she was the sales director for multi-national consumer company, Kraft Heinz, Indonesia.■

The International Air Transport Association (IATA) has a new boss of North Asia operations. **Ma Tao** was appointed regional vice president earlier in the year after **Baojian Zhang**, who was the founding head of IATA's China operations and held the role for 24 years, retired. Ma has spent a third of his career representing China at the International Civil Aviation Organization (ICAO). Before accepting the IATA post he was head of the Airworthiness Certification Centre of the Civil Aviation Administration of China.

# Significant Asia-Pacific airline decisions of the year

Asia's airline industry took some unexpected turns in 2019 and did so without much influence from governments or in reaction to external shocks.

A partnership, including a code-share, announced between Singapore Airlines (SIA) and Malaysia Airlines (MAS) in the final quarter of the year was one of the under-estimated achievements of 2019.

Its significance is shaped to a degree by the history of Singapore, both country and airline, which separated from Malaysia several decades ago and has gone on to astonishing global economic and airline success.

But the partnership's significance stands on its own in 2019 and in the years ahead as a value proposition. Under the terms of the tie-up, SIA receives more access to the market in Malaysia, effectively a home market for SIA. Gains will be in their own right and in a larger competitive environment.

If SIA did not carry the additional passengers, they would likely travel on the Gulf airlines which are expanding their presence in Malaysia. In return, MAS can boost revenue by selling long-haul SIA flights.

The partnership will shore up cash flow while the government deliberates the future of MAS. The Malaysian carrier could argue the SIA code-share, along with other partnerships such as the proposed joint-venture with Japan Airlines (JAL) could give MAS the option of a future independent of the investors the government is evaluating as MAS equity holders.

The Malaysian government's decision to sell MAS is an exception to a year of relatively light government involvement in the region. Government activity in aviation is often considered to be interference to the detriment of the public and an open market, but the Malaysian government decision to sell MAS was for market-driven outcomes and public benefit.

An open market prevailed in Korea. Business licenses were issued to three start-up airlines in 2019. One successful candidate, Fly Gangwon, has commenced flights. Korea's aviation authorities and the sector itself have argued

against new airline entrants in Korea. They believe there is over-competition in a market served by two major airlines and six LCCs. But the country's Fair Trade Commission favoured the benefits of competition when granting the business licences even if the decision could put some existing airlines out of business.

Some strategic developments ruffled regulators. Air China (AC) and China Eastern Airlines (CEA) brokered a deal to swap Beijing slots so AC could have a small presence at new airport, Daxing, and CEA could keep its Shanghai flights at Beijing's Capital Airport. Previously, China had an orderly plan for only AC to operate from the older airport.

In Hong Kong, Cathay Pacific Airways cemented its hold on Hong Kong with the acquisition of LCC, HK Express, from its financially stretched parent, ultimately the HNA Group. At press time, Hong Kong Airlines (HKA) was threatened with cessation of operations as it was reported to owe millions in airport landing charges and fees to Airport Authority Hong Kong that has forced the parking of seven of its planes. In late November, a consortium of Mainland banks cobbled together the funds to pay the airline's staff salaries and operating expenses for the month.

Civil unrest in Hong Kong has had a huge impact on HKA, which relied largely on Mainland traffic feed from HNA Group carriers to fill its regional and international flights, a network that is shrinking by the month.

In Indonesia, the government's orchestration of Garuda- Sriwijaya cooperation unwound. An independent Sriwijaya is too small to compete with Garuda and Lion Air, which have dominated the large domestic market after consolidation.

External shocks to the region's industry included plummeting traffic between Japan and Korea after a political fallout and China forcing the resignation of the Cathay Pacific Airways leadership in August. Now in its seventh month of anti-government protests, the civil unrest has severely dented demand for all airlines in Hong Kong. ■

# Mixed fortunes in Asia's fast growing airline markets

The return to service of the 737 MAX may provide accelerated capacity growth in the region but also resulting yield declines at Chinese and Indian airlines who have MAXs grounded, ordered or both.

In Vietnam, fast growth will continue for LCC, VietJet, and new hybrid carrier, Bamboo Airways. The two privately held airlines are eclipsing Vietnam Airlines and its low-cost joint venture subsidiary, Jetstar Pacific.

The Qantas Group, whose Jetstar unit holds 30% of Jetstar Pacific, said in a November investor presentation Vietnam has "several aggressive, well-funded entrants that are unconstrained by need to protect legacy businesses". Qantas said VietJet, with an order backlog of 350 aircraft, and Bamboo, which aims to triple in size, have a "land grab mentality".

Vinpearl Air, owned by Vingroup, is planning to be the fifth major airline in Vietnam from next year. Like Bamboo owner FLC, Vingroup is a conglomerate with a large real estate portfolio.

The government is closely scrutinising a sixth proposed carrier, Kite Air. Regulators are concerned about over-capacity in the market and forecast losses that could push working capital below minimum requirements.

Unlike Vietnam, major entrants into the market in China and India are unlikely. A year ago, consolidation was a common topic in Indian aviation, but the exit of Jet Airways earlier this year has improved market conditions.

Arguments for consolidation are gaining ground in China, where the regulator is scrutinising the performance of numerous domestic airlines launched in recent years as well as medium-sized airlines now flying long-haul. Some domestic airlines have grown quickly. Qingdao Airlines, with 24 A320s, is a case in point, but nationally they are small players in percentage terms.

Medium-sized airlines like Xiamen Airlines and Sichuan Airlines have large narrow-body fleets, but their long-haul flying is sub-scale. Most Mainland domestic capacity is affiliated with one of the big four airline groups, Air China, China Eastern Airlines, China Southern Airlines and the Hainan Airlines Group. There could be pressure on their bottom lines if capacity imbalances arise from fleets expanding faster than the slowing economy can absorb.

Most of the domestic Chinese market is held by LCCs. In 2020, China will introduce legislation favourable to budget carriers to assist their expansion. Existing legislation has made unbundling and ancillary revenue opportunities difficult to implement even for full-service airlines.

China's low LCC penetration rate contrasts with India and Vietnam. The biggest LCCs in India and Vietnam, IndiGo and VietJet, respectively, are home-grown and not foreign brand joint ventures. The same is true for China's largest LCC, Spring Airlines, but Spring has routinely been held back in favour of state-owned carriers. In contrast, VietJet and IndiGo have been allowed to flourish.

Spring and VietJet have overseas franchises, Spring Airlines Japan and Thai VietJet, but they are small and are not developing into major operators in their markets. IndiGo is sticking to its core operations, but a recently agreed code-share with Qatar Airways could result in the Delhi-headquartered LCC increasing flights to Doha. SpiceJet is partnering with Emirates and VietJet with Japan Airlines.

Bamboo Airways will need to enter the partnership arena, especially for its planned long-haul network to be serviced by 787s. Possible destinations are Prague, Melbourne and unspecified points in the U.S.

VietJet and IndiGo have studied acquisition of wide-bodies, but have not committed to purchases. Some destinations may be accessible with long-range narrow-bodies: northern Japan and Australia for VietJet, Europe and coastal China for IndiGo. Vistara has a partnership portfolio, including British Airways and Japan Airlines, which could help the airline if it flies to Britain or Japan.

China Southern Airlines (CSA) is re-establishing its partnership platform after exiting SkyTeam so it could be independent of any major alliance. Its new partners


are mostly from oneworld. Two of them, American Airlines and Qatar Airways, have made small investments in CSA.

Air China's major partnership is a joint venture with Lufthansa. China Eastern Airlines has the strongest partnership portfolio led by Air France-KLM, Delta Air Lines and and Qantas.

As for outward investment, Vietnam Airlines has equity of 49% in Cambodian flag carrier, Angkor Air, but it is contemplating a sale of the holding because of intense competition from new market entrants mostly backed by investors in China.

India's SpiceJet is considering an airline partnership with the Ras al Khaimah (RAK) emirate in the United Arab Emirates. The Mumbai-based LCC has not decided if the airline would use the SpiceJet brand or a new one. There are doubts about the viability of the venture, evidenced by RAK's numerous attempts


to foster a local aviation sector, including failed RAK Airways.

In China, HNA has sold its share in South Africa's Comair, which operates under the British Airways brand. Most of HNA's overseas airline investments were not planned to have direct synergies with HNA's core Greater China airline business. One exception was its investment in Virgin Australia (VA), which it has retained to date. Another VA stakeholder, China's Nanshan group, owns part of Qingdao Airlines.

Airlines from Vietnam face few traffic rights restrictions, while India has some short-haul restrictions. Regulators have yet to clear AirAsia India for international flights, but progress to approval is not only a matter of traffic rights for the LCC.

Chinese airlines have few constraints for short-haul flights, but many restrictions for key long-haul markets like the U.S. France is adding traffic rights, but only gradually. Demand is outstripping entitlements.

For foreign airlines traffic rights are not a common restriction for wanting to fly to Vietnam, but there are shortages for airlines wanting to expand into India and China. India's most constrained markets tend to be intermediary hubs.

These are typically regional neighbours like the Gulf States and Singapore, but also Germany. In China the reverse situation applies. Short-haul markets are mostly open while long-haul markets have constraints.

China used to have restricted traffic rights when foreign airlines dominated international flying. But Chinese airlines have reversed this situation in many key markets including to the U.S. Vietnam could experience a similar situation and perhaps one day India.

This year, Beijing Daxing airport and Shanghai Pudong's satellite terminal opened. In 2020, Chengdu will have a second airport in operation. Mumbai's second airport, delayed from opening in 2020, is expected to open its doors in 2023. ■

# Breathtaking changes confront MRO

Aviation MRO is experiencing a period of rapid technological disruption that is transforming the industry from a labour intensive structure to a complex manufacturing space centred around astonishingly rapid advances in aerospace technology.

The transformation, driven by demand for aircraft, of the Asia-Pacific airline and engine aftermarket sector, is being moulded by digital transformation and motivated to achieve the ultimate goals of electrification and aviation sustainability.

The leading disruptors are Artificial Intelligence (AI) driven by digital access, application of predictive data analytics to the cycle of MRO checks, self-learning and virtual reality (VR).

Pratt & Whitney executive director aftermarket operations Asia-Pacific, Brendon McWilliam, said the aerospace group is "launching a digital enhancement of aftermarket services in a three-year pilot program that will transform 15 facilities around the world by 2022".

New technologies include the application of Piece Part Inspections based on AI algorithms and advances in laser cladding that make inspections for defects more accurate and rapid and repairs more precise.

The revolution is reaching beyond the shop floor to administration where Robotic Process Automation (RPA) is streamlining order processing and overall operations.

RPA is eliminating manual input of service orders and other administrative tasks and removing human error. The system produces data that continues to identify more potential efficiencies while eliminating waste and bloated labour costs.

For commercial airlines looking to predict maintenance needs across their fleets, aircraft engine health monitoring is one of the most critical activities.

By investing in virtual reality technologies and applying them to customer training tools, participants can virtually view a running engine in motion or examine engine parts separately without having to actually disassemble the whole engine.

Production of large scale electric aircraft is decades away, but aerospace companies are developing hybrid electric products to reduce fuel consumption by 30% for regional sized aircraft; a development of significance as single aisle aircraft will make up 65% of the airline market by 2027. ■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# BUILDING THE AMAZON OF AVIATION IN ASIA

*Tony Fernandes, who sent Asia's budget airline sector into overdrive eighteen years ago, has taken his first steps back from leadership of the Malaysia-headquartered AirAsia Group. He is building his succession team and initiating a radical shift in the LCC group's business model. The Orient Aviation 2019 Person of the Year and a recipient of its Lifetime Achievement Award outlined his vision for the region's leading LCC travel company to associate editor and chief correspondent, Tom Ballantyne.*


ORIENT AVIATION 2019
PERSON OF THE YEAR AND LIFETIME
ACHIEVEMENT AWARD WINNER

**TONY FERNANDES**
AirAsia Group co-founder and CEO

When AirAsia co-founder and group chief executive, Tony Fernandes, tweeted in September he planned to step down from his positions at the group's many business units, with the exception of AirAsia itself and long-haul budget arm, AirAsia X, it was assumed he was on the verge of retirement, particularly as the news was revealed less than a month after details of a major leadership reorganization at the group were unveiled.

Not quite. Fernandes will be around for a while yet. The executive changes were made, he told Orient Aviation, because he believed leadership must be refreshed. "Too many leaders overstay. If I am a good leader, when I finally retire and the company gets better, then I have done a good job," he said.

"It's important to introduce people to their roles early on and not retire and dump everything on them without giving them the limelight or the experience. What I'm doing in the subsidiaries is giving the next in line management exposure so when I go they are ready to take on the next role."

As for his retirement, only he knows the timetable. "There are many steps of retiring," he said. "There is a plan there. There is a plan to watch more sport and QPR (English soccer team Queens Park Rangers, 55%-owned by Fernandes' Tune Group) and do some other things."

For Fernandes and the AirAsia Group, success has been hard won. Industry sceptics said Asian passengers were too status conscious to fly on an LCC. How wrong they were. Today, red liveried AirAsia jets have global as well as regional recognition as does Fernandes in, until recently, his ever-present red cap.

What was to become AirAsia began flying in late 1996 as small, Malaysian government-owned DRB-HICOM. In 2001, former music executive Fernandes and his business partner, Kamarudin Meranun purchased the airline, with its US$11 million debt, for one Ringgit, or US$0.25, through their company, Tune Air.

A year later, despite forecasts of doom from several airlines in the region, Kuala Lumpur- headquartered AirAsia was in profit. By 2003, it was flying its first international route, to Bangkok.

Expansion of the LCC's fleet and network was rapid, pioneering not only domestic LCC travel but international budget travel. In the process, AirAsia became the biggest customer of Airbus by placing huge orders for A320 and A330 series jets.

Today, in combination with its joint ventures in Thailand, Indonesia, the Philippines, India and Japan, as well as its long-haul LCC, AirAsia X, the group operates more than 200 Airbus jets and has another 353 on order.

This year the carrier began re-inventing itself. Fernandes wants the group to become an "Amazon of Travel" and a financial platform company. The group intends to utilize the vast amount of data it amasses every year from its 100 million passengers to drive digital development and expand its travel packages, e-commerce and payments systems with its BigPay app.

A digital wallet, launched in Malaysia in 2018, is being rolled out in Singapore, Indonesia, The Philippines and Thailand, with more countries to soon follow. Fernandes estimated the group's ancillary income would eventually contribute up to 70% of total company revenue.

As part of its drive to expand its business, the group has signed a strategic partnership with travel technology firm, Kiwi.com, which will sell flights on more than 100 global airlines, giving AirAsia customers access to destinations not served by the group's airlines. They include London, Dubai, Madrid and Auckland.

"We are reinventing ourselves as more than just an airline by bringing to life our vision for airasia.com to be the region's one-stop travel shop," said Fernandes. He also is looking to partner directly with airlines and companies beyond the Asia-Pacific that complement the group's airline network and travel services.

"We are in a unique position compared with other airlines," explained Fernandes. "Ryanair has talked about it and a few others have talked about it, but the beauty of what we have is a much bigger digital mindset than any other airline.

"We were at the forefront of using the internet and at the forefront of using social media. Many of our staff were not in the airline business. It is an important mindset to have. If you are not digital, it's really tough to make a transformation."

The group's second advantage, he said, is Ryanair is largely an Irish airline and easyJet dominantly an English one. AirAsia is essentially multi-national. "We are a Southeast Asian ASEAN (Association of South East Asian Nations) airline. It is recognized widely in each of the ASEAN countries and has diversity in its workforce and leadership team," he said.

"So, to make a transitional step and become an ASEAN lifestyle brand is a lot easier from where we are sitting than for any other airline. We have a huge platform. We aim to open up that platform and do much more."

In New York earlier this year Fernandes launched RedBeat Capital with venture capital firm, 500 Startups. AirAsia has contributed US$10 million to the joint venture. It will invest in digital technology related to travel, lifestyle, logistics and finance.

"One of the reasons we made the investment was because you can't survive long-haul low-cost purely on an airfare so there are lots of ancillary streams to supplement it," he said.

"The strategy involves investing in technologies that make operations more efficient and cheaper, but also increasing profits with revenue streams not as vulnerable to market fluctuations, like oil."

The transformation was not an effort to survive in the face of increasing competition, Fernandes explained. "The airline industry is a poorer return of capital because of its cyclicality. Times when it is good, there is over-capacity and also there are lots of factors beyond our control," he said.

"It's a U.S. dollar-based industry. We are subject to whatever Uncle Donald does with the dollar or subject to the oil price, which also is out of our control. Not many businesses have this cyclicality. Then there is the added competition. How do we evolve this business model to have more stable earnings, yet use these very strong aspects of the airline business to benefit us? In our case, these are very close relationships, a very strong data base and a strong brand.

"We are not doing anything dissimilar to Amazon. It started selling books, used its relationships and its data to start and build other businesses. Now, most people will hear this and say 'well, he's a dreamer, pie in the sky. Talks rubbish'. But as you know, a lot of colleagues at other airlines have been saying just that for 18 years. We are used to it. Let's see if we can implement it."

Illustrating his point, Fernandes said the world is littered with businesses that were dominant but did not adapt, including Blackberry, Nokia phones, Kodak cameras and Fuji film. "They've all disappeared and were replaced by Apple and other innovators," he said.

Some of AirAsia's joint ventures appeared to be recording recent poor results, but Fernandes disputed the view they were struggling. "That's another thing that happens in the airline industry. Accounting standards change and they changed just as we went from an owned model to a leased model so our P & L (profit and loss) was badly hit," he said.

"AirAsia always has been at the forefront of innovation and change. Change management is part of my life. My own life, going from music to airlines, exemplifies that."

Nor does the accelerated digital drive mean airlines are no longer at the core of the group's business. Expansion and new aircraft are imminent. And Fernandes is gung ho about the sustainability and eventual success of long-haul, low-cost flying.

AirAsia X's net loss increased to US$55.486 million for its third quarter. Revenue also declined, to $241 million from $253.3 million. It suffered the even deeper loss from "irrational pricing" by competitors and the implementation of the exit tax.

From September 1, Malaysia has been collecting a scaled departure tax: $1.92 per trip within ASEAN and $4.81 for flights beyond ASEAN. Premium travelers are charged $12.02 within ASEAN and $36.07 for trips outside ASEAN countries. The new taxes contributed to a $55.3 million loss at AirAsia X compared with $47.5 million a year earlier.

The underlying reasons for the LHLCC losses had nothing to do with its operations, the group said. Higher revenue was offset by hefty accounting charges on its aircraft, fuel hedge contracts and currency exchange losses.

Earnings before interest, tax, depreciation and amortisation (ebitda) were up 119%, to $165.6 million. "We are repositioning our business to the new accounting system along with restructured aircraft ownership, from owning to leasing," Fernandes said.

Group revenue has jumped 18%, to $733.3 million from a year ago, driven by a 20% increase in passengers carried, to 13 million annually. Income from non-ticket sources grew by 26%, to $164.4 million, with traditional airline ancillary revenue up 16% and non-airline ancillary revenue increasing by 72%.

"We are unfortunate in that the long-haul market is subject to ridiculously unfair competition and most of it has been State sponsored", said Fernandes. "Now that's coming to an end, we see a very positive light for AirAsia X. The model works. It obviously has higher costs because it's being funded by us and we have a couple of expensive lease planes in there. Once we sort that out with the new A330neo and competition becomes rational, it's a very powerful model."

The A330neo has begun arriving in the group fleet and two of the type have been placed with Thai AirAsia X. The group has 78 on order. Thirty 30 A321XLR (extra-long range) jets are scheduled for delivery to the group from 2023.

The trick to a sustainable long-haul, low-cost operation is a combination of the right equipment, squeezing ancillary revenues from customers and reducing costs via investment in technology, Fernandes told Orient Aviation earlier this year.


"We were the pioneers of it, but the kit was not there so we became a medium-haul carrier – six or seven hours," he said. Today, he added, profitable LHLCC operations are more practical with the A330neo and the B787.

The A330neo will enable the LHCC to add key long-haul destinations to its network. Plans to launch services to Europe and the U.S. West Coast are definitely firming up, said Fernandes, although expansion to the U.S. is on hold following the Federal Aviation Administration's (FAA) downgrade of Malaysia to a category 2 safety rating in November.

Already flying to Honolulu since 2017, the carrier had applied for fifth-freedom rights and the new destinations of Los Angeles and San Francisco before the FAA ruling came into force.

At some point, the LHLCC also wants to serve the U.S. East Coast. On the agenda for Europe are Scandinavia and several destinations in Eastern Europe, including Prague, Budapest and Vienna. Thai AirAsia X took delivery of its first two Rolls-Royce powered A330-900neo from lessor Avolon in August. As more of the type arrive at the group they will be used to expand the carrier's network to Australia, Japan and South Korea.

AirAsia X flew to London and Paris some years ago, but the routes were cancelled in 2012 because of poor economic conditions and high fuel costs.

"We have to go back to our roots of flying routes which are developing as opposed to trying to join markets where everyone else is," Fernandes said. Some of AirAsia's routes did not exist until AirAsia began serving them. "We have to adopt the same approach with AirAsia X," he said.

As for the future, he intends to continue to fight for recognition from infrastructure operators that LCCs operate a different model to full-service carriers and should be charged as such.

Except in his native Malaysia, where he has been conducting a lengthy battle with the local airport authority over charges, he believes there has been some movement on this front. "Thailand is looking at airports. Japan has built two or three. The Philippines and Indonesia are all looking at it and doing it," he said.

"There is going to be a big change as more countries realize a different airport is needed for low-cost airlines. Airport capacity will be an issue and that is when Asian countries and governments should start looking at secondary airports. For instance, Ikuraki, a Japan Air Self-Defense Force base north of Haneda, would be a fantastic airport to complement Tokyo Haneda and Tokyo Narita."

Fernandes also believes the industry should take a bigger interest in reducing the industry's carbon footprint as well as containing the damage of over-tourism. "At AirAsia we are working really hard on this. In Europe, we are beginning to see people taking trains rather than a flight. So that is a challenge. Then there are always geopolitical and national issues that come up," he said.

"From an airline point of view, most carriers are sensibly run now and have to be cash flow positive, so the competitive environment is good. Most successful airlines have decided they are either full-service or low-cost. Some of them are still playing around with low-cost subsidiaries, which I don't understand."

However long it takes for Fernandes to step down, there is no doubt he will continue to innovate and influence Asia-Pacific aviation. ■

## China and Vietnam not on partnership radar

Fernandes is pragmatic about several failed attempts to add Vietnam to its list of joint venture LCCs. "It is an important market for us to be in. We have missed the boat for a while," he said. "We obviously were going to partner with VietJet, but we could not agree.

"For me culture is very important. Vietjet had a very different culture. It's not about money. It is about agreeing to do things in a proper manner. Then we looked at two other partners. Again, one did not work out and the second one was about different corporate ambitions.

"But Vietnam is an important market for us internationally. We still fly there from all our countries. So, we are covering Vietnam very well. I don't see anything happening in Vietnam for AirAsia for a while. Nothing is ever off the agenda, but I don't see it happening under my tenure as CEO."

He holds a similar view about China; the region's other major market. "China is kind of like India. We can be in China. How relevant would we be? If a Chinese opportunity comes along we will be there, but we are never going to be a big player in China just as we will never be a huge player in India or Japan.

"But they feed into our network and if the opportunity is right then we'll look at it. There is nothing on the doorstep. My focus is on ASEAN and building this digital company."

# Fernandes' AirAsia group launches music partnership, RedRecords, to deliver A-Pop to a global audience

In early December, the AirAsia Group and Universal Music Group (UMG) launched RedRecords, an announcement the airline group's CEO, Tony Fernandes, said "was incredibly important" to him. "It seems life has come full circle for myself and my AirAsia brothers, Kamarudin and Nadda, whom I met through our early days in music," he said at the debut of the company that has been established to discover and develop talent from Southeast Asia and the wider continent.

"Already, we have revolutionized air travel, enabling everyone to fly. As we celebrate 18 years of operation of AirAsia, we are focused on transforming the airline into a global digital travel and lifestyle leader," Fernandes said.

"Now, we are heading back to our musical roots to revolutionise the future of Asian pop culture and give it the worldwide stage it deserves - in conjunction with Universal Music Group."

RedRecords will be based in Kuala Lumpur and headed by Hassan Choudhury, head of music for the AirAsia Group. The company will provide distribution and marketing as well as artist development to expand A-pop beyond national borders and languages.

The label's first signing is Thai singer, songwriter, influencer, model, gamer and actor, Jannine Weigel. She has recorded several singles and has more than 600 million views and 3.3 million followers on YouTube, 3.2 million followers on Facebook, 1.5 million on Instagram and 500,000 on TikTok.

UMG chairman and CEO, Sir Lucian Grange, said at the company launch: "The worldwide success of Latin and K-Pop has demonstrated that in a streaming era there are no barriers to great music regardless of language.

"Together with the combined strategic marketing reach and resources of AirAsia , we can provide Asian artists with an exciting opportunity to truly go global."


"The region is filled with new talent and has the potential to reach almost 700 million people across Southeast Asia alone where music was increasingly driven by a young social and mobile driven audience, "UMG's executive vice president marketing, Adam Granite.

Earlier in 2019, Vivendi-owned UMG established a regional headquarters in Singapore to extend its reach into Southeast Asia. The company operates in 60 countries and runs recorded music, music publishing, merchandising and audiovisual content businesses.

RedRecords is AirAsia's first step in its transformation from an airline to a travel and lifestyle platform supported by digital services and a financial platform via its money app, BigPay. ■

## New era AirAsia leadership team

In recent months, as Fernandes restructures his group, he has announced several senior executive appointments.

He will remain Group CEO and double up as CEO of airasia.com, its travel and lifestyle e-commerce platform. At a later date, he will appoint his successor at the e-commerce platform.

AirAsia chief commercial officer, Karen Chan, will drive all commercial functions as airasia.com's chief commercial officer and Spencer Lee will take on the role of airasia.com chief operating officer. He will manage the group's online business portfolio that includes OURSHOP, AirAsia WiFi (ROKKI), hotel partnerships and associated AirAsia businesses.

AirAsia Software Engineering and Technology (AASET) head, Elias Vafiadis, will continue to lead software engineering, reporting to Fernandes.

The group's former deputy CEO (Airlines), Bo Lingam, has been promoted to AirAsia Group president (Airlines) and also will lead AirAsia SEA. The subsidiary, formerly AirAsia Global Shared Services, is a shared services centre that provides corporate and support services to AirAsia.

Aireen Omar has been appointed AirAsia Group president (RedBeat Ventures) and will head the corporate venture capital arm of the company.

Fernandes said: "We are taking travel to another level by giving our guests a truly integrated and end-to-end experience. Not just flights but hotels, activities, lifestyle, e-commerce and more.

"At the heart of this is airasia.com, which will be a lifestyle brand that offers a frictionless travel experience of discovery, booking, pricing, branding, deals for all our products and partnerships."

# Wanted: Asian airport and ATM building binge

**The Association of Asia Pacific Airlines 63rd Assembly of Presidents did not go to plan in November. The event, scheduled for November 21-22 in Hong Kong, was cancelled because of civil unrest in the city. The region's airline leaders met at a quickly re-convened Assembly in Kuala Lumpur at the turn of the month. Associate editor and chief correspondent, Tom Ballantyne, reports.**

Times may be tough for many of the region's airlines, but the last minute cancellation of their annual talkfest, scheduled this year in politically unruly Hong Kong, did not prevent executives from getting together to debate the industry's challenges.


Meeting at the Association of Asia-Pacific Airlines (AAPA) headquarters in Kuala Lumpur a week after Hong Kong was cancelled, members reviewed the critical issues shaping their airlines as the next decade approaches.

AAPA director general, Andrew Herdman, who has announced he will retire in March next year, said AAPA carriers were focused in particular on environment, cybersecurity, infrastructure, slot allocations and shortages, passenger facilitation and taxation.

"The emergence of Asia as a powerhouse driving the global economy in the 21st century creates a sense of optimism for the region's dynamic air transport industry in the long term," said Herdman.

"However, success can not be automatically assured without robust efforts to support carriers, who continue to face challenges to achieving strategic development and growth.

"Given the significant contribution air transport makes to wider economic and social development, governments need to adopt a much more positive attitude towards the industry and work meaningfully to remove obstacles that hinder the sustainable growth of the industry."

The airline leaders met as preliminary traffic figures for the month of October were released. They showed international air passenger demand continued to expand at a moderate pace, demonstrating the industry's resilience to an easing in global economic activity and despite a weakness in air cargo, Herdman said.

A combined 30.7 million international passengers were carried by the region's airlines in October, 3.1% more than the same month last year. Continuing a downward trend, international air cargo demand in freight tonne kilometre (FTK) declined by 5.9% year-on-year in October.

Herdman said in the first ten months of the year Asian airlines carried 312 million international passengers, a 4.3% increase compared with October a year ago. Air cargo volumes fell by 5.6%, with trade tensions and geopolitical risks dampening business sentiment and export orders.

Looking ahead, Herdman said: "Asian airlines face continued pressure on margins. Nevertheless, the region's carriers remain pro-active in identifying measures to control costs in order to maintain overall profitability and are adjusting their route networks to better match demand."

Many of the perennial problems of the industry received attention at the Assembly.

Member airlines called on Asia's governments and all industry stakeholders to deliver effective ATM (Air Traffic Management) services to meet present and future operational requirements.

The resolution also asked that States collaborate beyond national borders to enhance air traffic flow management systems and to improve cyber threat awareness, promote cybersecurity

## AAPA names Subhas Menon as new AAPA director general

Association of Asia Pacific Airlines (AAPA) director general, Andrew Herdman, will step down in March after 16 years at the helm of the region's peak airline body. Herdman said it has been "an honour and a privilege" to work closely with member airlines and help voice their views on a wide range of issues to the broader aviation industry.

"Today, the AAPA is a widely respected organization globally as well as within the Asia Pacific, and works in close collaboration with national governments, regional and international organizations and other aviation stakeholders. The Asia-Pacific already is the largest aviation market globally, with further great opportunities ahead of us," he said.

His successor is Subhas Menon, who has more than 35 years of experience in international aviation with the Singapore Airlines Group, including senior management roles in international relations, marketing, product development, logistics, country and regional management. He was most recently regional vice president Europe.

AAPA's 2019 chairman and Cathay Pacific Airways CEO, Augustus Tang said: "On behalf of our member airlines, I would like to thank Andrew for his dedication and strong leadership of the AAPA. Under his guidance, the AAPA has strengthened its profile internationally and within the Asia-Pacific."

culture and strengthen cyber resilience.

With anxieties about the impact of climate change increasing worldwide, AAPA airlines urged governments and industry stakeholders to address aviation's climate impact and promote sustainable aviation.

The International Civil Aviation Organisation (ICAO) agreed to CORSIA (Carbon Offsetting Scheme for International Aviation) in 2016. It is being implemented in almost 30 countries and emissions reporting by all international carriers have begun full emissions reporting from January.

Another familiar theme at the gathering was the case airlines put to governments, usually unsuccessfully, to reduce taxes and charges on airlines. An AAPA statement issued at the conclusion of the meeting said:

"Recently introduced or increased taxes on air travel include Malaysia's Departure Levy, the New Zealand International Visitor Conservation and Tourism Levy and the imposition of various levies by governments, including France, Germany, the Netherlands and Switzerland often under the guise of environmental initiatives.

"Additionally, a number of airports are imposing or increasing passenger service charges as pre-funding mechanisms to finance future infrastructure facilities. At a time when the industry is coping with a challenging business environment and recognizing the adverse impact of new taxes on the wider travel and tourism sector, the AAPA renews its call for governments to refrain from increasing the burden of aviation levies in any form on international air travellers." ■

# Getting to grips with unruly passengers

It has been a long time coming but from January 1, new powers will equip law enforcement officers with legal muscle to prosecute unruly passengers.

The Montreal Protocol (MP14) or the Protocol to Amend the Convention on Offences and Certain Other Acts Committed On Board Aircraft, is a global treaty that strengthens the powers of states to arrest and charge passengers who misbehave onboard.

It closes a legal gap in Tokyo Convention 1963, which states jurisdiction over offenses committed on board international flights rests with the state where the aircraft is registered.

The Convention has curbed the powers of law officers to prosecute unruly passengers when an aircraft lands in a country where it is not registered.

Until now, about 60% of passengers who have been disruptive during an international flight have walked free at the end of their journey because of Tokyo Convention 1963. MP14 will come into force following ratification by Nigeria in November, the 22nd state to do so.

Unruly and disruptive passenger inflight incidents run the gamut from physical assault and harassment to smoking and failing to obey crew directions. Such behavior can compromise flight safety, cause significant delays and operational disruption and adversely impact the travel experience and work environment of passengers and crew.

The International Air Transport Association (IATA) welcomed MP14. "The treaty is in force, but the job is not done. We encourage more states to ratify MP14 so unruly passengers

can be prosecuted according to uniform global guidelines," said IATA Director General and CEO, Alexandre de Juniac, earlier this month.

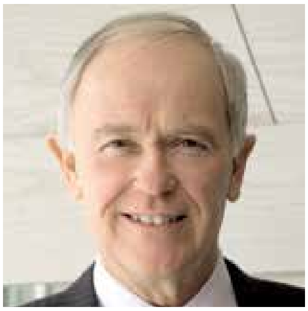
States also should review the effectiveness of the enforcement mechanisms available to them in line with International Civil Aviation Organisation (ICAO) Guidance on Legal Aspects of Unruly and Disruptive Passengers (ICAO Document 10117), IATA said.

The guidance provides information about civil and administrative fines and penalties that can be used to supplement criminal prosecutions of disruptive behavior onboard. Airlines are working on additional measures to prevent incidents or to manage them more effectively when they happen, including enhanced crew training and raising awareness with passengers about the potential consequences of unruly behavior on board. ■

# Boeing's 777X must go through hell and back testing says Emirates boss

Emirates Airline president, Sir Tim Clark, has been a recent critic of airframe and engine manufacturers who have not delivered as promised on their products. True to form, he did not hold back when he discussed the carrier's big order for the new 777X.

In 2013 Emirates committed to purchase 150 of the yet to enter service type. Speaking at the Dubai Airshow last month, Sir Tim said Emirates wanted the new jet to be put through "hell on earth" in testing to ensure it was safe to fly and also met the airline's expectations.



The 777X will be the first new U.S. commercial passenger jet to be certified since the two 737MAX fatal accidents grounded the type last March. Subsequently it was revealed the U.S. Federal Aviation Administration (FAA) had permitted Boeing engineers to be part of the certification process of the manufacturer's new aircraft types.

Boeing has delayed the Entry-into-Service (EIS) of the 777X because of design faults and engine issues although the manufacturer has said it still expected to begin deliveries of the airplane to customers in 2020.

Emirates is the 777X's launch customer. The Gulf carrier is considering it as a potential replacement for its A380 fleet, which Airbus will soon put out of production.

Clark is not alone in his concern about the a series of delivery delays and problems with engine performance

"We need to be absolutely sure as she (777X) comes together and starts flying that everything is done in a manner that it should be done. I want one aircraft to go through hell on earth basically to make sure it all works," Clark said. Emirates is demanding Boeing test the plane for at least 16 months, slightly longer than is typical for a new aircraft. ■

# Airbus tops order table at Gulf's leading industry show

Airbus dominated the order book at the Dubai Airshow last month but the Gulf's leading air show also provided a ray of hope for Boeing with orders for MAX jets from Turkey's SunExpress and also Air Astana.

SunExpress exercised options for 10 MAX 8s, valued at US$1.2 billion at list prices. The leisure carrier had earlier ordered 32 of the type, although none had been delivered. Kazakhstan's Air Astana followed with a $3.6 billion order for 30 MAX 8s, which it is buying for its new LCC subsidiary, FlyArystan.

The orders underscored the fact that despite the MAX's long grounding most airline customers remain confident the type will return to service and become a viable member of the global single-aisle fleet.

SunExpress chief executive, Jens Bischof, said the carrier had a "long-standing, strong and trusted relationship with Boeing". "Thus, we decided to convert our options into an order. We stand behind our strategic decision to phase in the 737 MAX to our fleet for all of its economic and ecological advantages, both mid and longer term," he said.

SunExpress has "full confidence" in Boeing's ability to resolve issues with the MAX and "deliver us a safe, reliable, and efficient aircraft", Bischof said, but added "it goes without saying this trust required the undisputed airworthiness of the model to be granted by all relevant authorities".

Boeing even managed some public support from Ethiopian Airlines, whose 737 MAX crashed in March and killed everyone onboard. At the Dubai show, Ethiopian Airlines CEO, Tewolde Gebremariam, repeated his trust in Boeing and revealed the airline and the manufacturer were working together on upgrades to the grounded jet's systems.

But without a doubt, Airbus was king of the show. Emirates Airline placed the biggest order, for 50 A350-900s worth $16 billion at list prices. Deliveries are scheduled from May 2023 to 2028 for the conversion A380 of an order.

Air Arabia signed up for 120 A320 family aircraft, including A320neo, A321neo and A321XLR, at an estimated investment of $14 billion.

Emirates also confirmed an order for 30 B787-9s, valued at $8.8 billion. As part of the agreement, the airline will exercise substitution rights and convert 30 777Xs to 30 B787-9s. Emirates is the world's biggest 777X customer, with 126 aircraft on order. It also is the largest B777 operator in the world with 155 of the type flying today.

Deals at the show totaled $54.5 billion for OEMs and service providers. Attendance was a record, highlighting the long-term investments airlines continue to make to expand their fleets.

At the last Dubai Airshow two years ago, airline customers committed US$113.8 billion for aircraft and services. The decline over 2017 was expected given many carriers who ordered aircraft then are awaiting deliveries.

The show's calendar also comes at a time when airlines are re-assessing their fleet mixes in a climate of geopolitical uncertainty and a sluggish global economy. ■

## TECHNOLOGY

### Australia's Perth Airport selects Amadeus for passenger experience upgrade

**Perth Airport** in Western Australia, which is now processing 15 million travelers a year, has committed to an extensive upgrade of its passenger handling systems provided by **Amadeus** and a subsidiary of the technology solutions group, **ICM Airport Technics**.

The improved system will build on the Amadeus cloud-based passenger handling platform that has been operating at the capital city airport since 2015.

A key element of the upgrade will be the Amadeus passenger verification solution that will allow passengers to proceed to airside using their boarding passes.

**Amadeus Airport IT executive vice president, Bruno Spada**, said Perth Airport's vision will utilize automation and technology from passenger check-in to boarding.

**Perth Airport CEO, Kevin Brown**, added airline partners could expect continuous improvements from the integrated technology offered by ICM. ■

### China's airports and airlines embrace AI and automation

**SITA 2019 China IT Insights** reports China's airlines and airports are fast adopting Artificial Intelligence (AI) and automation to offer personalized self-service experiences to airline passengers.

The new technologies are expanding the options available for mobile devices and allow passengers greater control in their journeys through the airport to the gate and onboard.

SITA's survey found 88% of Mainland airlines and airports planned multi-million dollar investments in AI in the next three years with a focus on developing virtual agents and chatbots.

In 2019, the SITA Insights survey said, 27% of China's airports have self-boarding gates using biometrics with travel documents. By 2020, that figure will increase to 66%, SITA predicted.

Scores of China's airlines are committed to installing self-boarding gates with biometrics and ID, also by 2022. ■

## MANUFACTURERS

### GKN Aerospace invests US$10 million and creates 800 hi-tech jobs in India

Global multi-technology aerospace supplier, **GKN Aerospace**, has opened its US$10 million Electrical Wiring Interconnection Systems (EWIS) plant in Pune in the Indian province of Maharashtra, a greenfield facility that will create jobs for 800 industry technicians and engineers by 2025.

Initially, the Pune complex will employ 200 staff from next year to focus on the assembly of wiring systems for commercial aircraft and engines for the A320neo, the 787 and when approved to fly, the 777X.

GKN recently opened a Malaysia facility intended to service its expansion in Asia. When Pune and Malaysia are 100% operational, 15% of GKN Aerospace employees are forecast to be based in Asia.

**GKN Aerostructures and Systems Europe and Asia CEO, John Pritchard**, said the Pune project group "was a true demonstration of our enduring relationship with India and the solid growth of Indian aerospace".

GKN Aerospace has 50 manufacturing plants in 15 countries and a global workforce of 18,000. ■

## MRO AND COMPONENTS

### HAECO unit and GA Telesis forge aircraft teardown partnership

HAECO Group member and Cathay Pacific Airways subsidiary, **HAECO ITM**, has acquired a Cathay Dragon A330-300 for disassembly and will partner with **GA Telesis Component Solutions Group** to sell and distribute the aircraft's parts after re-certification.

HAECO ITM, whose services include supply and pool management of aircraft components, manages 290 airplanes from a Hong Kong inventory pool.

GA Telesis operates a network of 35 sales offices and distribution centres and has earned global recognition for its expertise in aircraft and engine disassembly. It has harvested parts and recertified many of them from 350 aircraft and 750 engines for an estimated return of US$550 million to the sector's consigners. ■

### Aircraft seat manufacturer MRO Ipeco expands to Beijing

Manufacturer of aircraft crew seating and airplane galley parts, **Ipeco**, has followed the establishment of a distribution and repair centre in Singapore and a distribution complex in Hong Kong with the opening of a repair centre in Beijing.

**Ipeco general manager for Hong Kong and Beijing, Christina Chong**, said Greater China was an increasingly important market for the company. Ipeco has received its Civil Aviation Administration of China Maintenance Organisation Certificate for its China facility, she said. Ipeco also manufactures galley inserts for the A350, A380, 787 and 777X types and oven and water heaters for A320s. ■