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# FAMILY BENEFITS

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# China should stand with the industry in supporting its global emissions strategy

It was not surprising there was dissension among some delegates of the 193 states attending the International Civil Aviation Organization's (ICAO) 40th Assembly in Montreal at the turn of the month.

Three years ago, after negotiations that often were touch and go affairs, delegates to the 39th ICAO Triennial Assembly voted in the world's first industry carbon offsetting scheme, the Carbon Offset and Reduction Scheme for International Aviation (CORSIA).

It was the single global economic measure that aimed for carbon neutral growth by 2020 and a 50% reduction in emissions, from 2005, by 2050. The scheme was calculated to generate US$40 billion in climate funding and offset around 2.5 billion tonnes of $CO_2$ from airlines between 2021 and 2035.

Today CORSIA is a reality, but long standing differences among some member states about the application of the principle of Common but Differentiated Responsibilities (CDR) in the industry have never been laid to rest. And CDR has always been the bug in the bed when developing any industry climate mitigation strategy.

Putting aside China's disingenuous claim to be an emerging economy that would suffer economic drag from CORSIA compared with first world economies, it was a relief that one of the final acts of the ICAO Assembly was to prioritize the industry's goal of a 50% cut in emissions and to advocate backing for the 'No country left behind' initiative, which will support emissions reduction management for less developed countries.

If it is to achieve these goals, the entire aviation industry spectrum and all governments must cooperate fully to reach their targets of drastically reduced emissions from flying.

It was, therefore, disappointing to witness three of the most influential countries in the world - China, India and Russia – issue a joint statement that said the "emphasis should be on those policy options that will reduce aircraft engine emissions without negatively impacting the growth of air transport, especially in developing economies".

In fact, these priorities already have been accepted by the industry and ICAO member States. Clearly, the decision of these three countries to issue a separate statement was political. China, in particular, clings to its "developing nation" status, even though it is now the world's second biggest economy and home to some of the world's biggest airlines. China Southern Airlines is the largest airline in Asia and among the top five carriers in the world in passenger numbers.

Public declarations of divisions among ICAO's member airlines will harm CORSIA's progress and provide the protest movement with misinformed ammunition to attack the industry.

We all know airline passenger demand is growing faster than any emissions scheme now in operation. We should be concentrating on resolving this serious threat to climate damage rather than taking to the world's stage with debatable claims about CORSIA's damage to the world's second largest economy, China, and the world's fastest growing economy, India. ■

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

## Undaunted Qatar expands China ties despite losses

A two-year airspace blockade imposed on Qatar by several neighbouring countries continues to weigh heavily on Qatar Airways financial performance, but it has failed to dent the Doha-based carrier's expansion.

In its latest financial results, to March 31, the group reported an annual net loss of US$639 million, despite a 14% increase in revenue. The airline group's outspoken CEO, Akbar Al Baker, described the results as a "year of achievement in the face of adversity".

"Despite facing challenges unparalleled in the airline industry, I am very proud we have grown our fleet, expanded our network and seen overall revenue increase to $13.2 billion. Passenger numbers are up, capacity as measured by available seat kilometres (ASKs) has risen and our cargo business is the largest in the world," he said.

The state-owned airline blamed the latest loss on higher fuel costs, currency fluctuations and the loss of routes. Saudi Arabia, the United Arab Emirates (UAE), Bahrain and Egypt imposed the "illegal blockade" on the Qatari airline in the belief the emirate supported terrorism.

In the year after the blockade was put in place and in 2018-2019, Qatar has opened 24 routes into Europe, Asia and Africa to compensate for reduced traffic in its regional markets. The network expansion has only partly compensated for lost business. New destinations to West and Central Africa and South America have been suspended.

Qatar's ASK increased by 13.5% for the reported 12 months. Cargo revenue improved 16.8% and available tonne kilometres (ATK) expanded 11.8% for the year. Executive jet revenue reported substantial growth of 18.4% compared with the previous 12 months.

"Nonetheless, 2018-2019 was a challenging year. While it was disappointing, the underlying fundamentals of our business remain extremely robust," said Al Baker.

"Our success is due to an unwavering belief in our strategy to give our passengers the very best, backed by the perseverance and hard work of our staff. I look forward to 2019-2020 with optimism and confidence that our growth will continue and we will serve even more countries around the world."

The airline, which flies to 160 cities, launched 11 destinations in 2018-2019, bringing new routes to 31 since the blockade was imposed.

The airline's fleet grew by 25 aircraft during the reported year. It took delivery of its 250th aircraft in March. Al Baker said with more than $85 billion of airplanes on order, including options and Letters of Intent, the group had the capacity to continue its ambitious but sustainable network expansion.

During the financial year, the airline group acquired 5% of the issued share capital of Guangzhou-based China Southern Airlines, adding to its holdings in Air Italy, Cathay Pacific Airways, IAG, JetSuite and LATAM. Air Italy recorded a $148.8 million loss for the year. Recent events in Hong Kong are expected to impact returns from its Cathay Pacific investment. ■

# Boeing predicts surge in China passenger tide

***By associate editor and chief correspondent, Tom Ballantyne***

Whatever its problems on the home front, Boeing has not retreated from its bullish forecasts for aircraft sales in the long-term China market, although Mainland fleet expansion will be slower than the manufacturer forecast in 2018.

Last month in Beijing, Boeing Commercial Airplanes (BCA) vice president marketing, Randy Tinseth, said Chinese carriers would need 8,090 new planes, worth nearly US$1.3 trillion at list prices, to meet booming passenger demand, particularly to and from China's second tier cities. The revised forecast was 5.2% higher than a year ago.

In the next 20 years, China's air passenger traffic is expected to grow 6% a year, rather than the previous prediction of 6.2%. Its expansion rate is higher than Southeast Asia, Europe and North America, Tinseth said.

"China became our largest market last year. An expanding middle-income group, significant investment in infrastructure and advanced technologies that make airplanes more capable and efficient, continue to drive tremendous demand for air travel," he said.

By 2023, eight more airports will have opened across China, including Beijing Daxing International this month. In the next five years, the compounded annual growth rate of flights that connect second-tier cities in China will be 11.3%, a much higher figure than the number of flights that connect major Mainland hubs and the nation's smaller cities, Boeing said.

For long-haul international flights, the annual growth in the last five years was 35% for second-tier cities, said Tinseth. This year, China's carriers are operating 132 direct international flights, accounting for 65% of the global market.

In the next two decades, Boeing predicted China would need 5,960 new single-aisle aircraft. Demand for wide-body airplanes will triple the nation's current fleet by 2038. In addition, China will need a significant number of regional aircraft and cargo aircraft, the forecast said.

Asia-Pacific airlines would require 17,390 aircraft, valued at US$2.83 billion, for the period, BCA said. The region's fleet of new airplanes would be divided into narrow-bodies (75%), wide-bodies (22%), regional jets (1%) and freighters at 2%.

Each year to 2038, Asia-Pacific airlines will need to collectively recruit a minimum of 12,000 new pilots, 12,450 new technicians and 16,150 new flight attendants, the manufacturer said.

BCA forecast the global airline fleet would need 44,000 new airplanes, valued at US$6.8 trillion, in the next two decades. Single aisle aircraft would make up 74% of the order book (32,420), wide-bodies 19% (8,340), regional jets 5% (2,240) and freighters 2% (1,040). ■

## Mainland's COMAC bullish on home market despite trade tensions

The Commercial Aircraft Corporation of China (COMAC) has predicted its home market airlines will have a 10,344 aircraft fleet by 2038.

Released at the Aviation China Expo in Beijing last month, the Civil Aircraft Market Forecast Report 2019-2038 said in the next two decades China's airlines will add 6,119 new narrow-bodies of more than 120 seats, 2,128 new wide-bodies with more than 250 seats and 958 new regional jets of 50 plus seats to its national fleet. The estimated cost of the fleet expansion is US$1.4 trillion, based on 2018 list prices.

By 2038, China's revenue passenger kilometres (RPK) will reach 4.08 trillion kilometres, which will be 21% of global RPKs. Annual global fleet growth for the next two decades is forecast at 4.3%.

# Asian demand bumps up revised Airbus forecast

Asia's long-term passenger market will need 16,325 new aircraft in the next two decades with 4,205 of the aircraft planned for fleet replacement, Airbus said in its latest global forecast, released in London last month. The region also will need 223,210 pilots and 259,690 new technicians, Airbus forecast.

Global air traffic will grow 4% a year to 2038, which will result in a doubling of the world's airline fleet in the forecast decades, Airbus chief commercial officer and head of Airbus International, Christian Scherer said.

The Asia-Pacific's share of global added GDP has grown by 21% from 1970 to 1980 to 54% between 2010 and 2018, Airbus said. "Today, although India is outpacing China in economic growth, the region remains linked to China and its transition to a consumption based economy," it forecast.

"Concerns about slowing economic growth have eased recently but trade tensions with the U.S. are a downside risk, at least in the short-term," Scherer said. "The Asia-Pacific will continue to lead world economic growth with expected average real GDP growth of +4.1% a year for the next 20 years."

The importance of the traffic within the region has grown, particularly domestic traffic within individual countries, Airbus said. "Since 1998, this traffic has grown from 22% to 33%. Together with other traffic in the region, it accounts for nearly 60% of all Asia-Pacific traffic," Scherer said.

Dominant markets for domestic traffic are China (57%) and India (11%). The two markets have recorded annual growth of 12.4% and 11.1%, respectively. The growth rates of Japan, Indonesia and Australia also

have been very strong compared with global growth trends, the forecast said.

"For intra-regional traffic between Asia-Pacific countries, it is a much more fragmented market. For example, without looking at the data, it would have been hard to guess the largest traffic flow is between China and Thailand," Scherer said. ■


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# Asia's fresh outbreak of start-up fever

***By Will Horton***


Consolidation remains the keyword in the mature Europe and North America markets. But Asia is experiencing start-up fever after a few steady years. Most Asian airline launches in the past decade were in China or were low-cost subsidiaries established by existing airline groups. The new carriers span a range of business models, geography and ownership.

The previous wave of start-ups depended on low costs or government incentives. Most of the latest start-ups are seeking a yield premium. This strategy raises a central question: how many markets in Asia can sustain sizeable premium demand? The forecast weakened economic environment in coming years makes the launch phase of the new start-ups all the more challenging.

The prominence of wide-bodies in the fleets of the new start-ups adds risk to their planned operations. Two of the carriers, Korea's Air Premia and Japan's ZIP, will only fly wide-bodies. Vietnam's Bamboo Airways and Taiwan's Starlux plan to have wide-bodies flying early in their operating histories.

While Cebu Pacific and Jetstar have demonstrated new entrants into the region's markets can successfully operate wide-bodies, inevitably there will be comparisons with Europe, where Norwegian is being restructured and WOW Air has gone out of business. WOW board member and a former CEO of U.S. ultra LCC, Spirit Airlines, Ben Baldanza, wrote last March that WOW's collapse was guaranteed after it added A330s to its narrow-body fleet.

"The A330 is a great airplane when used efficiently," Baldanza wrote in an article posted on LinkedIn. "It allowed WOW to serve markets the A321 could not such as Los Angeles and San Francisco. But filling such a large plane from those markets to highly seasonal Iceland and connecting points in Europe proved disastrous."

Baldanza added: "For such a small airline with a small total fleet count, the A330 created enormous operating challenges and distraction, taking WOW's eyes off the core ball."

ZIP is launching with 787-8s formerly flown by its 100% shareholder, Japan Airlines (JAL), giving it financial and management backing. Air Premia is leasing new 787-9s, although terms may be favourable for the transactions given the excess of the wide-body's supply in the market.

Air Premia was founded by a former Jeju Air CEO who has since left the airline. It is 100% privately held and does not have an airline backer or majority investment from a major Korean company or even a chaebol.

ZIP's indication of a seat count of around 300 – less than Scoot or Jetstar – may reflect needing less weight to fly further. Air Premia will have 309 seats, not significantly more than the 271 Korean Air has on its 787-9.


Observers credit Air Premia with changing airline financing by holding investment rounds and going to venture capitalists as tech start-ups do. Air Premia's first office was in co-working space, WeWork, in downtown Seoul, a change from the far-flung offices of most airlines and part of Air Premia's attempt to attract talented management. Air Premia's independence means it is on its own and has to seek markets and passengers.

ZIP's JAL shareholding means it will be automatically included in JAL's joint ventures in the same way that LEVEL does with IAG and Eurowings with the Lufthansa Group. Joint ventures could deliver an unexpected boost for Air Premia if the Korean Air (KAL)-Delta Air Lines partnership constrains supply.

From full-service Hong Kong Airlines to low-cost AirAsia X, new entrants pursuing long-haul flying have learned the necessity of short-haul feed to help fill their planes. Hybrid Air Premia and low-cost/hybrid ZIP do not plan feeder flights. Their respective homes, Seoul Incheon and Tokyo Narita, may be large enough to rely on local demand.

Each of the start-ups has a population of 10 million in its immediate region to draw on. The greater Tokyo metropolis has more than 35 million residents and Seoul Incheon is easily accessible to most of peninsular Korea.

Some Korea-Japan return trips cost less than US$100. Even if long-haul new entrants have fares proportional in cost to short-haul flights, the net fare will still be multiples higher and journey time longer, reducing demand.

The AirAsia X and Scoot franchises mostly target Asia as their destination markets. ZIP's initial cities will be Bangkok and Seoul while it awaits ETOPS certification for long-haul flights to North America and Europe. Air Premia will launch within Asia, but plans Europe and North America flying where in-country costs are higher than trips within Asia.

ZIP is commonly described as a competitive response to LCCs such as Scoot and AirAsia X, which is using fifth freedom rights to fly to Honolulu and is targeting the U.S. West Coast early next decade.

ZIP is arguably JAL's response to All Nippon Airways (ANA), which has far outgrown JAL in Europe, North America and Southeast Asia. While JAL is no longer under government-imposed growth restrictions, lingering effects from its bankruptcy make it complicated to hire pilots. As a new airline, ZIP does not face these constraints.

With strong premium focuses, ANA and JAL have left some markets unserved that were judged not be sufficiently profitable to operate, creating opportunities for ZIP. In Korea, incumbents Korean Air and Asiana are more prolific, especially in Europe, which will reduce opportunities for Air Premia. Additionally, Russian overflight rights are constrained in Korea but not in Japan.

Bamboo Airways is targeting one of the world's largest unserved markets, direct Vietnam-U.S. flights. An advantage of this strategy is that traffic is largely concentrated between Ho Chi Minh and Los Angeles. But challenges are aplenty. The distance is

punishing and most aircraft only can fly non-stop with payload restrictions.

While a voluminous market, it is largely price-sensitive with most passengers travelling in economy. It will be challenging for Bamboo to attain a yield premium as well as business class passengers.

The Vietnam-U.S. market has competitive one-stop fares from most intermediary Northeast Asian airlines and sometimes Gulf carriers. One of the sixth freedom heavyweights is EVA Air, whose former chairman, Chang Kuo-wei, is launching a competitor: Starlux Airlines. Starlux expects to start flights in January 2020 with A321s and later operate A350s to North America.

Unlike Bamboo in Vietnam, Starlux will have almost no domestic market. Starlux's initial years of operations will pit it against a variety of local and foreign airlines. Adding to the challenge, it will have to find destinations suitable for local traffic as well as markets that will feed North America flights.

Taiwan's local demand is too small for the plethora of capacity. When Chang was at EVA, about 50% of passengers on EVA's North America flights connected beyond Taipei, mostly to Southeast Asia. Taiwanese media has reported Starlux initially will look at under-served secondary Asian cities that are good for local traffic. But the large hubs for North American feed, such as Singapore, Ho Chi Minh and Jakarta, are harder to penetrate.

Supporting a long-haul network with regional connections proved too challenging for Hong Kong Airlines, which has pared back its relatively new North America network. Bamboo will not necessarily require international feed, but it could help. Bamboo has strong financial backing from Vietnamese real estate to leisure travel conglomerate, FLC Group, whose strategy includes synergies between Bamboo and the group's resorts.

Korea's SK Group recently invested US$1 billion in Vietnam's Vingroup which is launching its own airline, Vinpearl Air. Vietnam's start-up scene is more crowded with two more planned start-ups: Vietravel and KiteAir. Some observers thought Vietnam's market was too crowded with Bamboo's entry.

VietJet's growth prompted questions about how the Vietnamese government saw private companies taking market share from Vietnam Airlines and its LCC, Jetstar Pacific. But perhaps Vietnam will be similar to Thailand with a wide range of private competition.

One of the liveliest markets is Korea. Besides Air Premia, Seoul gave licenses to two short-haul LCCs. Fly Gangwon is due to launch in October and Aero K is expected to fly in 2020. Both will initially have secondary city bases.

A fourth Korean start-up is Hi Air, which will base ATRs at Ulsan by year-end. Its regional business model allowed a separate and faster regulatory process. Thailand is again seeing start-ups after the country passed an International Civil Aviation Organisation's (ICAO) audit and received subsequent approval to operate new flights. The most advanced start-up is Thai EastarJet, although details about the project are scarce. Cambodia continues to receive start-up interest, mostly from Chinese backers who want to cash in on the Cambodia-China market.

Start-ups could return to China. China Eastern Airlines is converting its private jet operator to a commercial carrier, renamed Air 123. It will operate China's ARJ21 and C919 aircraft. Media reports said other Chinese airlines could have dedicated airlines flying these aircraft types. Elsewhere in the region, there are ample opportunities to change markets if high barriers are overcome. ■

# GLOBAL EMISSIONS SCHEME ON TRACK DESPITE CHINA SAYING IT IS UNFAIR

*Aviation's perceived inadequate response to reducing emissions from flying was the target of huge demonstrations in the lead up the International Civil Aviation Organization's (ICAO) 40th triennial Assembly, held in Montreal at the turn of the month. But heated debates were not confined to anti-flying protestors. Inside the Assembly, several influential delegates became hot under the collar when the subject of the industry's Carbon Offset and Reduction Scheme for International Aviation (CORSIA) came up for debate. Associate editor and chief correspondent, Tom Ballantyne, reports.*

At press time, delegates from 193 member states and more than 2,000 high-ranking government officials, aviation lobbyists and climate change NGOs who had attended the International Civil Aviation Organisation's (ICAO) Assembly were absorbing the impact of a focused attack on the Carbon Offset and Reduction Scheme for International Aviation (CORSIA) from a China led faction.

On the final day of the Assembly, following an earlier suspension of the program after an estimated 400,000 protestors, led by teenage activist, Greta Thunberg, descended on the gathering to demand greater climate mitigation from flying, a trio of delegates from China, India and Russia called for a secret ballot on the structure of CORSIA.

The delegates, whose main spokesman was first secretary for China, Guo Xiaofeng, repeated an historic objection to CORSIA. Guo said first world economies benefitted from the scheme to the detriment of emerging economies, including China.

The vote was 92-25 in favour of the pursuance of CORSIA, with 10 abstentions. China, India and Russia, with the backing of some other states, informed ICAO of their CORSIA concerns and called for a High Level meeting to discuss a revised agreement at the next Assembly, in 2021. Not all states, including the U.S., supported the request, reported GreenAir Online earlier this month. Russia and Brazil backed China and also advocated a High Level meeting in 2021.

"As the largest developing country, China supports efforts to address international aviation's impact on the environment and climate change," Guo said. "China is taking pro-active action to effectively control the growth of its aviation emissions."

But [nation] States should be able to choose their own mid-term and long-term goals and the implementation path that is best for the circumstances of these States, the dissenting countries said.

"We maintain the goal of carbon neutral growth from 2020 only focuses on controlling the growth of emissions while neglecting the historic responsibilities of developed countries for emissions and the legitimate rights to expansion

China advocates for the establishment of an international aviation emissions reduction scheme that allows each country to make contributions to the best of its ability ... and that is fair and just as well as conducive to mutual learning

**Guo Xiaofeng**
China's first secretary to ICAO, at the 40th International Civil Aviation Organisation's triennial Assembly October 2019


of developing countries and emerging economies.

"This goes against the notion of justice and fairness advocated by the international community and undermines mutual trust and cooperation among Member States," said Guo.

To complicate the situation, several European States are maintaining the right to apply their own Emissions Trading Scheme on airlines, creating a dual system of market-based measures once CORSIA takes effect in 2021.

At the conclusion of the Montreal gathering, the International Air Transport Association (IATA) said the 40th Assembly produced two critical outcomes for aviation and the environment.

- The ICAO council will report to the next Assembly on options for the adoption of a long-term aspirational goal for reducing emissions from international aviation.
- The Assembly passed a resolution that reaffirmed and strengthened its support for the successful implementation of CORSIA, the world's first carbon offsetting scheme.

IATA said for people witnessing the discussions at the Assembly "it could be construed ICAO had taken a back step in the world at a moment when the pressures on airlines to move forward in resolving the climate change issue as quickly as possible are intense," it said.

"We will continue to support ICAO, but sadly we are going to have to move faster than ICAO is able to take whatever steps we can in finding ways to continue to reduce our environment footprint," said IATA director general and CEO, Alexandre de Juniac.

The International Council for Clean Transportation (ICCT) has reported emissions from commercial aviation are rising 70% faster than ICAO predicted in its latest long-term forecast. ICCT's survey indicated a tripling of emissions by 2050, in a study the group said was the first of its kind for 15 years.

CORSIA requires airlines worldwide, under a voluntary structure, to buy carbon credits from approved environment businesses if their emissions exceed specific targets. Global aviation has committed to carbon neutral growth from next year and a 50% reduction in airline $CO_2$ products against 2005 by mid-century.

A critic of aviation's response to its emissions output, the European Federation of Transport and Environment, told Reuters the ICAO meeting had failed to take any significant steps to rein in the sector's emissions after 11 days of talks and debate.

Eighty one countries have agreed to join CORSIA's pilot phase by the 2021 deadline. Mandatory status will apply from 2027.

Before the Montreal assembly, IATA's de Juniac said the success of CORSIA was in danger "because several states are implementing so-called green taxes, measures and levies on travelers".

He pointed out ICAO member states had agreed to implement CORSIA three years ago. "The whole aviation industry welcomed this significant commitment as part of the overall approach to meaningfully mitigate the industry's climate change impact. Today, CORSIA is a reality with airlines tracking their emissions," he said.

"Unfortunately, there is a real risk CORSIA will be undermined by governments piling on additional carbon pricing instruments. They are branded 'green taxes', but we have yet to see any funds allocated to actually reducing carbon.

"CORSIA was agreed as the single global economic measure to achieve carbon neutral growth by generating $40 billion in climate funding and offsetting around 2.5 billion tonnes of $CO_2$ between 2021 and 2035. Governments need to focus on making that commitment a success."

In his opening remarks at the Assembly, ICAO Council president, Dr Olumuyiwa Benard Aliu, said it was important to remember CORSIA was adopted after very difficult negotiations and also to avoid a cumbersome patchwork of national measures for operators such as taxes that can impede global connectivity.

"Therefore, it would be counterproductive to aviation and climate change progress if we fail at this Assembly to assure CORSIA's continuing launch as a truly global offsetting scheme for international flight emissions," he said.

Consolidating CORSIA is a critical goal for aviation. The industry is forecast to be flying 8.2 billion passengers a year in 2037. The industry's lobby groups have pressed nations to join the greenhouse gas reduction scheme in the hope of weakening calls to curb flying. ■

# FAMILY BENEFITS

*One plus one equals one is the recent story at long-haul LCC, Scoot, after it successfully completed its integration with Tigerair. But market conditions are tough, with the budget carrier falling into loss this year. Associate editor and chief correspondent, Tom Ballantyne, reports from Singapore.*

These are exciting times for Scoot, said the LCC's CEO, Lee Lik Hsin. "Since the merger of Scoot and Tigerair in 2016 we have chalked up double digit growth. We have gone from a fleet of 35 to 49. We have announced another 10 new planes on lease and are upsizing the A320s to A321s."

Four Chinese destinations have been transferred to Scoot from regional full-service carrier, SilkAir, which is being merged with Singapore Airlines (SIA). Next year, six Indonesian destinations will be added to the Scoot network. "So, the pace continues unabated," said Lee.

But none of these impressive numbers can disguise the fact that market conditions are tough. In fiscal year 2019, reported the financial statements of parent SIA, Scoot sank into the red with an operating loss of US$10.8 million, down from an operating profit of $56.4 million a year earlier.

Costs of Scoot's expansion, as it took over routes previously served by SilkAir and/or SIA, as well as the launching of long-haul routes, outpaced revenue growth. Performance also was substantially affected by a slowdown in Mainland tourists and operational disruptions caused by Rolls-Royce engine maintenance issues on the carrier's 787 fleet.

In spite of a disappointing fiscal 2019, SIA said Scoot had "continued to lay the foundations to benefit over the medium and long term from growth in the budget travel segment", Lee said.

"It's a crowded market. It's a tough market. In the end, we, as do all of our competitors, believe in the underlying growth of the demand. We are lucky in a way. Singapore is a very heavily utilized airport. Origin destination pairs involving Singapore are among the most heavily travelled in this region. We are able to tap into that," he said.

"It is very difficult in this industry for demand and supply to be in sync. But there are times when airlines cannot grow fast enough and all airlines do quite well, as we did in 2015-2016. We registered record profits. At the time, we were growing upwards of 15% a year.

"Normally, when you grow that kind of capacity you don't expect to have good profits but we did. Obviously, the last year and a half has not been that great. It is a cycle."

With a bachelor degree in economics from the University of Pennsylvania and a long career with SIA, Lee is well used to the volatility of the airline business. At SIA, he has been the airline's regional vice president for West Asia and Africa and the North Asia sales regions, head of SIA's company planning and fuel department, senior vice president corporate planning and president of Singapore Airlines Cargo. He was appointed CEO of both Scoot and Tigerair in May 2016 and led the two carriers through their merger.

The combined airline resulted in immediate fleet growth, transforming Scoot from an all-wide body 787 operator to a dual twin-aisle and single-aisle airline with 12 787s and 23 A320 variants. "The first couple of years after the merger, we had more growth in the wide-body fleet," said Lee. "We went from 12 to 20.

"On the narrow-body side of the house we grew from 23 to 29. For the next phase, the narrow-bodies will probably be a bit bigger, but we do intend to increase wide-bodies."

This strategy is reflected in the order Scoot placed last July for 16 A321neos, which are scheduled to arrive at the airline progressively from the last quarter of 2020. To support growth, Scoot will convert six A320neo orders to the larger A321neo and lease another 10 A321neo by the end of the 2020-2021 year. There also are two more 787s at the carrier.

Asked if an order for long-range single-aisle jets was being considered, Lee laughed. "I think you are referring specifically to the A321XLR. For now, we have not confirmed any orders. The A321neo is more about upsizing because of the capacity and the slot constraint situation in Asia. We can grow just by putting a slightly larger single-aisle on the route," he said.

"When you talk about the XLR, trying to get to about eight hours or so, yes, it gives you a little bit more range and the destinations you can cover. Ultimately, you have to measure that against the unit costs in comparison with a wide-body. For us, we have not come to a clear conclusion. For now, we will rely on the wide-body."

> **"We have done well. Our load factor for China routes is very good. In fact, we are carrying more than SilkAir did because we have higher seat counts"**
>
> **Lee Lik Hsin**
> Scoot CEO

Scoot's lack of action on the A321XLR front speaks for itself. "The manufacturers continue to be in conversation with us. Never say never. But at this time we have not seen the need," said Lee.

Essentially launched as a medium to long-haul LCC, Scoot's longer haul routes now include Australia, Athens and Berlin. It flies to 68 destinations across 17 countries and territories, with nine more destinations in India, Malaysia and Indonesia planned for the network by the second half of 2020.

When asked about Berlin and Athens, Lee said they "are clearly not amongst our top performing routes but we think they are a tool to offer niche opportunities". It launched Singapore to Honolulu via Japan in late 2017, but has terminated the route.

"We continue to explore other points, but we will be very measured. Not excluding the possibility of a new destination in the next one to two years, we won't have a European network," he said. "We will serve a small number of points in Europe. That is very different to saying we have a European network. We always knew long-haul was a niche market for budget airlines and that it would be a challenging market," he said.

"We have seen failures or pull-backs by other airlines trying to operate long-haul, so we will continue to grow but very cautiously. It is one destination at a time but long-haul is part of our overall network proposition."

Lee has not hesitated to withdraw from

## Digitalisation a shared landscape for Scoot and Singapore Airlines

For Scoot, as with parent, Singapore Airlines (SIA), digitalisation and social media are crucial to growth.

"We benefit from what SIA is doing because we don't have to re-invent the wheel," said Lee.

"Many of the things they are doing can apply to the budget side of the business. When you are in the digital sphere, the legacy burden no longer exists. Many times what prevents [new technology] transfer are legacy systems.

"For example, anything that happens in the GDS world becomes difficult to cut across to the low-cost world. Digital completely transcends all that. Of course, we have to figure out initiatives we want to do on our own. As a separate business, we might operate different infrastructure and frameworks from the parent.

"At the same time, we have that channel of communication where we can benefit from whatever achievement the parent has made in the digital space. Sometimes it is the reverse. They can benefit from what we have learnt."

under-performing routes. In June, Lucknow and Kalibo were dropped. Quanzhou in China followed in August. This month, Male will disappear from the Scoot schedule due to weak demand and a shortage of aircraft, Lee said.

China is probably Scoot's most important market. "Today we stand with the largest Asian carriers flying to China, either full-service or budget," Lee said. "If you look at the top tier in volume of operations and capacity into China, we are all hovering around/over 20 points each, which is what we have.

"Our competitors have it too, but clearly we are big in China. It takes up a significant portion of our overall network and we continue to be confident as we have done with the recent takeover of points this year [from SilkAir]."

Elsewhere in Asia, competition has never been tougher and Lee considers there is overcapacity in the market. "Our current financial performance sort of reflects that," he said.

"We are at less pricing power compared with a year or two ago. It is a reflection of demand not catching up with supply. If you talk just about Southeast Asia, every country has multiple budget airlines these days, whether it is Malaysia, Indonesia, Vietnam, Thailand or elsewhere.

"Even when you go to North Asia, Korea and Japan, the competition is keen. No doubt about that. At the same time, we have confidence in our underlying business model and underlying demand growth.

"It is a matter of riding it out. Making sure we have the best possible cost structure, are the most efficient operator and have a product proposition that offers value to our customers. Choice is very important to our customers, both for network and the ability to select what they want. Finally, we try to be as engaging as possible and have character."

Scoot has character aplenty. It was voted Best Low-Cost Airline in Asia in 2019 by Skytrax and consistently polls as one of the top LCCs in both the long and short-haul budget categories. It also has a respected parent in SIA.

"Clearly, we benefit tremendously from having a strong parent which can provide financial support. It makes it much easier for us to secure very favourable deals with key partners like aircraft manufacturers and other suppliers," Lee said.

"Commercially, that is what the customer sees. We have created programs where passengers can benefit from both products at the group office and also the group provides some synergy that benefits the customer.

"An example is the frequent flyer program (FFP). Normally, a budget airline would not have much to offer the passenger but we can rely on SIA's FFP. Similarly, SIA passengers can use their FFP membership to claim flights on Scoot. It helps drive a lot of Scoot revenue."

At its Singapore home base, the network connectivity it receives from code-sharing with SIA is critical to its operations. "This is about connectivity and our connectivity


proposition has improved significantly," Lee said.

In Europe, Scoot has codeshare arrangements with local carrier, Aegean Airlines, in Athens and in Berlin is in the process of "working out the mechanics" with SIA Star Alliance partner, Lufthansa.

It also is a founding member of the low-cost Value Alliance, launched in 2016, which uses proprietary technology to allow flyers to view, select and book online the best available airfares on the flights of any of the member airlines. Collectively, the seven member airlines - Cebu Pacific (including wholly owned subsidiary Cebgo), Jeju Air, Nok Air, NokScoot, Scoot, Tigerair Australia and Vanilla Air - fly to more than 160 destinations.

Scoot is no different from LCC rivals who are developing better value fares and packages for customers. Its 787s have a recently re-named business cabin, ScootPlus, Scoot-in-Silence, a child free zone, BoardMeFirst for priority check-in and boarding privileges and comprehensive travel insurance, Scootinsurance.

Like all carriers in the region, Scoot has to cope with challenges, such as continuing protests in the precincts of Hong Kong International Airport. Lee said: "We do fly to Hong Kong. In general, I would say we tend to say specific incidents will always have specific impacts. Our general principle of planning and operations is we will have to adapt," he said.

"Confidence and belief in the growth of travel, specifically the growth of budget travel in the region, is still there. You know there will be kinks along the way and whether that will be about trade or whatever impacting travel. Fundamentally, as a budget airline we are more about leisure travel and less about corporate travel.

"Whenever there is some sort of situation in any specific location, and it happens with most airlines, you usually try to ride it out. It could be a really bad year economically or it could be a big weather event and inbound travellers hesitate to go there.

"But with scheduled airlines there are considerations like slot retention. You have to maintain a certain level of consistency in your operations."

Maintaining that consistency while expanding under tight costs constraints is exactly what Lee has in mind. ■

# Opportunities beckoning for Asia's carriers in Central and Eastern Europe?

**Full-service airline appetite for routes into Central and Eastern Europe is curbed by low yield, leisure heavy passenger traffic, presenting an opportunity for Asia's LCCs to enter the market, reports Tomasz Sniedziewski.**

Most inflight maps do not slow information about the area they are over flying between Europe and Asia. Partly it is because the majority of passengers have limited knowledge of the nations of Central and Eastern Europe (CEE) they are overflying. Secondly, the vast zone from Scandinavia to the Black Sea, between Western Europe and the borders of Asia, is still the "flyover states of Europe".

But the ambitions and wealth of these CEE countries could change that. Even the names of the CEE: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Ukraine, Austria, Hungary, Romania and Moldavia depart from the label of Eastern Europe, a nomenclature that offends many of the 150 million citizens living in the former Soviet bloc.


Latest available figures report the CEE's share of the European airline passenger market is 14.3% or 1.9 million seats a week. Total CEE traffic represents 8.5% of European demand.

In 2017, there were 149 million passenger journeys. On average, CEE citizens fly once a year, 50% less frequently than Western Europeans.

The biggest of the 66 CEE airports, Vienna, has yet to make it into the top 20 Europe airports, reports the Aviation Market in Central and Eastern Europe, published by Rynek Lotniczy.

"While the market between Asia and Europe is prospering in general, CEE is below the market average in demand, yields and capacity. The biggest challenge is low outbound demand from the CEE. It grows as routes are added.

"For example, traffic to Singapore from Warsaw mushroomed after LOT launched a direct flight. However, it is still substantially smaller than demand from East Asia, driven both by leisure passengers and business traffic," he said.

"Yields are substantially higher on itineraries originating from East Asia than from the


CEE. With South and Southeast Asian traffic, with the partial exception of Singapore, demand from CEE is very price-sensitive."

"Competition from the Gulf carriers, Turkish Airlines and Aeroflot is strong so yields are even more depressed," said ch-aviation and Polityka Insight analyst, Dominik Sipinski.

"The present numbers mean any Asia-Pacific carrier contemplating opening routes to CEE needed to accept the market's asymmetric demand - higher in their home markets and lower in Central Europe. Needless to say, most airlines have gone elsewhere for network expansion."

But the gap is narrowing. According to many analysts, CEE is becoming an attractive market opportunity.

Statistics reveal the increasing wealth of the CEE region and the popularity of international travel is translating into steady upward growth for CEE airlines and the region's airports.

In the first six months of this year, Vienna Airport processed 14.7 million passengers, 24% higher than in the same six months a year ago.

Other CEE airports, including Kiev (+20 %), Bucharest (+ 8%), Budapest (+7.5 %), Warsaw (+7.4 %) and Prague (+4.7 %), are reporting increases in passenger demand, said Pasazer.com.

Local CEE airlines are benefitting from their geography. Apart from the Lufthansa Group, owner of Austrian Airlines, the region is free from the big airline groups.

A shining success story is the Hungarian LCC, Wizz Air, owned by private equity group, Indigo Partners. Since it started operations 15 years ago, the airline has grown into one of the biggest carriers in the CEE.

Wizz has a fleet of close to 120 A320 family aircraft and double that number of airplanes on order. Another contender of significance in Europe, airBaltic, has carved out a dominant position in Latvia, Lithuania and Estonia, nations of the Baltic States.

Three CEE airlines offer direct flights to Asia. Austrian Airlines flies from its Vienna hub to Beijing Capital, Shanghai Pudong, Tokyo Narita and Bangkok Suvarnabhumi.

Ukraine International Airlines, operating in a politically unstable market where residents travel an average of 0.4 times a year, successfully connects Kiev with Bangkok, Beijing, Colombo and Delhi.

LOT Polish Airlines, a Star Alliance member that aims to be the "the favorite carrier of the CEE", has scheduled flights from Warsaw to Beijing Capital, Tokyo Narita, Seoul and Singapore.

LOT has added Delhi in September, Beijing Daxing in October, in addition to existing flights to Beijing Capital, and seasonal flights to Colombo from November. It recently inaugurated direct Seoul-Budapest services.

LOT is not the only carrier to bet heavily on the growth of CEE aviation. In 2018, the Polish government approved construction of an airport outside Warsaw, Poland's capital. The gigantic intermodal hub will be called the Central Communication Hub.

It plans initial annual capacity of 45 million passengers when it begins operations in 2027. The International Air Transport Association (IATA) has established an Airport Consultative Committee to support the hub's construction and operations.

"It is not just an airport. We are talking about the hub for intermodality. It is a unique opportunity to do something I don't think we have done in Europe for the last 50 years," IATA's VP Europe, Rafael Schwartzman, told media.

So far, Poland is the only greenfield project of such scale in CEE, but most of the region's major hubs, including Vienna, Prague and Budapest, have completed or are planning major expansion.

Better infrastructure means

## Mainland airlines testing traveler interest in Central and Eastern Europe

In recent years, the presence of Chinese carriers flying into CEE destinations has increased. Airlines from the Middle Kingdom are present in many hubs in the region, although analysts said they are not much competition to their rivals from Asia.

"The expansion of mainland Chinese carriers to Europe certainly changes the market dynamic, although they remain largely focused on Western Europe," said analyst Sipinski.

"Traffic to Prague and Budapest is heavily geared towards Chinese group travel and is sold in China by package operators. Going east, demand from Europe is much lower. As capacity from Mainland carriers grows, they will expand their connecting offers, creating competition for airlines from Hong Kong, Taiwan, Japan and Korea.

"Southeast Asia is predominantly served by the Gulf's Big Three, Turkish Airlines and Aeroflot on connecting itineraries. The expansion of Chinese airlines is less disruptive to this market."

Market share evolution on routes between China and the U.S., planned airport infrastructure projects in China and the recent declarations by Chinese carriers that they will participate in the Belt and Road Initiative, emphasize the fact Chinese airlines could play an important role in CEE. "In the longer term, when Chinese airlines broaden their customer bases beyond predominantly leisure traffic, they can disrupt the East Asia-CEE market more," Sipiński said.

greater opportunities for local carriers to build markets. "The CEE is the eastern outpost of the EU. It has the geographic advantage of being the gateway to Europe. Located largely within the Schengen Area, it could be seen as having better intra-EU connections than Moscow or Istanbul," said Sipinski.

"Given the substantially stronger Lufthansa Group presence in CEE, compared with Air France-KLM or IAG, Star Alliance carriers on the Asia-Pacific side have a slight advantage over their rivals from other alliances. Finnair, which focusses on the North Asian market, also is strong competition."

Some carriers from Asia are present in the CEE, especially in Austria, the richest economy of the region. Austrians take an average of 3.2 flights a year. Vienna services Asian airlines, including China Airlines, EVA Air, Thai Airways International, Korean Air, All Nippon Airways, Air China, Air India, China Southern Airlines and Hainan Airlines.

For passengers from other countries in the region, the first and often dazzling experience of the standard Asian airline flight was being marketed in competition with the Gulf carriers' expanding presence in the CEE.

"The Gulf carriers have invested in marketing in the CEE and have very good brand recognition in the region. Combined with generally lower fares, it gives them a strong incumbent position," Sipiński said.

"The quick off the mark Middle Eastern carriers, now established as brands in the CEE, are tough competition for Southeast Asian airlines eyeing expansion to the CEE.

"In particular, Emirates, flydubai and Qatar Airways have a very strong position in the CEE-Southeast Asia and CEE-Australia connecting markets. Connections via the Gulf are, by the virtue of geography, less appealing for passengers flying to northern China, Japan and Korea.

"The Gulf carriers cover all bases. Cheap economy class tickets, sizeable and high-quality business and first class capacity and large cargo capacity. They are very substantial competition to carriers from Southeast Asia and to a lesser degree from Hong Kong and Taiwan."

Recently, the Middle East carriers have been going through a transition with many price-sensitive CEE passengers complaining the fares offered by the big three Gulf carriers are not as attractive - read cheap - as they were a few years ago. The discontent has created space in the market for cheap flights to Southeast Asia from the CEE.

Some carriers declare they are happy to fill the gap, including AirAsia Group CEO, Tony Fernandes. The flights, if they go ahead, will be operated by LCC Thai AirAsia X using new A330neo fitted with business class and a high density economy seat configuration.

Flying time between Bangkok and CEE is around 10 hours, which means round trips can be accomplished in 24-hour blocks.

The AirAsia Group joint venture may not be the only carrier planning to fly to Prague. Vietnam's Bamboo Airways has confirmed it will introduce Hanoi to Prague.

The strategy, with some adjustments, might work, Sipiński believed. "Long-haul low-cost flying is a market niche nobody has quite figured out. Southeast Asia seems like a no-brainer for these kind of routes given the dominance of leisure traffic, low yields and the general reluctance of full-service carriers to expand to CEE," he said.

"At the same time, a classic low-cost point-to-point product would most likely have to overcome low demand at both points.

"Scoot's product is an interesting proposition for secondary European markets because it feeds passengers from the regional Singapore Airlines/Scoot network [onto its European flights].

"Other long-haul LCCs would be wise to learn from it and seek to add feeder services on the Asian side. For Thai AirAsia X and Bamboo it could be relatively easy serve their respective home markets with connecting itineraries." ■

## Taking a risk in underserved Central and Eastern Europe

For the carriers from Asia, the CEE market is a challenge. Although growing, it is still below par compared with Western Europe. The yields are marginal, but the region is closer to Asia and the airline environment is less competitive.

"CEE is a greatly underserved and challenging market. Demand for both inbound and outbound travel will grow, but the market is relatively low-yield, leisure-heavy for now," said analyst Sipinski.

"Asian point-of-sales bodes better for carriers than traffic from Europe. It is probably less risky for Asian carriers to add routes to CEE than for CEE to significantly expand to Asia, particularly to secondary markets,

"In particular, given the growth prospects for Poland and its geographic location of the country, a stronger presence of a North Asian airline could bring benefits in a few years, although I would not expect the routes to be immediate and substantial money-makers".

For some Asia Pacific carriers, this may be enough to have CEE on their maps.

# Vietnam's airports overwhelmed by explosive growth

With eight Vietnamese airlines holding air operator certificates and three more hopefuls applying to fly, the country's air travel boom is exerting unprecedented pressure on the country's aviation system.

Applications from the newcomers – Vinpearl Air, Vietravel Airlines and KiteAir – also are pending.

The Civil Aviation Authority of Vietnam (CAAV) said overcrowded Tan Son Nhat International Airport, which serves Ho Chi Minh City (HCMC), and Hanoi's Noi Bai, Da Nang and Nha Trang airports are facing capacity crunches.

The major domestic route, Hanoi to HCMC, served by Vietnam Airlines, Jetstar Pacific and Vietjet Air, accounts for 22.7% of air ticket sales. Ninety per cent of all flights are full, the CAAV said.

As a result, terminals and runways at Hanoi's Noi Bai and HCMC have been operating above capacity for some time.


Complicating matters is a shortage of trained staff, including air traffic controllers.

Adding to operational strains is the poaching of MRO engineers and pilots between competitors, a widespread practice that has forced government intervention. In a recent meeting about aviation issues, deputy prime minister, Trương Hòa Bình, was reported to have requested airlines to maintain a fair playing field to ensure their employees, including pilots, were not overworked because of understaffing.

Vietnam state media has said the staffing situation is so serious that the CAAV is curbing the delivery of new aircraft to the country's airlines, including placing short-term curbs on new entrants' fleet plans because there are not enough air traffic controllers to safely monitor the country's expanding airline network.

The registered airlines flying in Vietnam are state-owned Vietnam Airlines, joint venture Jetstar Pacific, Air Mekong, VASCO, Indochina Airlines, VietJet, Viet Star Airlines and Bamboo Airlines.

Vinpearl Air plans to operate six aircraft from next July and bring in 30 more by mid next decade. Vietravel Airlines is hoping to commence operations in October 2020 with three aircraft and expand to a fleet of eight by 2025. KiteAir, a turbo prop operator that has said it will launch services with six ATR72s in the first quarter of next year aims to operate 15 ATR72 and 12 A320/A321 family planes by December 2024.

Pressure in domestic skies has prompted existing airlines to look overseas for expansion. In Vietjet's interim half, its international passengers increased by 35%, to four million a year. Income from international routes outweighed domestic income for the first time, at 54% of revenue.

By 2030, the CAAV forecast, there will be 600 aircraft operating in Vietnam, three times as many as now. At June this year, the Vietnamese airline fleet was 197, an increase of 30% over 2018. Flag carrier, Vietnam Airlines, operated 95 aircraft and employed 1,135 pilots, of which 860 were Vietnamese, last year. It has a policy of Vietnamese first when recruiting staff. ■

## Hong Kong Airport upbeat on future despite city's civil unrest

At press time, Hong Kong International Airport (HKIA) was suffering from a slow-down in traffic as civil unrest continued into its fourth month in the Special Administrative Region (SAR) of China.

But the protests were not putting the brakes HKIA's expansion or its long-term growth forecast, the company's general manager for airport and industry collaboration, Michael Y.K.Yuen, told delegates at a September global airports conference.

In August, protestors' intemperate occupation of airport check-in and arrival halls forced cancellation of close to 1,000 flights in one long weekend during the peak summer holiday season.

But Yuen said HKIA's $18 billion expansion plans are on track for a soft opening of the airport's third runway early in the next decade as well as revamped terminals, construction of a vast shopping complex adjacent to the airport and other facilities scheduled for completion by 2024.

Traffic at the airport slumped by 12.5% year-on-year in August, the largest decline in nine years. Yuen said the September figures will record another drop in traffic although "it will not be as severe as in August", he said.

The third runway is due to open in 2022, but there will not be a significant immediate jump in HKIA air movements because the airport's two existing runways will be closed for renovation. All three runways are scheduled for full operation in 2024.

From then, available slots will jump from 68 per hour to 102. Yuen said the airport will be able to take full advantage of the seven million people living in Hong Kong and tap into the 70 million population of the Greater Pearl River Delta.

Mainland China passengers can check in, including their luggage, for their Hong Kong flights at numerous points on the Mainland before travelling by ferry or the new Hong Kong-Zhuhai-Macau bridge to HKIA.

# Grounding erodes leasing value of new MAX aircraft

**Global lessors predict new MAX aircraft will lose value after such a long grounding. Associate editor and chief correspondent, Tom Ballantyne, reports.**

When the 737 MAX jet recommences flying, it will not simply be a matter of instantly returning hundreds of the aircraft type to airlines worldwide.

Maintenance will be essential for planes that might end up spending close to a year on the ground and pilots must be trained to operate the MAX's upgraded systems. Importantly, lessors will be negotiating revised lease rates with their customers for the single aisle aircraft.

At the AIR Convention Europe 2019 in Lithuania last month, the 737 MAX crisis was a dominant subject of discussion among attending airline, MRO, airport, aircraft and engine manufacturers, finance and leasing delegates. Speakers said the un-grounding could introduce more confusion for aircraft lessors, investors and financiers invested in the type.

The list price of the MAX series ranges from US$99.7 million to $134.9 million and the market has to establish the value of the type when it is authorized to fly. "For instance, take a plane built in March 2019, which has never flown," said Deutsche Bank head of aviation debt origination/EMEA, Michael Rurik Halaby. "Supposing the aircraft is cleared to fly in March 2020. At that point, would you have an aircraft that has no flying hours, no cycles, but is one year old?"

> "Looking at the forward placement of aircraft lessors have purchased and looking only at 2019 new placements, the two-thirds of aircraft placed have been in Asia-Pacific, including China. It's a really large number that shows China is still strong and so is the Asia-Pacific"
>
> **Isabelle Floret**
> Airbus senior vice president leasing

Aerotask CEO, Rob Watts, said estimating the MAX value after the worldwide grounding is lifted would be related to the age of the plane. From an MRO perspective post lifting of restrictions, the majority of work would be hourly or cyclically driven, he said.

Even if this was so, some checks on the aircraft will be needed and value will be reduced by the required maintenance. Before the MAX can return to the skies, some refresher check-ups on the aircraft will be essential. An even bigger issue, Watts said, was related to estimating the pricing of the MAX post-grounding. The current price of an aircraft is based on the history of aircraft transactions, but there are no MAXs being transacted at the moment.

International Airfinance Corporation head of asset management, Marian Pistik, said from an investor's perspective the MAX is "permanently impaired" from the value it would have if it was a new aircraft that went into service. Grounded MAXs can suffer from component deterioration. As the aircraft return to service the quality of their storage or the weather conditions in which they were parked would influence their value. In addition to a year of the aircraft's life being wasted, there would be "significant expense" in bringing the airplane to clients' expected condition. "It is not clear who will face this significant expense," Pistik said.

These issues are a major challenge for lessors, who are significant MAX customers. About one third of the 400 plus delivered MAXs are leased and hundreds of orders for the type are earmarked for lessors.

For example, Chinese-owned BOC Aviation Limited has 87 MAX jets on order. It was scheduled to accept its seventh plane when the grounding was ordered in March. China Aircraft Leasing Group Holdings (CALC), controlled by the state-owned China Everbright Group, was due to receive the first of 100 MAXs by September. It had ordered 50 of the planes, at the list price of US$5.8 billion. The Hong Kong-based lessor added 50 more MAXs to its order book, with 50 options, last December.

SMBC Aviation Capital, formerly RBS Aviation Capital and now owned by a Japanese consortium, including Sumitomo, has 30 MAXs on order. Dublin-headquartered lessor, Avolon, controlled by China's Bohai Leasing, has firm orders for 55 MAXs with options for 20. Goshawk Aviation, an affiliate of Hong Kong's New World conglomerate has 26 MAXs in its portfolio of 221 airplanes. It is scheduled to commence deliveries of 20 more from 2023.

After the grounding, airlines began asking for one year extensions on lease agreements for aircraft due to be replaced by the MAX. As the grounding dragged on, they sought to extend the agreements for another six months, a strategy largely resisted by lessors.

In a telephone interview from Beijing with Orient Aviation last month, Boeing Commercial Airplanes vice president marketing, Randy Tinseth, said the bread and butter of leasing customers is single-aisle A320s and 737s.

"Clearly, there has been an impact. Without question. We are going to have to work through it with customers and the leasing arms, but we will. When the aircraft returns to service, we will have a big backlog of airplanes that have been built. We have a lot of work ahead of us. First and foremost, we are focused on the airplane safely being returned to service. We are working with the regulatory agencies on that," he said.

None of the above has been of great benefit to Airbus. Airbus senior vice president leasing, Isabelle Floret, told Orient Aviation last month that "as far as Airbus is concerned the unfortunate situation does not really serve us because we don't have any short-term capacity".

"I don't think there has been a single transaction for the MAX since the grounding. If you need capacity the options are to ask lessors what they have available, try to renew or extend your lease or attempt to secure some of the capacity the lessor has," she said.

On the broader leasing front, Tinseth is more than bullish about the future of the business, particularly for single-aisle planes. "When you look at the single-aisle market, which has become the backbone of the world's fleet - 75% of deliveries in the next 20 years are for single-aisle airplanes – it is a good place to be," he said.

"Leasing customers will tell you they are a little disappointed there are so many leasing companies today. Having said that, the returns have been strong and the assets are worth the investment. That's a good thing."

In the Asia-Pacific, especially in some emerging economies, leasing companies have played a major role in the aircraft sale and leaseback market. "The airline buys the airplane and then a leasing company buys that airplane and leases it back to them. We have seen that practice in many of the low-cost carriers that have been expanding in past years. It has been an important mechanism for expansion," said Tinseth.

"Malaysia, Indonesia and India are the big sale and lease back markets. When you look at what is happening in the lease back market and the speculative leasing market, leasing customers are coming close to controlling almost half of the world's single-aisle airplane fleet.

"They love the single-aisle airplanes. When you talk about movement, they are easy to reconfigure and not a huge cost like wide-bodies. They are ubiquitous. They can go anywhere.

"If you are having a challenge, such as India right now, you can reconfigure those airplanes and, if necessary, move them. I find India interesting [following the collapse of Jet Airways] because most of Jet's aircraft are staying right there in the Indian market. They are just moving across the runway. That's important. It is why lessors like those single-aisle airplanes."

Leasing rates appear to be relatively stable. "I was at a finance conference in New York recently that was all about leasing customers and companies and

***'Another benefit of the Asia-Pacific – and Hong Kong – is access to a vibrant debt and capital market. Our strategy is to continue to diversify our funding base. Proximity to new lenders such as financial institutions from China and Singapore are critical to developing these relationships and enhancing market knowledge. Similarly, we are now closer to local investors interested in aircraft as a new asset class'***

SMBC Aviation Capital senior vice president and regional manager airline marketing Asia-Pacific, Nicolas Clouet

## Regional aircraft lessors increase market share in Asia-Pacific

TrueNoord CEO, Anne-Bart Tieleman told Orient Aviation: "We have added some well-known and successful airlines to our leased aircraft portfolio like Wings Air in Indonesia and Mandarin Airways." Earlier this year, the lessor established an office in Singapore.

"We are closely watching the China-U.S. trade war and the unstable situation in Hong Kong. In the Asia-Pacific, several markets stand out with the focus recently shifting to regional aircraft manufactured in China," he said.

"In India there have been large turboprop orders on the back of the government's incentive scheme. Collectively, the ASEAN countries are developing their regional fleets to connect remote internal destinations and dramatically improve travel opportunities for island populations.

"There are large numbers of ATRs and Q400s operating in India, Japan, Indonesia, Malaysia and Philippines. South Asia, in particular, appears perfectly suited to turboprop operations with its remote destinations and short runways.

"Japan, China, South Korea, Australia and the Pacific islands have proved to be ideal areas for regional jet operations. The introduction of the Embraer E2 and the A220 have encouraged many airlines to look at these modern, low seat and trip cost planes as alternatives to narrow-bodies.

"If we add the Spacejet, to be introduced next year, the Q400 program under the de Havilland Canada brand and the development of ATR aircraft, TrueNoord can look forward to a dynamic future meeting the demands for leased regional aircraft right across this flourishing aviation sector."

## ASIA-PACIFIC AIRCRAFT LEASING: AN UPDATE

> It's difficult with the MAX grounded, but in general the single-aisle market is under supplied. For the next few years we are oversold and Airbus is oversold. The only way for customers to acquire airplanes is through the leasing channel. To some extent, this is a very good opportunity for our leasing customers

**Randy Tinseth**
Boeing Commercial Airplanes vice president marketing

I guess when we take a look at the blue books single-aisles have been relatively constant. We have seen some downward pressure on wide-body rates. That was fairly consistently reported and it is something we are seeing in the market as well," said Tinseth.

Floret said the leasing market is a brilliant market and has been for a couple of years. "We can see the trend continuing. As you know, the two-way true indication of the lessor is either through a specific order or through sale and lease back," she said.

"There is a lot of cheap money and our product is a good asset, a good liquid asset and investment and that is why there is good competition to finance our product. At the end of the day, it's good for the airline because they have access to a competition between the sources of finance."

Said Floret: "Sale and leaseback is a good market. There are a lot of players and we can say the lessors are providing the major source of aircraft financing these days. If you want some numbers, last year 62% of all our deliveries were financed by lessors, either through direct order or through sale and leaseback. It's a good market and a competitive market."

Nevertheless, Floret said Airbus was disciplined in its approach. "A lot of investors like the return of investing in aircraft," she said.

"It is still a very good investment. In terms of speculative orders, we are trying to be disciplined in regard to the number of aircraft we sell to the lessor because you don't want to oversupply the lessor channel. You don't want to create too much competition that will eventually drive down the asset value.

"But the sale and leaseback market is an open market. We can't control that. As long as the aircraft are perceived as a good investment, we expect there will be a lot of people willing to invest and bid for airline business."

SMBC Asia-Pacific senior vice president and regional manager airline marketing, Asia-Pacific, Nicolas Clouet, said the Asia-Pacific was the lessor's largest market with 44% of its portfolio leased to airlines in the region.

"We have had a presence in the region for more than a decade but we made a strategic decision last year to establish a Hong Kong operation," he said. "The new tax regime for aircraft leasing in Hong Kong also created a greater interest in the leasing community to develop a presence in Hong Kong. This may lead to more competition in the Asia-Pacific."

Clouet told Orient Aviation the regional long-term market is "certainly positive" but there are concerns beyond the cyclical nature of the industry including the economic unease caused by the U.S. driven trade wars.

"China will remain a regional driver, supported by domestic demand, and regional tensions should not affect our positive perspective on South Korea, Taiwan and Japan. India presents challenges, but we expect the business environment to improve as we continue to work with local legacy customers," he said.

A spokeswoman for novice lessor, AviaAM Financial Leasing China, a joint venture established with Henan Civil Aviation and Development Company in 2016, told Orient Aviation its goal was to add 10 aircraft a year to its leasing portfolio until its fleet reached at least 50 planes available for lease in China and across the Asia-Pacific.

"Because of the competitive environment of Mainland aircraft leasing, we are diversifying into other assets, including rail cars, flight simulators, valuable equipment leasing and a partnership with the biggest bus company in China, Yutong Bus." the company said.

"We constantly try to identify niche players or promising airlines. For Okay Airlines, the partnership developed because the airline needed new aircraft as soon as possible. We were able to deliver in a short time because we are a young company and more flexible than the big leasing companies that are dominant in China." ■

## AIRLINE MRO & COMPONENTS

### Myanmar National Airlines opts for Boeing aviation services

**Boeing Asia-Pacific Aviation Services Pte Ltd (BAPAS)**, a joint venture between **Boeing** and the **SIA Engineering Company**, has won the contract to supply parts and logistic support for **Myanmar National Airlines** next generation 737 fleet. The fleet materials solution deal is BAPAS's first with a customer outside Singapore, the company said.

BAPAS offers the Boeing global fleet care suite of engineering, parts and maintenance solutions for the manufacturer's 737s, 747s and 787s. At August 31, it supported 100 Boeing aircraft.

**BAPAS CEO, Michael Doellefeld**, said the projected growth of the Asia-Pacific outpaced the rest of the globe. BAPAS "was ready to support the region's airlines offering unprecedented lifecycle solutions that make us a trusted partner for airline services in the region".

**CEO of the Myanmar flag carrier, Than Tun**, is confident the carrier, with its 70-year heritage, "could maximize the value we receive from our 737 fleet as we continue to expand". ■

### Airbus and Alibaba develop China Skywise data centre

In Hangzhou last month, **Airbus Skywise** and **Alibaba Cloud** agreed to jointly establish a Skywise Data Centre to provide tailored data solutions for Chinese domestic airlines. It also will offer carriers the data compliance features and tools necessary for Mainland airline customers to join the Skywise platform.

Alibaba Cloud is the data intelligence backbone of the Alibaba Group. Skywise is the Airbus-owned open data integration platform that uses digital content to reduce operating costs at airlines.

To date in 2019, Skywise has provided advanced analytics services to Chinese carriers Spring Airlines, Yunnan Hongtu Airlines and Zheijiang Airlines. The data company has 90 airline customers. ■

### AFI KLM E&M collaborate with Indonesia's GMF

European-headquartered global MRO, **AFI KLM E&M**, has formed a partnership with Indonesian MRO, **Garuda Maintenance Facility (GMF)**, for component support on **Garuda Indonesia's** 24 A330s. The collaboration, announced last month, will require AFI KLM E&M to provide repair and parts pooling services and training enhancement solutions for GMF's expanding operations.

The **executive vice president of the European-headquartered MRO, Anne Brachet**, said at the signing agreement the company was committed to assisting the flag carrier with developing GMF's in-house capabilities. ■

### Magnetic MRO opens in Kuala Lumpur

**Magnetic MRO**, a global provider of Total Technical Care for aircraft operators and lessors, has established a representative office in Kuala Lumpur.

"The Asia-Pacific is the world's fastest growing market for aircraft fleets and MRO. With well-established European operations and being present in the Chinese MRO market, it was a natural decision to develop in yet another direction, to Southeast Asia," **Magnetic MRO chief commercial officer, Inga Douglas**, said.

Focused on Total Technical Care, Magnetic MRO plans to expand services offered to its regional customers to include line maintenance, engine and asset management, aircraft teardown, aircraft transition management, PBH programs and other products.

"We also might consider launching heavy maintenance or aircraft painting facilities in the region, either on our own or with local partners," the CCO said. Magnetic MRO operates worldwide, including Dubai and Guangzhou in China. ■

### IATA launches platform to encourage fairer MRO parts pricing

The **International Air Transport Association (IATA)** has unveiled its **MRO SmartHub**, an online tool intended to bring transparency to the airline component and parts sector.

The association said the MRO market has an annual estimated value of US$81.9 billion. SmartHub is expected to reduce airline expenditure on parts by 10%-15%.

"SmartHub will allow subscribing airlines and MRO providers to transparently list items to buy or sell on the new platform and will reduce over-payments by making the assessment of fair market value more accurate", IATA said.

The solution also will:

- enable the accurate evaluation of parts inventories at any point in time
- increase confidence in planning, procuring or selling of aircraft components
- Facilitate better decisions about the choice and procurement of parts and components
- enhance trust between buyers and vendors

**IATA senior vice president flight and safety operations, Gilberto Lopez Meyer**, said: "This is a major modernisation that will lead to significant and much needed cost savings for airlines.

"The market really needs this. It will rebalance the aviation value chain."

Until now, there has been no single central reference for the value of surplus parts or upfront visibility of a part's cost or timely availability, IATA said.

"This leads to higher costs by making it challenging to accurately valuate inventories, resell surplus materials and calculate the costs and timing of repairs," the association said. ■

## LEASING

### Tokyo Century takes control of Aviation Capital Group

**Pacific Life Insurance Company** has agreed **Tokyo Century Corporation** will acquire all of the insurance group's outstanding holdings in U.S. lessor, **Aviation Capital Group (ACG)**. The transaction is expected to be finalised by December. The Japanese company bought 20% of ACG from Pacific Life in 2017 and has since increased its holding to 24.5%.

**ACG president and CEO, Khanh T. Tran**, said: "Tokyo Century has been a valuable partner since 2017. This acquisition of the remainder of ACG demonstrates a commitment to the growth and success of the platform and the aircraft leasing industry."

ACG was established in 1989 and had been majority-owned by the Pacific Life Insurance Company until Tokyo Century's investment in the lessor. At June 30, the full service aircraft asset manager had approximately 500 owned, managed and committed aircraft in its portfolio leased to 90 airlines worldwide.

Tokyo Century is listed on the Tokyo Stock Exchange. Its core business lines are equipment leasing, mobility and fleet management and speciality financing. ■

### AerCap sells more aircraft to Saudi bank subsidiary

Dublin-based lessor, **AerCap**, is selling a 19-aircraft portfolio to an Irish company, **Dara Aviation**, which is owned by **NCB Capital**. NCB Capital has US$40 million in assets under management and is the brokerage arm of Saudi Arabia's largest bank, the **National Commercial Bank**.

AerCap said the 19 airplanes would be a mix of narrow and wide body aircraft. Dara has appointed AerCap to provide lease management services for the portfolio that will include aircraft technical management, lease administration and marketing.

**AerCap CEO, Aengus Kelly**, said: "with this sale, AerCap will have sold or contracted to sell approximately US$1.4 billion in mid-life assets to NCB since 2017."

Two years ago, NCB Capital acquired its

first aircraft portfolio from AerCap, a fleet of 21 planes that AerCap also is servicing for the Saudi company. At mid-year, AerCap had a portfolio 1, 373 owned, managed or on order aircraft, valued at $43.1 billion. ■

## ASIA-PACIFIC AIR TRAFFIC MANAGEMENT

### Travelport works with SIA to deliver KrisConnect

Travel technology company, **Travelport**, has unveiled its NDC implementation road map for the next stage of Singapore Airlines' (SIA) KrisConnect program.

Travelport has been working with the carrier to introduce NDC enabled content to KrisConnect, the airline's booking and sales solution, by April next year. The solution for airlines and passengers will be tested with agency pilot groups in coming months.

**Travelport global vice president and global head of air travel partners, Damian Hickey**, said: "As one of the first Asian airlines to begin exploring New Distribution Capabilities (NDC), we are very pleased to be working hand-in-hand with SIA since the start of its journey.

"Close collaboration with the agency community is crucial to the smooth delivery of a complex process like NDC. We will continue to partner with SIA and the wider travel industry to deliver travellers an elevated, personalised booking experience." ■

### SITAONAIR and Singapore to explore space-based VHF

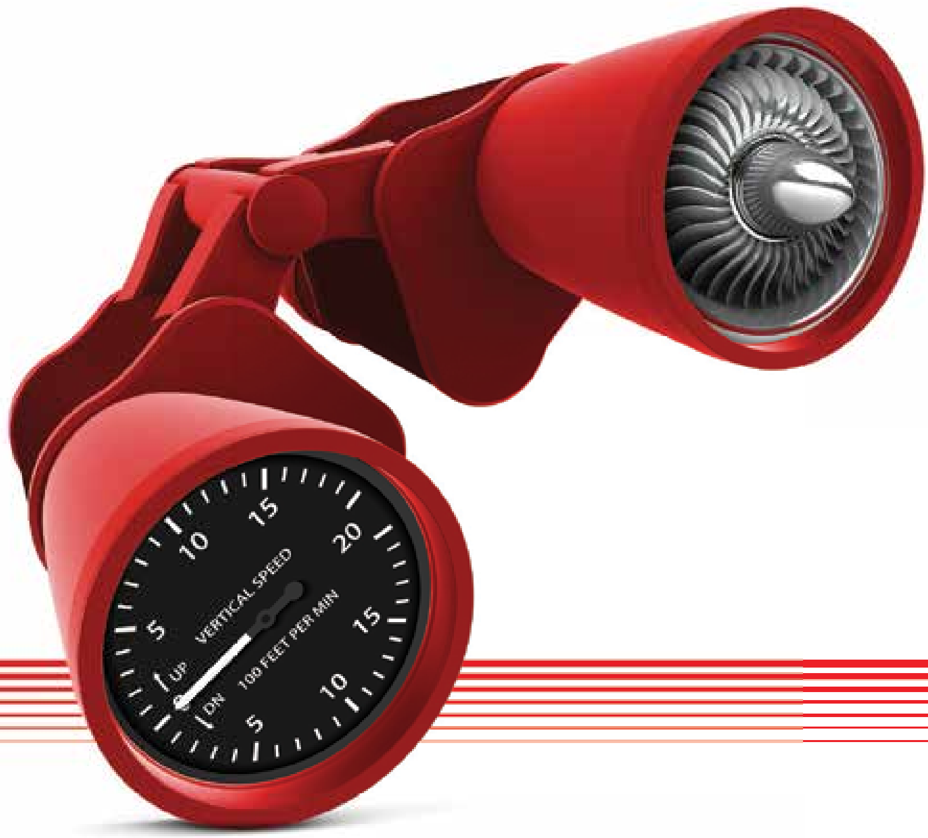
The **Civil Aviation Authority of Singapore (CAAS)** and communications company, **SITAONAIR**, signed a Memorandum of Understanding last month to determine the potential of the world's first space-based Very High Frequency (VHF) solution.

The voice service would be VHF radio relayed installed onboard satellites that would offer direct controller to pilot communications in geographically remote areas such as Oceania, where it is too costly to install terrestrial high frequency and VHF services.

The MoU adds to the work being done by CAAS and the Singapore Flight Information Region, which is focused on medium and low earth orbit satellites used for voice, and where possible, data communications, said CAAS.

"These are key steps in our efforts to improve air traffic management with cutting edge technologies. We were excited to launch this within the Singapore FIR," **CAAS director general, Kevin Shum**, said.

"The addition of SITAONAIR industry and air traffic communications expertise allows CAAS to strengthen our research and continue to innovate." ■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