Orient aviation

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HIGHER FARES, LONGER QUEUES

coming soon to
Asia-Pacific air travellers in
the post pandemic world

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More pain
for conflicted
AirAsia India

Region's leading lessor
cashed up to cope with
airline fallout

Social distancing's
economic impact
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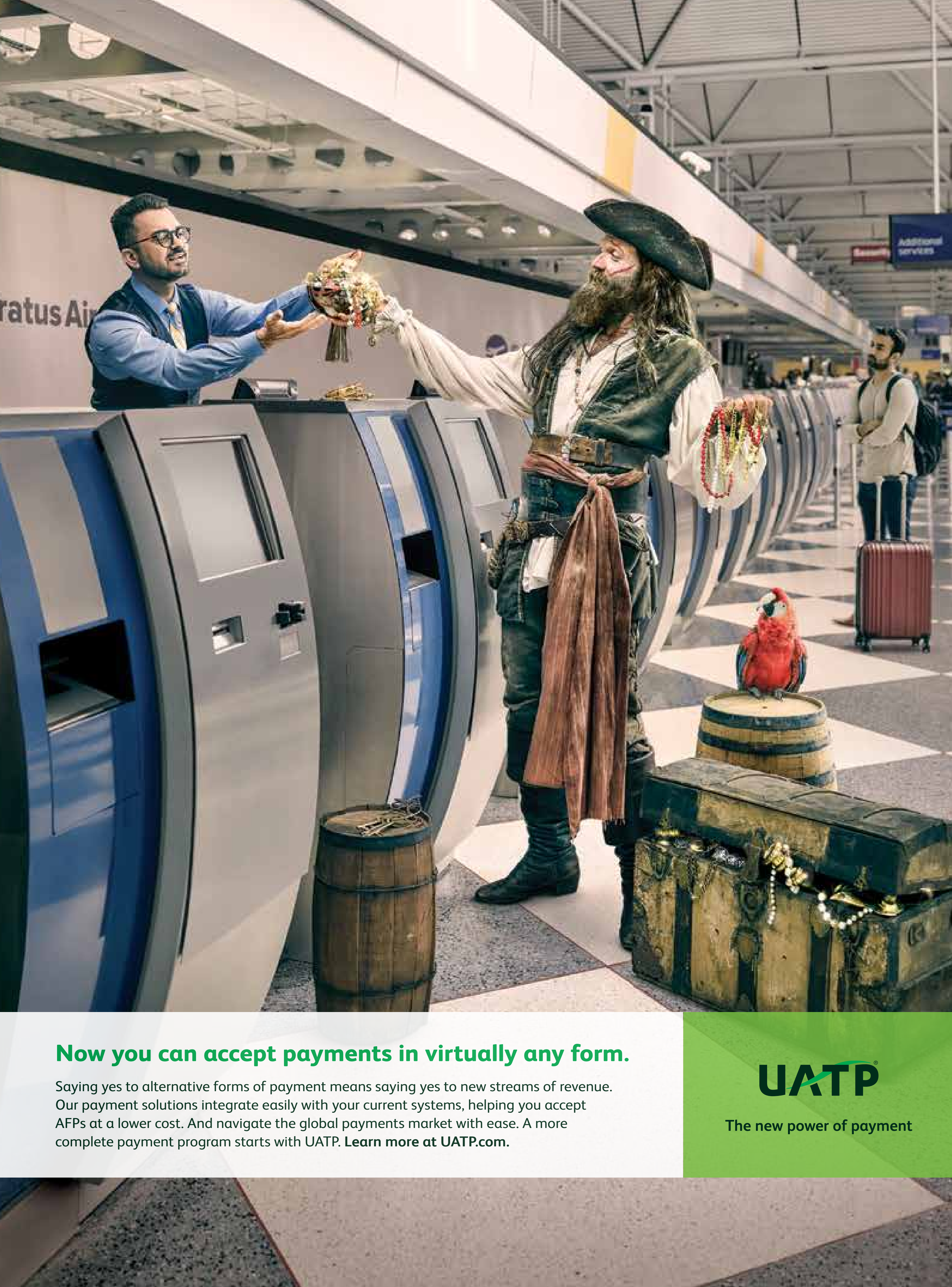
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COMMENT

Long slog to better times

It is going to be a long haul. That has become certain as the devastating damage of the COVID-19 pandemic being done to the global aviation industry and economy becomes evident.

February and March were bad. April and May are forecast to be worse. Not only are Asia-Pacific airline fleets and those elsewhere in the world grounded, airports are closing terminals and runways and aircraft manufacturers are cutting production rates by a minimum of 30%. And they had no choice.

Many of their thousands of suppliers have closed shop, unable to supply the required parts to build jets. All are furloughing thousands of staff. Asia-Pacific LCCs, which have ordered hundreds of single-aisle jets, are likely to be among the major casualties of the virus outbreak.

Their ambitious expansion plans, for the time being at least, are in tatters because any hope of a speedy V-shaped recovery appears gone. Predictions of some sort of return to normal by June or July for the industry are being treated as remote.

And even when the first shoots of recovery emerge and airlines are allowed to put aircraft back in the sky there are additional problems to overcome. An International Air Transport Association survey indicates a major challenge will be convincing travellers flying is safe and they can get back on board.

Another issue will be making flights economically viable when load factors are lowered by new rules on distancing in the air and on the ground. Many airline chief executives, such as the heads of Emirates Airline and Etihad Airways, are talking about no proper recovery until 2023.

They and others make the point that without more government financial aid most of the world's carriers will be insolvent and facing bankruptcy by year-end. If there is a positive to come out all of this could it be a more rational airline industry?

There will still be competition, but perhaps fewer airlines and more rational competition. In an industry where about 30 carriers from the hundreds of operators flying are truly profitable perhaps we will see more rational pricing policies and greater determination to have the liquidity available to survive during future crises.

If nothing else, the disastrous impact of COVID-19 should be a wake-up call for an industry that has spent years inflicting damage on itself through irrational practices, uncontrolled pricing policies, fare wars and over-capacity. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

Global pandemic to increase pain for AirAsia India?

Airline analysts, observers and industry executives argue some airlines in India – Air Asia India (AAI) and Go Air in particular - are likely to be shakier than others post the COVID-19 outbreak.

In 2013, when the joint venture between AirAsia Group's investment arm, AirAsia Investment Limited, and Tata Group was proposed, it appeared to have all the ingredients for success. The low-fare airline concept – both globally and in India - was a known animal. It had the backing of AirAsia Group co-founder, Tony Fernandes, and the wealth of experience the Malaysian-headquartered LCC company brought with it.

Almost all the systems, protocols and procedures of the parent were adopted for AirAsia India. Oil prices were at a low and were continuing to fall.

For Fernandes, who had steadily expanded his airline group's presence with joint ventures in Thailand, Indonesia, Japan and Philippines, India was an obvious gap to be filled.

For Tata Group scion, Ratan Tata, an aviation enthusiast, it was a space he'd been looking to enter since 1996.

Yet sometimes the best-laid plans go awry. In the case of AirAsia India, it began with a politician and lawyer in India, Subramanian Swamy, who took to the courts to argue the licence of the joint venture (JV) was invalid. He said the country's Foreign Direct Investment (FDI) rules allowed investment in "existing" Indian carriers and not the establishment of a new carrier, a matter that has since been resolved.

Additionally, and soon after the LCC's launch, the JV was accused of violating regulatory laws. Indian FDI rules stipulate both "substantial ownership" and "effective control" [of companies] must rest in Indian hands, a rule ignored by the airline from its first flights, from its Bangalore base, in June 2014.

As early as February 2013, an email written by group legal counsel for Tata Sons, Bharat Vasani, had raised concerns about "effective" control of the JV and potential non-compliance with Indian regulatory laws.

Vasani raised more alarm bells about the JV's modus operandi by querying the LCC's aircraft leases rates and related party transactions [at the carrier]. He alleged they were being approved without "reviewing details or verifying commercial terms".

This situation persisted until November 2018, when Tata was forced to increase its holding in the airline and bring on board its own nominee, Sunil Bhaskaran, to run the airline.

By 2016-2017, the attention of the Central Bureau of Investigation (CBI) and Enforcement Directorate had been drawn to the workings and alleged financial misdoings of AirAsia India.

It was alleged there were many related party transactions and money in excess of commercial terms dictated appearing to be paid to lessors chosen by the AirAsia Group.

The airline also was alleged to be in violation of tax regulations. A demand notice has been issued against the company that is pending.

Secondly, the airline hired agents to help "convince" the government to modify the 5/20 rule that only allowed new carriers in India to enter the overseas market if they had been flying for five years or had a minimum fleet of 20 aircraft.

These "agents" were essentially lobbyists like Deepak Talwar who had been instrumental in influencing government policy through various means that included liberal handouts of bilaterals, a matter also under investigation.

What was worse for the LCC was that Fernandes brought in two underwhelming CEOs. Both of them proved to be less than capable of running a low-fare airline business.

Neither of them had much experience in running airlines nor were they familiar with the Indian environment and its dynamics.

The first CEO was ousted and revealed to be involved in financial wrongdoing at a personal level. The second was found in a compromising situation with a female colleague.

The inexperience of both CEOs was revealed in almost every decision they took or failed to take.

The airline changed its hub even before it started operations. Routes were haphazardly chosen and abruptly suspended. Launch CEO, Mithu Chandliya, announced ambitious expansion plans that failed to materialize.

Losses totted up quickly. Towards the end of 2019, the airline's auditors revealed reservations about the JV as a going concern because of accumulated losses for the year ended 2018-2019 of Rs 1284 crore against share capital of Rs 534 crore. The company's current liabilities exceed current assets by Rs 962 crore.

Trouble escalated at the carrier in January when AirAsia Group senior executives, including Fernandes, were summoned by India's investigative agency, Enforcement Directorate, in connection with the 5/20 rule and other regulatory violations. Fernandes failed to show up.

Many feel the AirAsia India JV venture has been "one long embarrassment" for its Indian partner. Sources have said the Tata Sons board has contemplated shutting down the LCC to protect the conglomerate from reputational and monetary damage.

It was against this backdrop that COVID-19 happened. Whether Tatas decide to continue with this unhappy relationship or wriggle out of it remains to be seen. Answers will be clearer once the skies open up again. ***By Anjuli Bhargava.*** ■

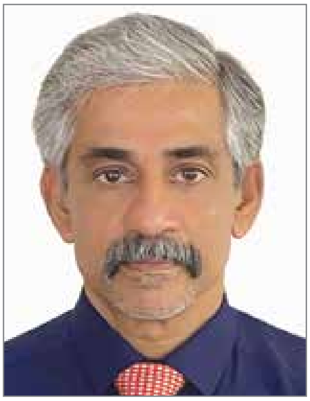
In at the deep end for new Association of Asia Pacific Airlines boss

Spare a thought for Subhas Menon. When the 35-year veteran from Singapore Airlines (SIA) accepted the director generalship of the Association of Asia Pacific Airlines (AAPA) he was not to know he would be taking charge in the midst of the worst crisis in aviation's history.

He is not even able to confront the challenges of his new job from the airline association's Kuala Lumpur headquarters. As a foreigner, Singaporean Menon had to leave Malaysia and return to Singapore where he is now working from home.

"It has been a baptism of fire. Nevertheless, I think sometimes you might as well jump in the deep end," he told Orient Aviation last month. "I would not say a crisis was good, but a crisis focuses the mind. Everybody is acting in concert to survive it. The learning curve is very sharp. If we can get through this, we will come out of it in better shape."

Menon is certainly well qualified to lead the AAPA at this time. A graduate of the National University of Singapore, with a bachelor of social science (honours) in sociology, he has worked in a wide spectrum of roles at SIA, including international and government relations, marketing, product



development, logistics, country and regional management as well as a spell as chief executive of SilkAir.

Menon said no one is talking about failure, only about survival of the crisis. "What is unique about COVID-19 is the nature of the spread and its duration are unknown. At the moment, we have to operate on the premise it is going to take a bit of time to abate. And even if it does, the recovery will be sporadic and slow," he said.

The priority for airlines is to earn as much income as possible and conserve cash, Menon said. "They are operating some air cargo flights. They are doing some repatriation flights to bring home stranded passengers. It's not much, but every little bit helps," he said.

"They have relief from governments on taxes, fees and charges, are in discussions with manufacturers about deferrals and delays and are in talks with their banks and their governments for lifelines. Airlines are very busy in survival mode."

The AAPA has strongly criticized governments' travel restrictions, but Menon understood the reasoning behind them. "Travel restrictions were imposed because governments were nervous about imported cases, which were on the rise in most countries, so they put the travel restrictions in place," he said.

"Hopefully, they will buy time for governments to make sure their public health systems and facilities are up to scratch in case there is another spike in the virus."

Surprisingly, Menon agreed governments have facilitated aircraft operations, provided relief from slot use rules for airlines and exempted them from licensing certification and regulations.

"They have done this in a timely manner. Of course, we want to see all these things being established with ICAO (International Civil Aviation Organization) so there is visibility and transparency for airlines to plan their operations. But otherwise, they have been very helpful," he said.

One challenge airlines are likely to face during recovery will be new regulations, possibly including leaving an empty seat between passengers. Menon is not sure if this is based on scientific advice because people are not contracting the virus on aircraft.

"They are contracting the virus elsewhere. Airlines are just taking them to their destinations. Mitigation measures on which governments are going to agree should be upstream in the passenger travel process. In other words, before they board the plane. That is crucial," he said.

"Secondly, the measures must be based on medical advice. Whatever mitigation measures they decide must be scientifically based and on the advice of public health professionals like the World Health Organisation (WHO).

"Thirdly, they must be harmonized, coordinated and coherent. They must make sense. They should reassure travellers their journeys are safeguarded. Fourthly, they must be practical and easy to implement, be user friendly and preferably available on mobile devices so the passenger is not encumbered."

By associate editor and chief correspondent, Tom Ballantye. ■

Fall from grace of former Garuda Indonesia boss Emirsyah Satar

Fined US$1.4 million and sentenced to eight years in prison.

Former Garuda Indonesia president, Emirsyah Satar, was deciding at press time if he would appeal against an eight-year prison sentence and US$1.4 million in fines after he was convicted of bribery and money laundering by Indonesia's Corruption Eradication Commission on May 8.

Satar led the carrier group from 2005 to 2014 and had previously denied the charges.

Also convicted and sentenced to prison terms were Garuda's engineering and management director, Hadinoto Soedigno, Garuda executive project manager, Agus Wahjudo, and Soetikno Soedarjo, a former president director of one of Indonesia's largest retail conglomerates.

Prosecutors had asked for a 12-year sentence for the former Garuda boss, but the judgment took into account Satar's successful efforts in rebuilding the flag carrier's international reputation during his leadership tenure.

The bribes were related to the Garuda Indonesia group's acquisition of Rolls-Royce Trent 700 engines and A320 and A330 airplanes.

Rolls-Royce has paid US$800 million in fines in the U.S. and Britain in settlement of charges of alleged bribery in several countries, including nations in the Asia-Pacific.

Earlier this year, Airbus paid US$4 million in fines to U.S., UK and French authorities to settle an alleged bribery for aircraft sales prosecution. ■

HIGHER FARES AND LONGER QUEUES BEYOND COVID-19

Asia-Pacific aviation's recovery from the catastrophic COVID-19 pandemic could well last into 2023 if the most cautious of the industry's forecasts prove true. The rehabilitation will be just as painful as the pandemic for industry sectors from lessors to manufacturers who are convinced over-extended carriers in the region will fatally falter. Associate editor and chief correspondent, Tom Ballantyne, reports.

Returning the region's airline fleets to the sky after travel restrictions are lifted may be the easy part for the industry post COVID-19. Convincing travellers to fly on those airlines will be quite another matter, research conducted by the International Air Transport Association (IATA) in April revealed.

Its survey of 11 of the world's largest domestic aviation markets, including the Asia-Pacific, found about 40% of people aimed to wait for at least six months after lockdowns were lifted before flying again. Another 47% would wait at least a month or two. Only 14% said they would get straight back on board.

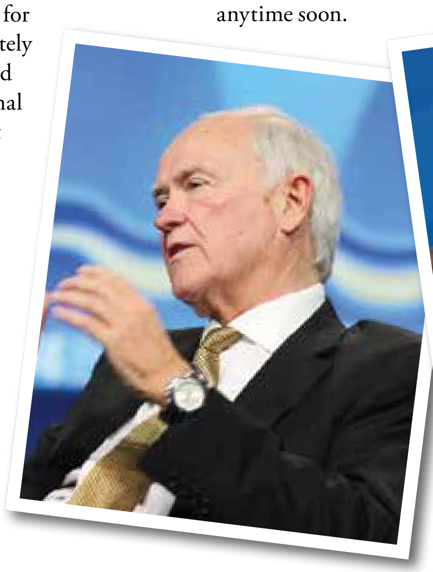
Fear of the virus is not the only reason for the sentiments of respondents. Approximately 69% of those surveyed indicated they could delay returning to the air until their personal financial situation stabilizes, a pattern that may particularly apply to business travel, given the impact of border shutdowns and severe losses on the global economy.

"The economic conditions will still be damaging passenger confidence in the third quarter," said IATA chief economist, Brian Pearce. "The economic environment we are expecting in the next six months is not conducive to any substantial return to air travel, for financial reasons."

A majority of airline chiefs believe recovery will take much longer than a half year. Among them are Emirates Airline president, Sir Tim Clark, and Etihad Airways Group CEO, Tony Douglas.

In a video conference hosted by the UAE-U.S. Business Council last month Clark and Douglas warned it could take to 2023 for passenger demand to recover to pre-crisis levels. They believed 85% of the world's airlines were at risk of insolvency and in danger of going bankrupt before year-end unless they had state support.

At the turn of the month, Qantas Group CEO, Alan Joyce, said, "Australia has done an amazing job in flattening the curve and we are optimistic domestic travel will start returning earlier than first thought, but we clearly won't be back to pre-coronavirus levels anytime soon.



"With the possible exception of New Zealand, international travel demand could take years to return to what it was.

"We are expecting demand recovery to be gradual and it will be some time before total demand reaches pre-crisis levels," he said.

Thailand's prime minister, Prayuth Chan-ocha, has announced the government would support a "last chance" rescue package for Thai Airways International that would involve job losses and a radical restructuring of the carrier group.

"This is an enterprise we have to rehabilitate. It is the last chance to manage the issue so it does not get worse," he said early this month.

U.S. global consultancy, ICF International, said last month its most recent survey among senior and mid-level executives worldwide, completed in early April, indicated greater scrutiny will be placed on the health and sanitary conditions of individual countries that could impact air service and passenger demand.

"As to how long business activity will remain depressed, nearly 50% of respondents expected the slowdown to last three to four months and others up to one year. Equally, nearly half of respondents expected the recovery take up to two years. Just over one-third of respondents anticipate activity will return to pre-crisis levels within a year," the consultancy said.

ICF itself predicted recovery will be significantly longer than the respondents' expectations, including as much as 60% of the respondents in Asia. It's analysts believe there will be a return to pre-COVID-19 levels of business activity in less than 12 months. "This is related to the relative success many Far East countries have had in containing the pandemic, with countries like South Korea and China slowly returning to work," it said.

These mixed predictions were underscored by IATA's latest traffic statistics, for March, which showed passenger demand had plunged 52.9% compared with a year earlier which was the largest decline in air traffic in recent history.

"March was a disastrous month for aviation. Airlines progressively felt the growing impact of COVID-19 related border closings and restrictions on mobility, including in domestic markets," said IATA director general and CEO, Alexandre de Juniac.

"Demand was at the same level it was in 2006, but we have the fleets and employees for double that. Worse, we know the situation has deteriorated even more in April. Most signs point to a slow recovery."

March international passenger demand shrank 55.8% compared with March 2019, much worse than the 10.3% year-to-year decline in February. Asia-Pacific airlines were hardest hit, seeing March traffic drop 65.5% compared with 12 months earlier and more than double the 30.7% decline in February.

Chinese airlines continued to see the steepest declines, with domestic demand down 65.5% in March against March 2019. But the numbers were an improvement over the 85% year-to-year decline in February after the country began restarting domestic air travel. Japan's airlines recorded a 55.8% year-over-year decline in domestic RPKs, despite not implementing any widespread lockdown.

To address passenger concerns about contracting COVID-19 onboard, IATA is supporting the wearing of "face coverings" for passengers and crew inflight "as a critical part of a layered approach to biosecurity to be implemented temporarily when people return to travelling by air".

"Evidence suggests the risk of transmission on board aircraft is low. Mask-wearing by passengers and crew will reduce the already low risk, while avoiding the dramatic cost increase to air travel onboard social distancing measures would bring," it said.

From January to March this year, IATA said an informal survey it conducted identified three episodes of suspected inflight transmission of COVID-19, all from passengers to crew and no incidences of passenger to passenger transmission.

A more detailed IATA study of 1,100 passengers confirmed with COVID-19 after travelling, also conducted from January to March this year, revealed no secondary transmissions among the more than 100,000 travelers on the flights. Two possible cases were diagnosed among crew members.

For airlines and airports in particular, there is a solid basis to the fear a resumption of operation will lead to losses rather than a return to viability because of talk of social distancing or the empty middle seat requirement.

"Either you [airlines] fly at the same price as before and you lose an enormous amount of money, so it's impossible

Temporary biosecurity measures for passengers and crew

* Temperature screening of passengers and airport workers
* Boarding and deplaning processes that reduce contact with other passengers and crew
* Limiting movement in cabins during flights
* More frequent and deeper cabin cleaning
* Simplified catering procedures that lower crew movement and interaction with passengers
* Longer term, but also as a temporary measure, immunity passports could be accepted and COVID-19 testing introduced for aircraft travel.

for any airline to fly, or you increase the ticket price by at least 50% and then you are able to fly with a minimum profit. So if social distancing is imposed, the era of cheap travel is over," IATA's de Juniac said, and added affordable aviation is now at least partly in the hands of governments.

Expectations of these new regulations are not simply speculation. The Civil Aviation Authority of Thailand (CAAT) told airlines when they resumed domestic flights on May 1 they must adopt social distancing and disease transmission prevention by leaving empty seats in each row in cabins, require passengers to wear face masks and not serve food and drinks.

India's Central Industrial Security Force (CISF) has suggested to the country's aviation ministry "permanent" new measures for flights should require passengers to report before departure wearing protective masks and gloves and carrying 100ml sanitizers. The submission said flying with a seat vacant between every two people could be the "new normal" for air travelers and expressed interest in station "sanitizing tunnels" at airport entrances to clear passengers and employees for entry to airports.

Economic impact of social distancing on airfares*

Calls for social distancing measures on aircraft would fundamentally shift the economics of aviation by slashing the maximum load factor to 62%, well below the average industry breakeven load factor of 77%, the International Air Transport Association has calculated.

With fewer seats to sell, unit costs would rise sharply. Compared with 2019, airfares would need to increase by 43% to 54% depending on the region if they were to cover costs.

	Breakeven load factor	Average fare 2019	Average fare with social distancing	Increase in average fare
Africa and Middle East	75%	$181	$259	+43%
Asia Pacific	81%	$141	$217	+54%
Europe	79%	$135	$201	+49%
Latin America	79%	$146	$219	+50%
North America	75%	$202	$289	+43%
North Asia	76%	$135	$195	+45%

Eliminating the middle seat would mean the era of affordable travel will come to an end, IATA predicts. "On the other hand, if airlines cannot recoup the costs [of empty middle seats] from higher fares, airlines will go bust. Neither is a good option when the world will need strong connectivity to help kick-start the recovery from COVID-19's economic devastation," IATA said.

** Table provided by the International Air Transport Association. May 2020.*

In April, Emirates Airline became the first carrier to conduct trials for in-site COVID-19 testing on passengers, using properly attired staff to collect blood samples in the group Check-in area of Dubai International Airport. The blood samples results were available in 10 minutes.

"We are working on plans to scale up testing capabilities and extend testing to other flights,' said the airline's chief operating officer, Adel Al Redha.

In recognition of the challenge this imposes on airlines IATA has began work on lobbying worldwide to coordinate introduction of new regulations. It is holding regional summits with governments, industry partners and health authorities for the restart of the air transport industry.

"We think it should probably commence with domestic then immediately be followed by something like regional, continental and then move to intercontinental. That's the approach we have. It is still to be discussed and negotiated with governments," said de Juniac. "We are advocating similar measures globally to avoid a patchwork of complex and different measures."

The Governing Council of the International Civil Aviation Organization (ICAO) has established a COVID-19 Aviation Recovery Task Force to recommend strategic priorities and policies for States and industry operators. The first outcomes of its deliberations are expected by the end of this month.

Complicating matters is no one can forecast when the pandemic will end. Already, the relaxation of lockdowns and other measures that were to limit the spread of COVID-19 is happening at an uneven pace around the world. Some countries, believing they have the coronavirus under control, are easing rules while other nations are standing fast, fearing any relaxation of preventative measures could spark a second or third wave of the virus.

Airports are severely affected by the crisis. Airports Council International (ACI) Asia-Pacific has released preliminary traffic data from 18 airports in major aviation markets in region and in the Middle East that showed a year-over-year passenger traffic decline of 95% to mid-April.

Initial signals of recovery were reported from China, with a gradual resumption of its domestic traffic, and to a lesser extent, from South Korea. Like airlines, airports want a coordinated approach between governments, regulators, health authorities and aviation stakeholders to implement sustainable and effective health measures.

"Airports have been forced to make difficult operational decisions, including full or partial closure of terminals and runways and a reduction in frontline employees," said ACI Asia-Pacific director general, Stefano Baronci.

"Returning to full operational status will not happen overnight. With some signals of stabilization and efforts towards recovery cautiously starting, governments and regulators, along with the national health authorities, need to develop a coordinated approach so airports can prepare the appropriate infrastructure, facilities and processes in support of health measures, he said.

"The freedom of movement will have to co-exist with the virus, until a vaccine against COVID-19 is available at a global scale." ■

IATA outs governments shirking support for their airlines

The International Air Transport Association (IATA) has named several countries in the Asia-Pacific it believed were not doing enough to support their struggling airlines and aviation sectors.

"The situation is deteriorating," said the airline body's regional vice president Asia-Pacific, Conrad Clifford. "Airlines are in survival mode. They face a liquidity crisis with a US$61 billion cash burn in the second quarter.

"We have seen the first airline casualty in the region. There will be more if governments do not step in urgently to ensure airlines have sufficient cash flow to tide them over this period." Clifford identified India, Indonesia, Japan, Malaysia, the Philippines, the Republic of Korea, Sri Lanka and Thailand as priority countries that needed to take action.

IATA is calling for a combination of direct financial backing, loans, loan guarantees, support from the corporate bond market and tax relief. "Providing support for airlines has a broader economic implication. Jobs across many sectors will be impacted if airlines do not survive the COVID-19 crisis," he said.

"Every airline job supports another 24 in the travel and tourism value chain. In the Asia-Pacific, 11.2 million jobs are at risk, including those dependent on the aviation industry, such as travel and tourism," Clifford said.

"Airlines continue to perform an important role currently with the transport of essential goods, including medical supplies, and the repatriation of thousands of people stranded around the world by travel restrictions.

"And after the COVID-19 pandemic is contained, governments will need airlines to support the economic recovery, connect manufacturing hubs and support tourism. That's why they need to act now – and urgently – before it is too late."

Earlier in April, IATA released updated analysis showing the COVID-19 crisis will result in a global airline passenger revenue decline of US$314 billion in 2020, a 55% fall compared with 2019. The Asia-Pacific will experience the largest revenue drop of $113 billion in 2020 compared with last year. The new figures topped a forecast of $88 billion in airline losses in the region released in March.

Cashed up to cope with the COVID-19 fallout

With airline fleets worldwide grounded and around 50% of them leased, global aircraft lessors are dealing with customers fast running out of cash. BOC Aviation CEO and managing director, Robert Martin, explained the Singapore-headquartered lessor's strategy for handling the COVID-19 crisis to associate editor and chief correspondent, Tom Ballantyne.

With aircraft leased to 93 airlines in 41 countries worldwide you could be forgiven for believing the COVID-19 crisis is hitting Singapore-based BOC Aviation as hard as its cash-strapped airline customers.

But the managing director and CEO of the Bank of the China-owned lessor, Robert Martin, made it plain to Orient Aviation last month the company was cashed up and well prepared to deal with a forecast downturn.

About 75% of BOC Aviation's customers have been asking for support in various ways, Martin said, but it was far from a universal situation. "For example, the Chinese carriers have not had a liquidity problem during this crisis," he said.

"Why? Because the Chinese domestic bond market has been incredibly active for them. Mainland airlines have raised more than US$6 billion in bond funding in China's local bond market. China Eastern [Airlines] received about $3 billion. China Southern [Airlines] has done about half that. Air China has tapped it.

"Even carriers like Spring Airlines, Juneyao Airlines, Xiamen Airlines and Sichuan Airlines have tapped it, so it's not just the State carriers. A lot of people around the world have missed this completely. They don't realise China is different on this occasion because of the liquidity in that domestic bond market, which is basically Renminbi financing."

Elsewhere, Martin said, the approach to customer support is two-pronged. "Firstly, we are in this for the long-term. We have to remember we are a long-term partner for our airline customers. So we need to support them through difficult times," he said.

"Commencing from February, when we could see this coronavirus was coming through Asia, we proactively went to a number of airlines in Asia and other parts of the world and said; 'look, show us your list of unencumbered assets. We will start doing purchase and leasebacks with you'.

"So far, we have committed an extra $5 billion of capital to the markets supporting sale and leasebacks all over the world during the coronavirus period. The very first deal was here in the Asia-Pacific where we did six 777s for Cathay Pacific. It feels like a long time ago, but it was only two months ago."

For other carriers – BOC Aviation has a fleet of 316 owned and 40 managed aircraft with another 205 on order – some deferrals have been granted, generally allowing airlines to pay 50% of the rental due for three months.

"That's our standard deferral and then they pay it back in the second half of this year. We charge them interest obviously for the deferral," he said.

The lessor puts airlines into three different categories when it comes to surviving the crisis. "The first type is those owned by governments or who are benefitting from solid government support. Within that category I would include Singapore Airlines, the Chinese carriers and the big U.S. carriers the American government has supported. Those guys are going to come through relatively stronger than other carriers," Martin said.

The second group are well run airlines that have been paying cash for aircraft during the high part of the cycle and have unencumbered aircraft on their balance sheets.

"They are executing leasebacks with people like us to raise liquidity. They are the people who have moved very quickly with furloughing staff, dealing rapidly with as much of their cost base as they could as we went into this downturn."

The third group worries Martin. "They are those newer carriers, set up since the Global Financial Crisis and September 11 (the September 2001 U.S. terror attacks). They have not been through a real revenue crisis. Frankly, we do not see them taking steps to proactively deal with the problem," said Martin.

They are mainly low-cost carriers or airlines that are entrepreneur-led, Martin said. "Why are they different? Number one, they have done sale and leasebacks on most of their fleets so there are no unencumbered assets to raise new financing," he said.

"Secondly, they don't have a sovereign shareholder and the entrepreneurs, so far, have been unwilling to put in new capital." In the end, Martin acknowledges there will be "one or two" customers who won't make it through.

"We need to prepare for remarketing those aircraft, which we have been doing. Our marketing and technical teams are preparing to move the aircraft where we have to," he said.

"I think we are on the way for consolidation. Consolidation happens in two ways. One is by carriers merging. For example, we have seen discussions going on in Malaysia with the government and the three carriers there. Whether it will happen or not, who knows?

"We also will see a number of weaker airlines fail. You have to remember there are more than 800 airlines around the world and more than 400 of them operate less than 10 planes. These guys, I'm afraid, are not going to find a way through this."

As for BOC Aviation, which made a record pre-tax profit of $775 million and a net profit after tax of $702 million for its latest fiscal year, Martin said April has been a reasonable cash flow month. May and June will be the months when the impact of the COVID-19 virus will be revealed, the lessor believed.

For a leasing company, the liability side of the balance sheet is its Achilles heel, Martin said. "We are very careful to manage the liability side of our balance sheet with long-term debt. This year, when everyone else was in Dublin attending the Air Finance conference, we were raising bonds in Asia - 400 million of them to be exact - because we could see the coronavirus in China by this stage," he said.

"We said 'safety first'. Get out. Raise some money. At the close of March we ended up with $3.6 billion of cash and credit lines. We have added to that since." As recently as April 29, the lessor closed a $1 billion five-year bond, the first U.S. bond launched since the start of COVID-19.

Access to bond markets is essential, Martin said. "We do that by keeping our investment grade credit rating. In particular, we have done a lot of work with Fitch and with Standard & Poor's. The bond we closed yesterday was rated A-Minus. They are comfortable with the fact we can raise money from the market and we are comfortable we have credit ratings that mean we can react to and access it if we need to.

"We have 70 banks in the bank group and we have been tapping in to some of these banks to raise financing. And of course, we have the Bank of China. We had a $2 billion backstop facility from them which we had not touched since 2011, but for the first time we drew on it this month [April], just to make sure it still works."

In the current climate, customers of all lessors do not want to accept new aircraft they will immediately have to park. BOC Aviation has 58 aircraft scheduled for delivery to December 31, 2020. Indeed, on the morning of this interview, it accepted two 787s, from American and United Airlines, respectively.

Martin said there was supposed to be a lot of older aircraft retired from this year and 2024. "Part of the drop in the market will be taken up by people when they get to that last heavy maintenance visit. They just won't do it. They will park the aircraft. That will take up some of the slack but not all of it," he said.

"The manufacturers' reduction in production will help. Our feeling is this is going to be the toughest year. You are not seeing many aircraft being moved at the moment because it takes time for airlines to run out of cash. But it will start in the second half of this year. We have to expect that."

"If you look at where the big orders were going to be delivered during this period, particularly on the single-aisle side, surprise, surprise, its category three. Big low-cost carriers. AirAsia, Lion Air, Indigo, GoAir and SpiceJet.

"All of these customers do not want deliveries from the OEMs and a number of them were relying on purchase and leasebacks to finance them. The question is: do these purchase and leasebacks stay in place?

"We have very few purchase and leasebacks because we were told we were too expensive last year. So we did very few. I know a lot of smaller lessors have them and we can feel some of them are having issues. Both manufacturers are asking us to help in some of those situations. Its mainly a narrow-body situation. On the wide-body side, the big carriers in Asia still seem to be taking those."

Ultimately, said Martin, the survivability of a number of those carriers was dependent on their governments. "This is a very important point. This is different to SARS (Severe Acute Respiratory Syndrome 2003-2004) and 9/11 because we did not have the extended crisis we are seeing this time. The role of governments comes in two ways. Number one is supporting airlines. They can do that by taking equity in them, issuing them with loans, providing salary subsidies for their employees. All three are being used in different ways in different countries," Martin said.

"Crucial in my view is for governments to determine cross-border flows of people. In particular the speed at which visa schemes are re-introduced and borders are opened. For airlines based in small countries or with small population bases, this is very important. If you are in a big domestic market, Indonesia for example or China, it is different. You could survive domestically. But if you are in a smaller country that makes it much more difficult." ■

Downturn sets in as first Asia-Pacific airline orders revised

Production lines at Airbus and Boeing are coming back to life. But slowly, and at the cost of jobs lost forever for hundreds of skilled employees. The aviation behemoths have gone cap in hand to financiers for funding to carry them past the COVID-19 crisis. Associate editor and chief correspondent, Tom Ballantyne, reports.

For the world's two largest aircraft manufacturers, the AirAsia Group decision to cease to accept deliveries of Airbus jets this year is the first but will not be the last domino to fall in forecast aircraft cancellations and deferrals from airline customers across the globe.

AirAsia Group, an exclusive Airbus customer for 15 years, said on April 29 it would not take any more deliveries of aircraft this year and was "relooking" at its aircraft requirements as a result of COVID-19's impact on its operations. The LCC group said it would have 242 aircraft at December 31, one less plane in its fleet than it had a year ago. Airbus has sold 660 aircraft to AirAsia Group.

The OEMs are braced for more deferrals and cancellations and know several of them could come from Asia-Pacific LCCs. Last month, the International Air Transport Association (IATA) director general and CEO, Alexandre de Juniac, warned if governments imposed severe social distancing rules on board aircraft post COVID-19, such as empty middle seats on passenger planes, the LCC business model could not survive.

Airbus is not alone in preparing for more aircraft cancellations and deferrals. In recent weeks the rumour mill has been churning at top speed with speculation Cathay Pacific Airways, the Asia-Pacific launch customer for the new 777X family, was about to revise its order for the type to the 787.

Other Asia-Pacific customers for the 777X, with its technologically spectacular folding wings, are All Nippon Airways and Singapore Airlines. Of the big three Gulf carriers with orders for the new wide-body, Emirates has suspended all operations and Etihad Airways is in much the same position but carrying a much larger debt load. The finances of Qatar Airways are opaque, but it has been announced it would commence job adjustments because its global network has evaporated.

At Boeing, the fragility of the Asia-Pacific's future market, along with the smaller markets of Europe and North America, has forced a reduction in headcount. It said it expected the industry's recovery from COVID-19 would take years rather than months.

After a four-week shutdown, some 27,000 workers at Boeing factories in Seattle returned to work late last month with their workplaces changed significantly after deep cleansing but with the jobs of many employees under threat as aircraft output is slowed. The company, a storied American success not so long ago, has announced 10%, or up to 16,000, jobs would have to go at the conglomerate because of reduced output.

Boeing Company CEO, David Calhoun, said in the final week of April, after he announced a US$641 million loss for the company in its first fiscal quarter, the job losses would be achieved by voluntary or involuntary lay-offs and natural turnover.

The knife will cut the deepest at Boeing Commercial Airplanes (BCA), at 15% of workers, after the airplane division recorded a 26% drop in revenue for its first fiscal quarter. "The sharp decline in demand, a drop of almost 40% alone in the Asia-Pacific, could not support the present

workforce at Renton and Everett [BCA Seattle area factories)," Calhoun said.

"The demand of 2019 will not return for two to three years," he said. To date, Boeing has offered voluntary lay-offs to 70,000 members of its workforce. "We would 'need to make deeper cuts in areas exposed to commercial customers, including airline services and corporate services'," Calhoun said.

BCA's cutbacks were followed by the announcement by Airbus CEO, Guillaume Faury, which said the company's survival was at stake as a result of COVID-19. In a letter to his 135,000 employees, Faury warned there could be more job losses to add to announced redundancies and furloughs of staff. Airbus reported a loss of US$515 million for its first fiscal quarter of the year. It cancelled its dividend and also its outlook for 2020.

The one third cut in output could drop again depending on circumstances and is "being kept under review", Faury said. Airbus narrow-body output is now 40 a month and wide-body jet production has been trimmed compared with past rates.

Airbus has furloughed more than 3,000 workers in France and another 3,200 in Wales, its UK production centre for its aircraft wings.

Engine manufacturers have had to follow the lead of commercial airplane manufacturers as the market for their civil aircraft engines has dried up. Later this month, Rolls-Royce is expected to announce its biggest single reduction in staff for 30 years, with a restructuring that will shed the jobs of 15% of its 52,000 member workforce.

Rolls-Royce manufactures engines for the 787 and the A321, A350 and A330 Airbus aircraft types.

Already about 25% of the engine OEM's civil aerospace workforce has been furloughed and job losses for the division are expected to go beyond the UK to Germany and the OEM's regional hub in Singapore.

Rival engine OEM, U.S.-headquartered GE Aviation, removed 2,600 staff from its payroll in March and at the turn of this month said it intended to eliminate another 10,000 aerospace jobs because of the negative impact of the coronavirus on its order book.

But unlike Airbus, Boeing's troubles are not only about the impact of COVID-19 on its business. It has the MAX issue to overcome.

Approximately 37%, or 136 aircraft, of the grounded MAX 737 fleet is in the Asia-Pacific. Top of the list is China, with 97 737MAXs, followed a long way down the line to India with 13. Asia-Pacific aviation is forecast to be hardest hit by the coronavirus.

The MAX's grounding in March last year, following two fatal crashes that took 346 lives, is costing the company billions of dollars in compensation claims, revised rates for purchase agreements, order deferrals and cancellations and the long, costly process of the narrow-body's re-certification.

At Airbus, employees were told a return to full operations was not feasible in the short term because of parts shortages and the inability of struggling airlines to take delivery of new aircraft.

In reality, the news worsens, and for once, there is little disagreement between the U.S. and European rivals about their business prospects. "The aviation industry will take years to return to the levels of traffic we saw just a few months ago," said Calhoun.

Faury said last month: "We are in the gravest crisis the aerospace industry has ever known. We need to work as an industry to restore passenger confidence in air travel as we learn to coexist with this pandemic."

The reality is commercial jets will not be rolling off production lines at the rates seen before the COVID-19 crisis. Struggling airlines will have no appetite for new capacity for some time to come, given the International Air Transport Association estimated airline revenues would drop by $314 billion this year. A separate forecast, released in April by the International Civil Aviation Organization, puts the losses at a slightly lower but just as disastrous figure of $254 billion.

GlobalData aerospace and defense analyst, Nicolas Jouan, said the regions to be hardest hit by the pandemic will be the Asia-Pacific, Europe and North America, the dominant engines of air travel growth. "In other words, air travel is set to disappear almost entirely in 2020. This projection will likely result in successive cancellations of orders from clients wary of COVID-19's long-term impact," he said.

"However, it would be wrong to reduce everything to COVID-19. Some more fundamental issues of the commercial aviation industry also are at play. Boeing has made unfortunate headlines with massive cancelations of 737 orders this year.

"While some cancellations have been connected to COVID-19 and the slowdown of activity, for example Avolon's 75 737MAX cancellations at the beginning of April, others from Air Lease Corporation and Air Canada earlier this year could be wider scale strategic decisions to slim order books in front of a pre-COVID-19 slowdown in the Asian market."

GlobalData added the 737 MAX grounding "has made the type a privileged target for cancellations when things get rough for airlines".

"Airbus seems to have decided to employ any means necessary to mitigate the catastrophic impact of COVID-19 on commercial aviation. Jetliners represent 70% of Airbus revenues according to 2019 figures," Jouan said. "Reducing production, even temporarily, of the best-selling A320, A330 and A350 families by 30% to 40%, is virtually renouncing at least a quarter of its usual cash flow for the time being."

"The single-aisle market is confronted by pressures on margins. Considering defense and space represent less than 20% of Airbus' revenues, against 34% for Boeing, sources of cash flow are starting to look meagre for the [Toulouse] plane maker."

In essence, as airlines are forecast to burn through some $61 billion in cash in the second quarter alone, with more to come in the third quarter, they are holding off taking deliveries of new aircraft and pausing capital investments like planes. ■

Financial "White Knights" enjoin battle for Virgin Australia

Short of cash and deluged with debt, Virgin Australia (VA) is in voluntary administration, but the airline group's management and its administrator are optimistic about its prospects. Associate editor and chief correspondent, Tom Ballantyne, reports.

As May arrived, interest in Virgin Australia (VA), now in voluntary administration, had become a stampede. At press time, administrator Deloitte Australia confirmed it had signed non-disclosure agreements with eight bidders who now have access to VA's data.

The receiver said it also was negotiating with 12 other parties interested in VA. Indicative offers are due by May 15 and binding offers in mid-June. Deloitte partner, Vaughan Strawbridge, told the first meeting of the airline's creditors he was confident of finding a buyer by July.

One of the latest bidders to emerge is Australian mining magnate, Andrew "Twiggy" Forrest, who controls the country's third-largest mining group, Fortescue Metals. He is reported to have spoken to investment bank Credit Suisse about a bid.

The large number of parties interested in acquiring VA must have been music to the ears of VA boss, Paul Scurrah, and his team, and a vindication of efforts to return VA to the air.

Last month, when it was announced the airline group would enter voluntary administration, he said: "For 20 years, Virgin Australia has brought strong competition to the skies of Australia. It has forced down airfares in excess of 37% since our inception.

"We intend to keep doing that by being around in a healthy, lean and fit state on the other side of voluntary administration. And we will continue to do that for decades to come."

The biggest Asia-Pacific aviation casualty to date of the COVID-19 crisis, VA's decision, announced on April 21, was no surprise to the industry. It has not made a profit for a decade and is carrying a debt mountain of more than US$5 billion.

And whatever cash it has is vanishing fast as most of its 130-strong fleet remained parked and unable to bring in revenue. It did not help that the Australian government gave the cold shoulder to the company's overtures for a government backed loan of $800 million to carry the airline group through the COVID-19 crisis.

Despite the drama, the initial message is "steady as she goes". Vaughan Strawbridge, leading the team to resurrect VA said there was an absolute commitment to run a process that will see a restructured and financially strong VA emerge, resulting in the company coming out of administration as soon as possible.

"We're not planning any changes to the operations of the business," he said. "Paul and his leadership team will continue to run and be in control, working with us as we go through the restructuring process," he said. All staff will continue to be employed and paid and there were no plans for redundancies.

Most promising of all are the large of parties circling VA with an interest in the carrier. "We won't go into specifics about those parties. Obviously, we have to keep these parties confidential, but there are in excess of 10 parties known to us who have a keen interest in being part of the restructure," Strawbridge said.

Besides Fortescue Metals, separate sources said they include local conglomerate, Wesfarmers, and banking and investment group Macquarie, Australia and New Zealand focused equity group, BGH Capital, in partnership with Australia's largest superannuation fund, AustralianSuper, Indigo Partners and Boston-headquartered Bain Capital.

Melbourne Airport is pitching itself as the new headquarters for VA, a shift south from Brisbane for the carrier. Lindsay Fox, a member of one of the consortia interested in investing in VA, wants the company to re-locate to privately-owned Avalon airport, near Geelong, ironically the airport from where Jetstar Australia first flew.

In the closing days of April, the Queensland government said it would "stop at nothing to keep VA headquartered in the state, after it was revealed VA had been offered $200 million (US$130 million) to keep the carrier in Brisbane.

There also is a possibility Australia's Federal government could become involved in some sort of collaboration with two governments: Queensland and New South Wales

"The intent is to avoid a prolonged, drawn out process," explained Strawbridge. "There are a number of very sophisticated parties who have the capability to be part of the restructure of the company. We plan to run that process very hard to make sure it is as short a time as possible."

An outcome is expected to be reached "over the next two to three months".

One change that appears certain is that the airline's current international shareholders are unlikely to be involved in the new airline. When it refused to bailout VA, the federal government argued the airline was 90%-owned by foreign shareholders with "deep pockets" and the only answer to VA's problems was a

market-based solution.

This position, said industry observers, seemed to ignore the fact VA's shareholders also were in trouble. Abu Dhabi-based Etihad Airways, which holds 21% in VA, has lost $2 billion in the past two years. Given its failed investments in airberlin, Alitalia and India's Jet Airways, it is hardly in a position to pump money into VA.

China's HNA Group, whose flagship is Hainan Airlines, also is a 20% shareholder and is in deep financial trouble. Sir Richard Branson's Virgin Atlantic Group, with equity of 10% in VA, is so weak financially it has asked the UK government for a financial lifeline to keep going.

Sir Richard receives $15 million a year from VA for use of the Virgin brand. He remained keen to participate in the restructure process. The fourth VA investor is China's Nanshan Group, a conglomerate that owns Qingdao Airlines and a charter air business. It also is unlikely to cough up cash in the current climate. The only shareholder in a strong position is Singapore Airlines, with 20%, but it, like VA, has most of its fleet on the ground and is burning cash as the crisis continues. And, as Scurrah himself pointed out, in the past decade the airline group has pumped nearly $4 billion into VA.

After just a year in charge, Scurrah did not make any apologies for the position VA is in. "The fact is we did not trade into this position. This caught us by surprise in the same way it did any airline in the world. The oxygen supply of our business was cut off," he said.

"Revenue was cut off by this crisis. It is not a reflection on the wonderful management team or the people that work at the VA group. There was good acknowledgement the plan we had going into this crisis was a good plan to make sure we turned a great airline into a great business.

"That progress was halted somewhat by this unprecedented event. So I am confident we can work with Vaughan and his team to make sure we have a plan to take this airline into the future and be as robust and competitive as we possibly can be.

"This has been incredibly challenging for the wonderful people at the Virgin Australia group. "This is not just something that is hurting Virgin Australia.

"We know it is hurting the industry globally. It is the worst aviation industry crisis we have seen in our history. We're not immune to that. Our board made a very courageous decision to put the company into voluntary administration and to do so quickly with the intention of working with our administrator to come through."

The reality for VA was that voluntary administration was inevitable. It was down to operating a single domestic route between Sydney and Melbourne. Eight thousand of its 10,000 staff is stood down.

The Australian government had given airlines about $450 million in reduced fees and charges, but these were only of value if planes were flying. It also has paid $100 million to underwrite VA and Qantas operating a "minimum domestic network servicing the most critical metropolitan and regional routes". But because this money only covers the cost of operating the flights it does not improve VA's financial position.

While it seems certain, given the interest in keeping the carrier alive, VA will emerge from administration, the question is what will Virgin Australia 2.0 look like?

Returning it to a profitable position almost certainly means the fleet will be reduced as international and domestic routes are trimmed back. Some redundancies are inevitable.

Budget subsidiary, Tigerair Australia, now grounded, may never fly again, although Scurrah has indicated he believed VA needed to be in a position to compete with Qantas in all market segments. Much of that, however, will depend on the new owner and how much they are prepared to pay for VA. ■

Airbus launches passenger cargo deck solution

By Jordan Chong

Airbus has launched a modification package for its A330, A340 and A350 wide-bodies to allow placement of cargo pallets on the passenger decks of the aircraft types after removal of their economy class seating.

Airbus vice president of flight operations support, Captain Yann Lardet, told Orient Aviation last month he expected demand for the carriage of cargo on the passenger decks of aircraft to continue even when the world comes out the other side of the coronavirus pandemic.

Capt. Lardet said the straight forward installation only required standard materials already widely available, including conventional existing pallets that were fixed to the passenger deck.

On a typical A350, this would add up to 7.8 tonnes, or 81 square metres of cargo, that could be carried in addition to existing belly capacity, he said.

"If I take the A350-900, you end up with a cargo capacity 42.9 tonnes, which is very significant for an aircraft meant to carry passengers and not cargo," he said last month in a conference call to journalists.

"Make no mistake. This is not a passenger to freighter conversion. This is a temporary reconfiguration of the aircraft operators can activate to do cargo, to have extra capacity provided on the passenger deck. It is a very good upgrade in terms of capacity," he said.

The types of cargo able to be carried in the passenger deck included humanitarian aid and personal protective equipment. Dangerous goods are prohibited.

Airbus's Matthias Ierovante, who works on the A330/A350 program, said the pallets could accommodate 260kg per position and had an available volume of 2.7 cubic metres per pallet with the cargo load covered by a protective net.

On the A330, up to 28 pallets could be installed in economy class. The A350 could carry up to 30 pallets, he said.

The pallets were "quite quick" to install once the seats were removed, Ierovante said. "We think it can be done after seat removal in around two hours," he said.

While the installation of the cargo pallets could be achieved without removing the business class seats, the aircraft could not carry both cargo and passengers on the same flight.

And while this modification currently only applied to Airbus's A330, A340 and A350 aircraft, Capt. Lardet said the technical solution could be used on narrow-body aircraft such as the A320.

He said about 1,200 people from 240 airlines participated in a webinar explaining the cargo solution in early April, four times the usual audience for such presentations.

Since the webinar some 140 airlines expressed an interest, with the Toulouse manufacturer now assisting about 20 operators to obtain certification from their home regulator.

The concept had potential to be used after the aviation market ramps up as government restrictions ease and the threat of the coronavirus pandemic began to subside, Capt. Lardet said.

"What we anticipate is basically, even after the crisis, there will be still quite strong market demand for cargo carrying capabilities on the passenger decks because the long-range aircraft traffic will resume only progressively. Previous capacity will come back in the air only progressively."

In April, the European Union Aviation Safety Agency (EASA) provided guidelines to approve this type of operation on a temporary basis limited to eight months,

"With these approval guidelines and for eight months only, you can start to operate immediately with this solution."

"To the customers who made the request, we are dispatching the data to allow them to apply for this approval towards their authority.

"And in parallel, the team of Matthias is working through the full certification of the solution that will arrive at the end of May," the Airbus flight operations support vice president said. ■

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