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REGION'S REVENUE ROUT

Asia-Pacific airlines bear biggest financial brunt from COVID-19

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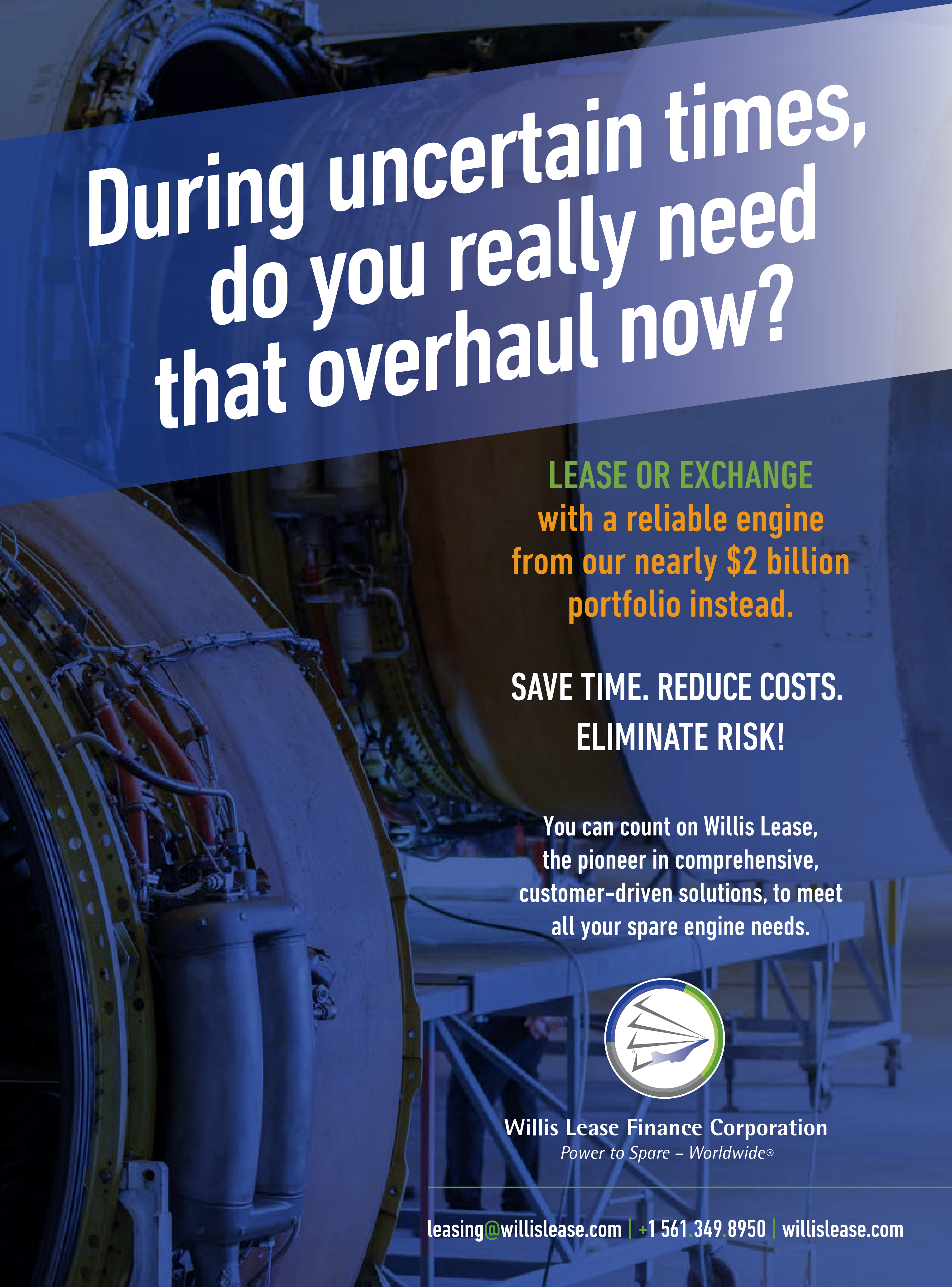
- Traveller checklist for safe flying
- Asia-Pacific carriers fear permanent decline in premium cabin customers
- Airline MRO revenue collapsing by 40%
- Pilot demand to roar back post COVID-19



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ORIENT AVIATION MEDIA GROUP
17/F Hang Wai Commercial Building,
231-233 Queen's Road East,
Wanchai, Hong Kong
Editorial (852) 2865 1013
E-mail: info@orientaviation.com
Website: www.orientaviation.com

Publisher & Editor-in-Chief
Christine McGee
E-mail: christine@orientaviation.com

Associate Editor & Chief Correspondent
Tom Ballantyne
Tel: (612) 9638 6895
Fax: (612) 9684 2776
E-mail: tomball@ozemail.com.au

North Asia Correspondent
Geoffrey Tudor
Tel: (813) 3373 8368
E-mail: tudorgeoffrey47@gmail.com

Photographers
Rob Finlayson, Graham Uden, Ryan Peters

Chief Designer
Chan Ping Kwan

Printing
Printing Station(2008)

ADMINISTRATION

General Manager
Shirley Ho
E-mail: shirley@orientaviation.com

ADVERTISING

Asia-Pacific, Europe & Middle East
Defne Alpay
Tel: +44 7712 829859
E-mail: defne@orientaviation.com

The Americas / Canada
Barnes Media Associates
Ray Barnes
Tel: +1 434 770 4108
Fax: +1 434 927 5101
E-mail: barnesrv@gmail.com
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COMMENT

Airlines plead for relaxed quarantine as losses escalate

The COVID-19 nightmare continues for the aviation industry. In a region with a large percentage of airline networks in the medium to long-haul sector it was hoped domestic markets would be well on the way to recovery by now and that international services would follow in months.

Such optimism has proved premature as second and third waves of COVID-19 have emerged across the world. In India, the U.S., Brazil and southern Africa the number of coronavirus cases and resulting fatalities is horrendous. In the Asia-Pacific, new outbreaks in New Zealand, Australia and Hong Kong, much of them due to inconsistencies in quarantine and testing enforcement, are delaying travel bubbles intended to kick start passenger demand across the region.

As has been the case since the onslaught of COVID-19 worldwide, Singapore's government continues to take the lead in support for the travel and tourism sectors. It is halving quarantine for travellers from-low risk Australia (except Victoria), China, Malaysia, Taiwan and Vietnam to seven days.

Thailand is experimenting with relaxed rules for entry into the economically ravaged tourist hub of Phuket and a travel bubble has been established between Brunei, New Zealand and Singapore that replaces quarantine with a test for the virus on entry to both countries. Brunei has announced it is negotiating a travel bubble with Japan and Hong Kong was reported at press time to be in discussions with Japan, Thailand and "other countries" about setting up travel bubbles. The Hong Kong Special Administrative Region also has re-opened its border to airline passengers transitting to their final destinations.

The problem is such initiatives are piecemeal. Association of Asia-Pacific Airlines director general, Subhas Menon, applauded the Singapore government's efforts "to restart air travel in a safe and progressive way". "Adopting a testing regime without onerous quarantine requirements sets a standard worth emulating across the region," he said.

But it's a long road back to travel untrammeled by the pandemic. The International Air Transport Association (IATA), which had hoped for a restart of airline operations this year, has revised its forecast for a genuine recovery to 2024 - at the earliest.

As we report in our cover story this month, Region's Revenue Rout, the latest Asia-Pacific airline results paint a grim picture of the industry with several carriers suffering record or near record losses. Virgin Australia will stay flying but at the cost of 3,000 jobs and close to a 50% depletion in its fleet and network.

The Qantas group has amalgamated its domestic and international divisions and announced another 2,400 redundancies. Thai Airways International (THAI) is alive, but barely, and is on government life support.

Only South Korea and Taiwan, where carriers with cargo divisions are among the largest in the world, have airlines kept their financial heads above water. South Korea, China and Taiwan are major manufacturing centres for personal protection equipment (PPE) and medical supplies now at peak demand because of COVID-19. It shows in the airline results of the respective countries.

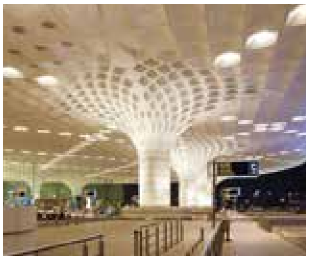
IATA and other aviation-related associations have called on governments to continue to support airlines and airports in the toughest test they have faced in their operating histories. But most nations have ignored pleas to relax quarantine rules and introduce health checks recommended by the International Civil Aviation Organization (ICAO).

Apart from the virtual bankruptcy of THAI, its subsidiary, Nok Air, and the insolvency of Virgin Australia, the Asia-Pacific has escaped mass airline collapses. But if the region's governments fail to open their borders and their pockets to their crisis stricken airlines, more carriers across the region could go out of business. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

Favoured Adani conglomerate winning battle for Mumbai's airports

By Anjuli Bhargava



With the new airport at Navi Mumbai at the heart of a recent corporate battle, more delays to construction are forecast.

Almost 12 years after the two main airports in the country were privatized during the rule of the former UPA government, a new aggressive player has entered the airport space in India: the Ahemdabad-headquartered energy to aerospace and shipping conglomerate, **Adani Group**.

In 2019, it won the rights to operate six airports by aggressively outbidding rivals. But due to COVID-19, it has recently sought to delay the handover of at least three of them. It also lost Jewar airport near Delhi to the Zurich Airport led consortium.

Now Adani has set its eyes on the jewel in the country's airport crown, the existing **Mumbai International Airport Limited (MIAL)**, which earns a majority of airport revenue in the country, and the **proposed Navi Mumbai International Airport (NMIA)**. The airport holds an additional interest for the group because of its proximity to its own areas of operation.

Since 2018 the majority equity holder in MIAL, **GVK**, has been fending off Adani's attempts to buy into the airport after Bidvest, one of the existing partners, exited the project. This matter is before the courts.

More recently, a Central Bureau of Investigation (CBI) case has been filed against the promoters of GVK. It alleged funds have been siphoned off from the Mumbai airport project to the tune of over Rs 700 crore (US$70 million). Many allege this has been done at the behest of the Adani family, considered to be close to the Modi government. "The Adanis are working at various levels to try to evict GVK from the Mumbai picture," said an official involved with the project.

The CBI case against GVK makes the group a "pariah" and may change the complexion of the transaction as many banks and stakeholders have become wary of dealing with an entity being investigated at such a high level.

Whatever the provocation, the latest buzz in the industry is GVK may sell its share of the Mumbai airport group to Adani.

A bigger worry for the country's aviation industry is the latest developments and possible change in ownership may lead to another pause in the construction of the already much delayed Navi Mumbai International Airport.

Sprawling Mumbai is the capital of the state of Maharashtra. Its government had aimed for a first flight from NMIA by the northern hemisphere winter of 2019. Winter 2019 has come and gone and as of now, construction at the site has yet to begin. The COVID-19 outbreak has provided a reprieve for the city's saturated airport, but it only will be temporary.

To call an airport "jinxed" is not a happy description, but there is virtually no other word that so aptly describes the fate of the NMIA project, which was proposed in 1997 and approved in 2007. ■

THAI to be let off financial hook?

Thai Airways International (THAI) is a step closer to recovery following a series of hearings before Thailand's Central Bankruptcy Court in the last month. The airline and its creditors presented the court with their submissions in three hearings in Bangkok. The debt-ridden carrier is seeking the court's permission to launch a rehabilitation plan, a decision that will be announced on September 14. It is widely expected the rescue plan will be approved.

After the final hearing on August 25, **THAI acting president, Chansin Treenuchagron**, said procedures had been "executed smoothly and appeared to benefit" the airline's rehabilitation plan.

THAI had made the rehabilitation request - similar to Chapter 11 Bankruptcy in the U.S. that will protect it from creditors during its recovery attempt - to the Bankruptcy Court in May after it admitted it could not pay the US$2.7 billion it owed to banks and government stakeholders.

Chansin said if the court approves THAI's rehabilitation plan on September 14, the company's rehabilitation team will inform every creditor of the airline about the online process of filing their requests for repayment.

All creditors will be invited to a briefing of the rescue plan and be updated on the progress of the drafting, Chansin said.

The airline has named a planning group of "highly-experienced experts and professionals from various industries" which will oversee the rehabilitation if the plan is approved by the bankruptcy court. It includes former THAI president, Piyasvasti Amranand, widely regarded as one of the carrier's most successful leaders.

THAI will not refund the cost of tickets to customers. "These customers are assured they will not have to spend too much time submitting formal requests to the Legal Execution Department [of the airline] for refund payments. The airline is allowing customers to keep unused tickets for use after its rehabilitation or with Thai Smile Airways, a wholly-owned subsidiary of THAI. They also can trade their tickets for travel vouchers valid until December 31, 2021," Chansin said. ■

Air New Zealand follows Asia-Pacific rivals into the red

Air New Zealand (Air NZ) has joined the long line of airlines drowning in red ink as the coronavirus crisis shows little sign of abating. The Auckland-based carrier reported a net loss of $301 million for its fiscal year to June 30, its first 12-month deficit in 18 years. It reported a $183 million profit a year ago. It will draw down a $596.34 million government loan this month to ease its cash flow drought.

New Zealand has recorded an extremely low number of COVID-19 cases, but border closures have curtailed international operations. Air NZ CEO, Greg Foran, said current modelling suggested the carrier would make another "significant" loss in 2021. The Auckland-headquartered company traditionally generates almost 70% of its revenue from international travel. Foran does not expect passenger demand to return to 2019 levels until 2023 or beyond.

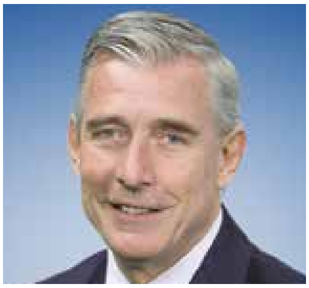
"Until global borders reopen, we will continue to be significantly impacted by this crisis. The unfortunate reality is we don't expect to see a return to long-haul travel for some time. Until then, we will be a keenly focused domestic airline," he said.

On a conference call with analysts, Foran described the operating environment as the worst the aviation industry has experienced. "We absolutely are not seeing a V-shaped recovery or even a U, it's more like an L," he said.

Air New Zealand has laid off about 4,000 staff and grounded some aircraft, while domestic services have been hampered by a second lockdown in the capital city, Auckland, after the country recently identified a new outbreak of the virus.

"Some airlines will not survive this. The actions we have taken to date, albeit painful, are with a view to setting ourselves up for success in whatever competitive and demand environment emerges on the other side of this crisis," Foran said.

The latest figures from the Association of Asia Pacific Airlines, for July, revealed airlines transported 844,000 international passengers for the month, less than 3% of the 33.4 million international air travellers carried a year ago. Passenger capacity averaged 8.3% and international load factor was 33.2%. ■



Singapore relaxes quarantine rules for selected Asia-Pacific nations

Is it the shape of travel for the foreseeable future? One example is Singapore. Its **Civil Aviation Authority of Singapore (CAAS)** has announced that from September 1 visitors from Brunei and New Zealand will be free to travel to Singapore, but it will not be like old times.

Firstly, they must apply for an Air Travel Pass (ATP) and be subject to certain restrictions. The flights they take into Singapore have to be non-stop with no transit stopovers.

They must have been in Brunei or New Zealand for 14 days before they travel to Singapore, take a COVID-19 test on arrival and then go directly to their accommodation by "private transportation, taxi or private hire car from the airport" where they must stay for 48 hours. If their test results clear them of the virus, they will be allowed to go about their activities in Singapore.

To facilitate the contact tracing process, visitors must download the TraceTogether app on their mobile devices and keep them activated during their stays in Singapore and for 14 days after departing the country. "This is a first step towards the revival of the Singapore air hub in a safe way while minimising risks to public health," the CAAS said. ■

Global airline job losses could hit 70%

Leading aviation data and advisory company, **IBA**, has revised downward its forecast of US$90 billion for the global MRO industry in 2020 by more than 50%. **IBA president, Phil Seymour**, said last month the MRO industry needs to take a more creative approach to maintenance solutions.

"That includes OEMs (Original Equipment Manufacturers) and regulators devising safe and flexible ways to prevent aircraft having to undergo such extensive and expensive checks, so savings can be made when cash preservation is vital, but be implemented without compromising safety," IBA said.

"We expect the market to rebound by the start of 2022, but we also expect high levels of redundancies – from 35% to 70% - in the interim, so a flexible approach from the MRO industry will be crucial to working through future uncertainty."

In its Changing Landscape of the Aftermarket Industry Webinar, IBA identified 800 aircraft it expected to exit airline fleets in the short term with around 450 faced with permanent retirement. Around half of expected retirements are aircraft aged older than 20 years. Younger retirements will include the A380, A340-600 and 777-200LR, the consultancy said.

IBA predicted engine shop visit demand will collapse for the next two to three years as both utilisation and maintenance expenditure experience massive reductions. Later stage shop visits on mature engines are most vulnerable but all engines are seeing significant maintenance offsetting. Some will never now occur but IBA expects many will and could lead to a new 'Bow Wave' of concurrent shop visits in the mid-2020s.

It adds revisions to MRO spend will be made in the long-term, although at present narrow-body aircraft utilisation is increasing whilst the wide-body fleet is lagging behind.

Early retirement is set to disrupt the supply chain due to the increase it will drive in aircraft part outs until saturation occurs, along with reduced engine shop visits as a result of low utilisation rates. ***See Asia-Pacific airline MRO heads for 40% collapse. Page 19.*** ■

Smaller is beautiful in a pandemic posits Embraer

By associate editor and chief correspondent, Tom Ballantyne

Embraer Commercial Aircraft's new vice president for the Asia-Pacific, Raul Villaron, took up his post early last month, but so far he has not made it to Singapore. Instead, he is hitting the phone at all times of the day and night to speak to Asian customers from Amsterdam while he awaits visa approval for his new job. He believes it won't be happen until October.

> The Asia-Pacific is the largest untapped region for Embraer. This is the right moment for airlines to evaluate changes to their business plans. It's the right moment for new airlines to grab opportunities others are not seeing, which is to serve smaller communities through this new trend of decentralization
>
> **Raul Villaron**
> Embraer Commercial Aviation vice president Asia-Pacific

Villaron, a mechanical engineer by training, applies the acronym V.U.C.A. – volatile, uncertain, complex and ambiguous - to the world of today. V.U.C.A.was created by the U.S. military to describe a war situation. The pandemic is bad, he said, but also it is an opportunity for airlines to review their strategies and fleet plans.

"Asian airlines have focussed on unit costs, single fleet types and volume business. Now, we see airlines that do not have enough flexibility are having the biggest struggle," he told Orient Aviation.

"They have to restart flying, but they only have planes with 200 seats and more. You can't regain markets by one weekly or two weekly flights. You have to offer some convenience. If your equipment is too big you don't have that flexibility.

"The beauty of the Embraer product line is its very low trip costs which allow airlines to recover. It is happening with most of our customers. KLM has 100% of its E jet fleet flying. Japan Airlines has its whole E jet fleet flying. The E jets are doing the routes the B737 was doing."

The Asia-Pacific was once a tough market for Embraer, but times have changed. "The customer base is growing. Embraer has 17 operators in Asia with 157 E Jets and six ERJs. So, it's not that bad," Villaron said.

This year Australia's Alliance Airlines ordered 14 E Jets. Vietnam's Bamboo Airlines is taking two E195s and Myanmar International Airlines (MIA) has leased four E190s from Chinese lessor, CDB Aviation.

"In Asia, about 50% of the capacity goes through the main airports in the region," he said.

"In India, 50% of the capacity goes through four airports and the other 50% through 94 airports. If we believe in the trend of decentralization then the structure of flying out of big hubs will need to change to a new scheme where airlines will need smaller aircraft to fly from a small city to a small city.

"This is a big opportunity for Embraer. We have a family of aircraft which goes from 80 to 130 seats. That's how we see the post-COVID-19 scenario."

None of this means Embraer is not suffering from the pandemic. In the second quarter of its fiscal year, to June 30, it delivered 17 aircraft -13 of them were executive jets – and reported a net loss of $315 million.

But it has a firm order backlog valued at $15.4 billion and a solid liquidity position with $2 billion in cash. It has finalized contracts for working capital and export financing with export credit agencies in Brazil and the U.S. and private and public banks, adding up to $700 million to its total liquidity position.

Embraer has had no order cancellations but "some postponements" and is restructuring. It has rescheduled the start of operations of its latest model, the E175-E2 until 2023. Its main rival to the E Jet series is the A220, the former Bombardier C Series regional jet.

"We have lighter aircraft by a big number, which means lower fuel burn and lower maintenance costs. We have more mature aircraft which come from learning on the E1 platform which we implemented on the E2. The engine is 50% of the cost of maintenance on aircraft. If you have the same engine on both aircraft and one is heavier the heavier one will need higher thrust and that will drive higher costs," Villaron said.

Embraer's growth in the Asia-Pacific has gained traction in the last 12 to 24 months, he said. "We are growing the customer base, bringing simulators to the region for faster and cheaper training and looking at expanding our presence with partnerships and businesses," he said. ■

Traveller checklist for safe flying

A new poll of prospective air travelers has shown many of them are prepared to return to the air but only if certain conditions are met. Conducted in July by Travelport, the survey asked 5,000 travelers from Australia, New Zealand, India, the UK and the U.S. to list the safety measures airlines, airports, hotels and car rental companies must have in place to give them sufficient confidence to book an international or domestic trip.

The survey found 71% of respondents ranked an enhanced cleaning program during and between flights as a "very important" factor that would influence them booking a flight and 69% of those surveyed said making hand sanitizer available at baggage points was "very important".

Other responses to the survey included:

- 68% said social distancing was a critical measure to have in place at airports.
- 66% said social distancing was "very important" onboard.
- 66% of respondents said temperature checks are "very important", both at the airport entrance and before boarding.
- 64% said fully flexible/refundable tickets were a "very important" consideration when choosing to travel.

Overall, travelers wanted as many safety measures in place as possible, with most of the proposed cleaning and hygiene measures seen as essential to restoring confidence.

"Our research shows encouraging signs there is a willingness to fly as long as these measures are in place at key points along the customer journey," Travelport said.

In general, the safety and hygiene measures suppliers were implementing matched travelers' expectations about safe travelling. Documenting and effectively communicating these measures for travelers was critical to enable travel agencies to guide and advise bookers, Travelport said in a survey statement.

More than half of travelers would consider booking a flight if they knew in advance stringent safety measures had been implemented by the airline and airport.

Separately, the International Air Transport Association (IATA) has appealed to all travelers to wear face coverings during the travel journey for the safety of all passengers and crew during COVID-19. Wearing a face covering is a key recommendation of the International Civil Aviation Organisation's (ICAO) guidance for safe operations during the pandemic, developed jointly with the World Health Organization and governments.

IATA is emphasizing the need for passengers to comply with the recommendations following recent reports of travelers refusing to wear a face covering during a flight.

While confined to a very small number of individuals, some on board incidents have become violent and resulted in costly and extremely inconvenient diversions to offload these passengers.

"This is a call for common sense and taking responsibility. The vast majority of travellers understand the importance of face covering both for them and for their fellow passengers and airlines appreciate this collective effort," an IATA statement said.

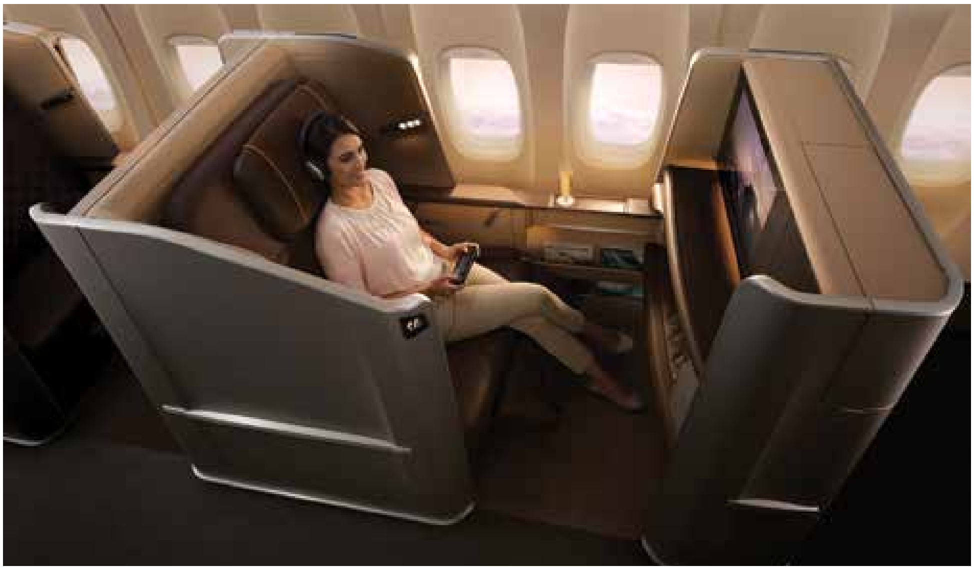
"But a small minority creates problems. Safety is at the core of aviation, and compliance with crew safety instructions is the law. Failure to comply can jeopardize a flight's safety, disrupt the travel experience of other passengers and impact the work environment for crew," said IATA director general and CEO, Alexandre de Juniac.

According to tests at the University of Edinburgh, properly worn face coverings can cut the forward spread of potential COVID-19 droplets from the mouth by 90%. Other measures to protect the safety of passengers during the pandemic include contactless check-in and immigration formalities at both departure and arrival airports, social distancing where possible, increased cleaning and sanitization at airports and on aircraft and contact tracing.

"The research we have seen to date, and our own investigations with the world's airlines, tell us the risk of catching COVID-19 on a flight remains very low. There appears to be a number of factors that all play a part. They are a high flow rate of cabin air from top to bottom, constant filtering of air through state-of-the-art HEPA filters, the fact all seats face the same direction, wearing a face covering and sanitization of the aircraft ." said IATA's medical advisor, Dr David Powell. ■

Asia-Pacific fears drop-off in premium passengers as pandemic recedes

By associate editor and chief correspondent, Tom Ballantyne



Business class cabins, crucial to airline profitability, are taking to the air almost empty. The critical question for carriers is will premium class demand return to past levels after COVID-19 eases? Can corporate travellers, having spent months using social media tools such Zoom, Skype and Microsoft Teams, be lured back?

The threat of online internet communication to airlines is nothing new, but some observers believe this time around returning business class traffic to the glory days of 2019 is going to be more challenging than in previous industry crises.

"Whether we see a recovery to pre-crisis business travel patterns remains to be seen," said International Air Transport (IATA) chief economist, Brian Pearce, in a media briefing last month.

"Our concern is we won't. Corporate buyers are imposing some very severe travel policies at the moment. I think we will see much less business travel to company offices. This has some pretty big consequences to the industry, at least in the short term."

Pearce said for many network airlines the premium paying passenger drives the profitability of their businesses and was particularly important to the viability of long-haul services.

Association of Asia Pacific Airlines (AAPA) director general, Subhas Menon, has predicted a slow return to business class normality. "No traffic is going to return to last year's levels in the near future. My assumption is we will be lucky in the first year if it is 30% of what it was. Of that 30% I would say the large majority of it will be returnees and VFR (visiting friends and relatives) and business will be just a little bit," he said.

There would be an impact on the business class sector not only because of personal finances but because corporate revenue is being affected by the pandemic and the economic downturn.

"So when business people travel they will downgrade. They will not be flying business class but economy. Yields will come down quite significantly," Menon predicted.

Analysts forecast the "hassle factor" will be another deterrent to a business travel revival. Given a choice of flying that required COVID-19 testing and certification, distancing rules, mask wearing and possible quarantine periods and conducting business with video conferences, the latter option is a more attractive proposition, it is believed.

"At the outset of the global pandemic we were pretty confident the second half of 2020 could be that time [when corporate travel], with initial small steps would revive, but as the year progresses that feeling is subsiding for many. Multiple events initially pushed from the first half of 2020 to the second half of the year are being cancelled or moved exclusively online as many in this space write off 2020 from a physical meeting standing at least," Informa consultancy, CAPA, said.

In his briefing, Pearce went as far as suggesting revenue from air freight, a sector performing quite well in the COVID-19 crisis, could replace premium traffic as a major source of revenue for airlines - at least in the immediate future.

It is a forecast supported by IATA's latest survey of airline chief financial officers and heads of cargo, conducted in mid-July. The majority of respondents (77%) saw profits decline in their second quarter, a slightly lower share than in a similar survey in April. On the other hand, 19% of respondents reported an improvement in profits, underpinned by strong demand for air cargo.

> Those people who are going to travel for business are really people who need to travel on essential business. They are people who are using factories overseas to produce their goods. They need to go and make arrangements and negotiate the raw materials. They have to make sure the supply chains are correct. It is very essential work they need to do and they need to travel. They probably can't do it by video. If you are going to rely on a factory in China and you are sitting in Australia it is going to be very difficult for you to do it through video conferencing. If you are producing your goods in India or Indonesia you need to travel

Subhas Menon
Association of Asia-Pacific Airlines director general

Belly capacity has almost disappeared with the grounding of much of the global passenger fleet, but cargo yields have soared. As a result, some airlines quickly shifted focus to cargo in the absence of passenger flights. Forward looking profitability expectations did strengthen compared with April, but respondent expectations are still in contractionary territory.

The majority (68%) of those surveyed told IATA they expected deterioration or no improvement in profits in the year ahead because border restrictions were being lifted slowly and restoring passenger confidence in flying was taking time.

Nevertheless, Pearce reminded his audience warnings online business meetings posed a threat to the airline industry were nothing new. "For decades, people have been predicting the end of business travel because of video conferencing technologies. It has never happened," he said.

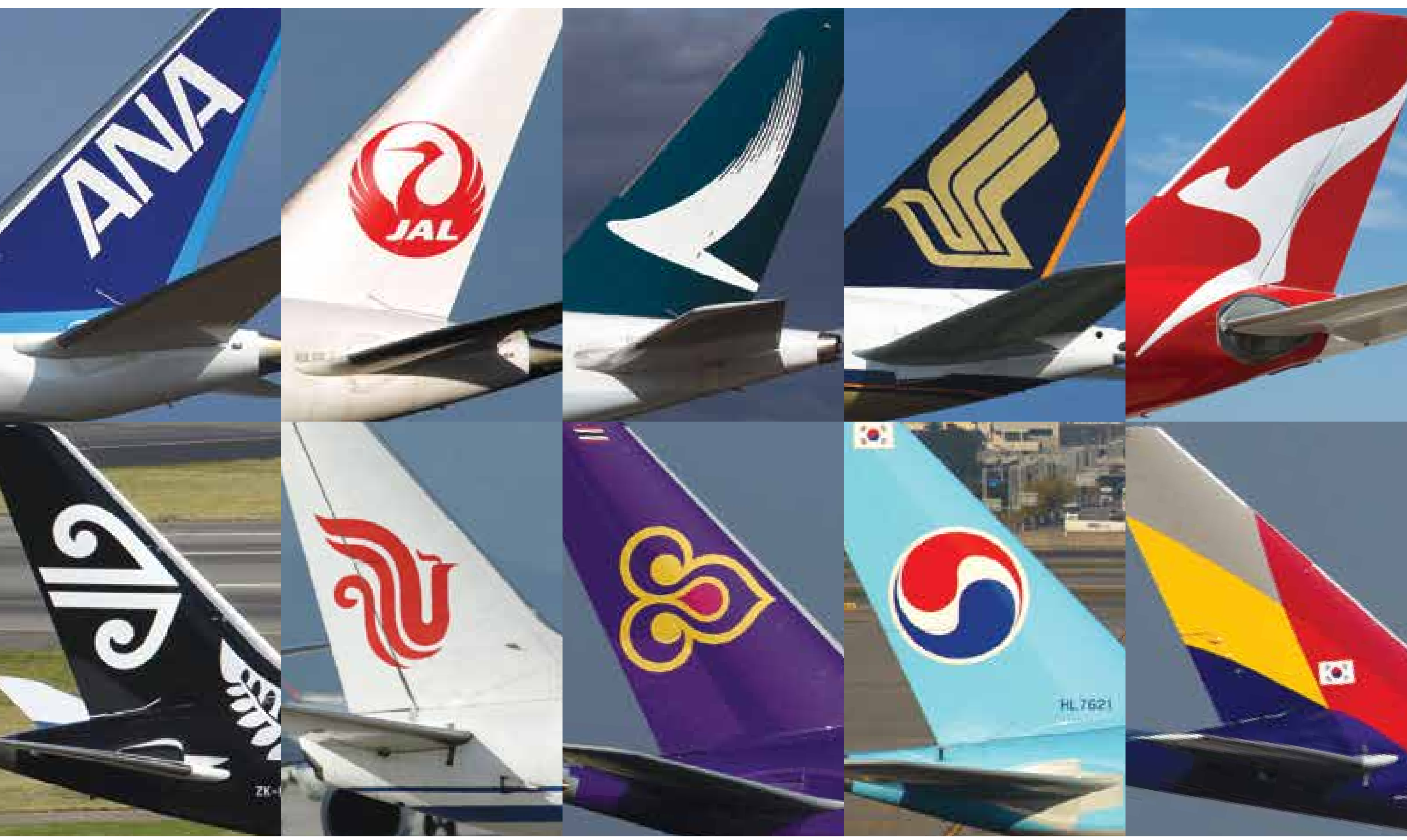
"Clearly, the experience of the last few months has shown many businesses have operated these online technologies. It will have an effect in the short term. We have been speaking to a number of corporate travel buyers and we have heard some interesting views, one of them being these technologies make them much more productive. They can speak to many more clients in a day.

"But they will still have to visit them to close a deal or cement a relationship. Yes, there will be some impact, but I don't think it is going to bring an end to face-to-face meetings. Business travel by air will still be required to do that." ■

REGION'S REVENUE ROUT

Asia-Pacific airlines are the biggest losers from COVID-19 pandemic

Everyone knew it would be a bad year. But forecasts Asia-Pacific airlines would lose US$29 billion in 2020 from COVID-19 - the largest profit collapse of any region this year – are falling way short of the mark reports associate editor and chief correspondent, Tom Ballantyne.



The financial disaster facing Asia-Pacific airlines is becoming clearer as the region's carriers report their latest results in the first factual indication of the negative impact COVID-19 is having on the region's commercial aviation industry. And it is feared the situation will worsen before it improves.

A very public humiliation of a once great carrier is being played out in Thailand. Thai Airways International (THAI) is fighting to survive as its losses mount. It is in the midst of a last ditch legal battle to win approval for its latest rescue plan from the country's Central Bankruptcy Court. Initial hearings took place in August after the airline announced an interim loss of US$898.3 million to June 30.

But THAI, which was in serious trouble before the pandemic struck, is no solitary casualty. Most of the region's carriers are reporting record or near record losses and issuing profit warnings for the months ahead.

Amongst the biggest losers is the Cathay Pacific Group, a company without a domestic market to prop up its regional and international networks. Already battered by more than a year of pro-democracy protests in fragile Hong Kong, it reported an interim $1.27 billion loss to June 30. "The first six months of 2020 were the most challenging the Cathay Pacific Group has faced in its more than 70-year history," said airline group chairman, Patrick Healy. "The global health crisis has decimated the travel industry and the future remains highly uncertain, with most analysts suggesting it will take years to recover to pre-crisis levels," he said.

Another regional leader without a domestic market is the Singapore Airlines Group (SIA). It lost $816 million in its second quarter, to June 30, on the back of a 99.6% coronavirus induced decline in passengers.

The severity of the financial collapse for the region's carriers was emphasised by the Qantas Group full-year results, announced on August 20. Its bottom line swung to a $1.4 billion loss for the 12 months to June 30. "This is clearly not a standard set of results for the Qantas Group," said group CEO, Alan Joyce. "It's been shaped by extraordinary events that have made for the worst trading conditions in our 100-year history."

After its first half, ended December 31, 2019, the group had been on track to report a profit of more than $720 million. Only months later, its A380 fleet is being parked in the Californian desert for at least the next three years and the group has paid $460.5 million to 6,000 staff it has made redundant - 20% of its workforce. "The impact of COVID-19 on all airlines is clear. It's devastating and it will be a question of survival for many," said Joyce. Qantas' revenue between April and the end of June fell 82%. At press time, Joyce revealed plans to eliminate the jobs of another 2,400 employees, amalgamate the domestic and international divisions of the group and outsource airport ground handling services across its Australian network.

Japan's two international airlines, All Nippon Airways (ANA) and Japan Airlines (JAL), have fared just as badly as their regional rivals in the industry's bloodbath. ANA recorded a quarterly loss of $1.04 billion to June 30.

ANA HOLDINGS INC. chief financial officer, Ichiro Fukuzawa, said last month the airline group had attempted to cut costs and take other measures to ease the damage but "passenger demand for both international and domestic flights declined significantly due to worldwide government travel restrictions and the declaration of a State of Emergency by the Japanese government.

"While we aggressively worked to compensate for lost revenue by catering to the increased demand for international cargo transportation, we were unable to offset the unprecedented impact of COVID-19 and ended with a large quarterly loss," he said in a statement.

ANA has not issued a profit forecast due to high uncertainty about the impact of the pandemic on its finances. Rival JAL, similarly hit by COVID-19, has posted a net loss of $887.8 million for the April to June quarter. Revenue has declined 78.1% from a year earlier.

In China, the original source of the pandemic, domestic traffic has recovered better than elsewhere, but the big three airline groups - Air China, China Southern Airlines (CSA) and China Eastern Airlines (CEA) – have issued profit warnings ahead of their results. For example, CSA said domestic capacity was down only 20.15% in June, but regional capacity had declined by 93.5% and international by 95.2%. Air China and CEA are experiencing similar downward capacity trajectories.

Amidst the industry's carnage, a handful of airline balance sheets are in the black. Both of South Korea's carriers, Korean Air (KAL) and Asiana Airlines, posted operating profits in the second quarter due to the strong performances of their cargo divisions.

Airlines with substantial air freight availability are offsetting passenger declines with demand for worldwide transport of medical equipment needed as the spread of COVID-19 accelerates in many regions. KAL has reported an operating profit of $125.2 million and a net profit of $135.3 million. Asiana's operating profit topped $80 million. It may not seem much in strict numbers, but in the circumstances the Korean carriers' results were market beating figures. A report from Korea Investment & Securities said KAL is on course to be the only airline in the world whose debt-equity ratio will drop this year.

KAL is touting its surprise earnings are a result of Walter Cho's focus on the airline's cargo business and a "One Team" strategy to survive the pandemic. The KAL CEO is credited with the idea to "utilize the cargo compartment of passenger jets and respond to the fluctuating demand" to reduce costs and diversify the supply line.

As a result, the airline's freight tonne kilometres, which measure freight traffic, rose by more than 10% in the first half of the year and 17% in the second quarter alone. It led to a 95% year-on-year increase in cargo revenue to a little more than $1 billion in the second quarter.

KAL has a cargo fleet of 23 aircraft. It has been using overhead bins and has installed cargo seat bags on its planes to raise utilization rates. It plans to remove seats from long-haul aircraft to carry even more cargo later in the year.

Taiwan is another airline market bucking the loss-making trend, again thanks to the contribution of air freight to the coffers of China Airlines (CAL) and EVA Air. CAL delivered a net profit of $83.9 million in the April to June quarter. EVA had an operating profit of $6.3 million, but still reported a small net loss of $20.85 million.

Elsewhere the red ink is continuing to flow. Garuda Indonesia booked a net loss of $120 million in its first quarter, a stark contrast to the profitability it achieved last year. It announced a 30% year-on-year slump in revenue, to $768.12 million, from $1.1 billion in the same period 12 months ago.

"This industry is indeed a very tough industry. We are talking about a single digit margin. So, when a disruption happens, the implications for our bottom line, cash-wise, are immediate and drastic," said Garuda president director, Irfan Setiaputra.

Like many other carriers, Vietnam Airlines (VNA) is seeking government support to ease pressure on its cash liquidity. Chief executive, Dương Trí Thành, said VNA may face a liquidity shortage from September and a drop of $2.16 billion in revenue for the year. After a record profit in 2019 and positive profit growth for the last decade, he forecast the airline may incur a net loss of $560 million in 2020.

The region's LCC sector has not escaped the crisis. Dependant on high load factors and quick turnarounds on both domestic and regional routes, their networks and utilization rates are in tatters.

Malaysia's AirAsia Group, the region's biggest LCC operator, posted a net loss of $238.2 million in the three months to June 30 after sales plunged 96% to $28.5 million. Group CEO, Tony Fernandes, said the current period is "by far the toughest challenge" the group has faced.

"Every crisis is an obstacle to overcome. We have restructured the group into a leaner and tighter ship. We are positive about the strides we have made in bringing down cash expenses by at least 50% this year. This will make us even stronger as the leading low-cost carrier in the region," he said.

In the Philippines, the country's biggest airline, LCC Cebu Pacific, suffered a net loss of $188.3 million in its first half compared with a profit of $147.2 million in the same months a year ago.

South Korean LCC, Jin Air, a subsidiary of KAL, reported an operating loss of $50.3 million in the second quarter, nearly doubling losses of a year ago. The country's biggest LCC, Jeju Air, has announced a revised second quarter earnings report. It showed the company posted larger net losses than initially estimated due to the unsuccessful acquisition of debt-ridden Eastar Jet. Its net loss in the April-June quarter was $84.4 million.

Overall, the picture for Asia-Pacific airlines is grim. Carriers have hundreds of planes parked at their home bases and at aircraft parks in California and Australia. Most have been in discussions with Boeing and Airbus about postponement or even cancellation of scheduled deliveries.

Boeing reported another 43 cancelled orders for the 737MAX in July and said it had not secured new orders for any aircraft in the month. It has been reported airline and lessor customers have cancelled 398 MAXs since the type was grounded in March 2019 following two deadly crashes. The U.S. aerospace manufacturer delivered four aircraft in July compared with 19 in the same month last year.

> To put it simply, we're an airline that can't really fly to many places – at least for now. The impact of that is clear. COVID-19 punched a $2.9 billion hole in our revenue and an $860 million hole in our underlying profit in what would otherwise have been another very strong result
>
> **Alan Joyce**
> Qantas Group CEO

The International Air Transport Association (IATA) forecast mid-year losses would reduce significantly in 2021 as recovery took flight. It is a prediction now considered optimistic as governments maintain strict bans on international air travel, keep borders closed between nations and states and insist on extended quarantine periods for air travellers.

In June, IATA director general and CEO, Alexandre de Juniac, told media: "Provided there is not another more damaging wave of COVID-19, the worst of the collapse in traffic is likely behind us." Unfortunately, fears that a second and even a third wave of COVID-19 could threaten the Asia-Pacific industry's revival have come to pass in many countries, making that statement redundant.

In its Asia-Pacific Regional Briefing in July, IATA said the region's airline revenue passenger kilometres had contracted 83% year-on-year against an industry-wide contraction of 94%. It represented the most resilient outcome amongst all regions, IATA said. It described the numbers as "tentative signs" of recovery. ■

Domestic benefits only for the few

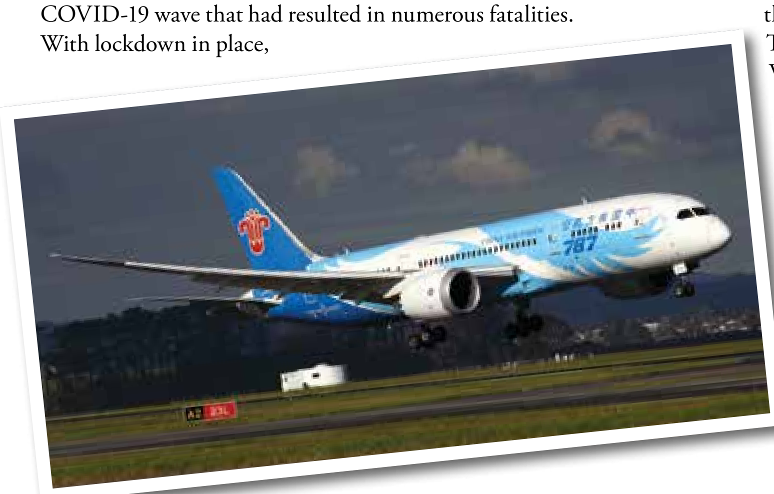
Asia-Pacific airlines expected domestic traffic to be the initial mover in the pandemic's recovery, but forecasts of an early upturn are proving far from accurate. New COVID-19 outbreaks have applied the brakes on a near return to industry normality, reports associate editor and chief correspondent, Tom Ballantyne.

In June, when Qantas Airways group chief executive, Alan Joyce, presented a review of the company's strategy for managing the impact of the COVID-19 pandemic, he said there were some "green shoots" domestically. "We are planning to be back to 40% of our pre-crisis domestic flying in July and hopefully more in the months that follow," he said.

The industry would be living with COVID-19 for some time and Australia's low infection rate could not be taken for granted, he added.

Never a truer word spoken. A few weeks later, Joyce announced 2,400 employees would be made redundant from the group in addition to the 6,000 jobs lost earlier in the year. The group will outsource its ground handling at 10 Australian airports and merge its domestic and international divisions. The departure of Qantas International boss, Tina La Spino, took effect on September 1.

In August, the Australian state of Victoria, with its affluent corporate profile, was battling to overcome a second COVID-19 wave that had resulted in numerous fatalities. With lockdown in place, Joyce's 40% target was a pipedream.



The country's states barred travellers from Victoria. Queensland closed its border with New South Wales. The borders of West Australia, South Australia and Tasmania remain sealed. One of the world's busiest air routes, between Sydney and Melbourne, shrunk to one or two flights a day.

Australia is not alone in seeing an early domestic-led recovery fall away. Capacity growth in India has stalled as coronavirus cases go through the roof. The Indian government is closely monitoring and controlling the number of flights it is allowing to operate. According to flight data provider, OAG, among the world's top ten markets, India remains the furthest away from its original capacity levels. Southeast Asia has seen capacity fall by nearly 11% in recent times as some countries responded to spikes in reported Covid-19 cases with extended quarantine and border restrictions.

In Vietnam, a bright spot for domestic capacity, airlines reached near pre-COVID-19 numbers in July, but recorded a 25% capacity decline last month after a virus spike in tourist hotspot, the Da Nang region.

New Zealand, which had been COVID-19 free for weeks and had lifted most restrictions, last month experienced an outbreak of several new cases and reimposed lockdown rules, deterring local travel. The Indonesian government announced it would allow foreigners into Bali from September 11, but reversed its decision as second wave cases continued to climb across the region.

In Japan major airlines were forced to make speedy schedule revisions as the coronavirus resurged. Japan Airlines (JAL) announced the suspension of 5,353 domestic flights that were scheduled to September, which was 31% of the domestic services it had originally planned for the period. "We thought there would be something of a recovery in demand, but the resurgence in infections has made it a tough environment," said JAL chief financial officer, Hideki Kikuyama, when the carrier announced its earnings. After cutting 25% of its domestic flights in August, All Nippon Airways (ANA) said it would reduce its flights by 10,445, or 45%, on 99 domestic routes to September 22.

Despite the bad news, the Asia-Pacific is outperforming the rest of the world in domestic air travel. Travel data analytics provider, Cirium, said Vietnam, Indonesia and South Korea were the only countries in the world to record growth in domestic air travel in July compared with the same month last year.

China is dominating the number of flights operated and continues to lead the region in domestic traffic growth. The International Air Transport Association (IATA) reported the country's air traffic declined 35.5% in June - the latest statistics available - compared with the same month a year ago. The numbers improved from a 46.3% drop in May. Anecdotal reports close to press time said Mainland domestic air traffic "was just about normal" as airlines increased capacity to boost the national economy.

In South Korea, authorities reported domestic traffic had returned to around 90% of normal schedules. Malaysia is reporting improved traffic numbers. Malaysia Airports said statistics from its 39 managed airports showed passenger and aircraft movements, mainly domestic, in the first nine days of July doubled from the same period in June.

In August, the airport owner reported passengers carried in July, both domestic and international, surpassed the two million for the first time since Malaysia imposed travel restrictions in March.

MalaysiaAirports group chief executive, Shukrie Salleh, said: "We are hoping to see larger increases in traffic numbers as we go forward especially with Hari Raya Aidiladha approaching at the end of the month. Malaysians who did not have the option to spend Aidilfitri with their families will surely take the opportunity to travel back to their home towns and enjoy the festivities with their loved ones."

The airport group was pleased to see local airlines were launching aggressive sales campaigns to increase load factors, he added

None of this is doing much to make up for the dramatic loss of international traffic for airlines in the region. It continues to stagnate as borders remain closed and quarantine rules generally remain in force.

The unexpected drag on a domestic demand was reported as IATA conceded overall recovery will take longer than expected. Global passenger traffic (revenue passenger kilometres or RPKs) will not return to pre-COVID-19 levels until 2024, a year later than previously projected, it said.

"Domestic traffic improvements notwithstanding, international traffic, which in normal times accounts for close to two-thirds of global air travel, remains virtually non-existent," said IATA director general and CEO, Alexandre de Juniac.

"Summer [northern hemisphere summer] our industry's busiest season is passing by rapidly. There is little chance of an upswing in international air travel unless governments move quickly to find alternatives to border closures, confidence destroying stop-start re-openings and demand killing quarantine."

The airline association is well aware of the threat posed by "second and third waves" of COVID-19 to domestic and international traffic. For several Asia-Pacific airlines the threat is reality. They must overcome air travellers fears that their health will be endangered if they return to flying.

To address these fears, IATA has released an airline self-assessment health checklist to support the International Civil Aviation Organization's (ICAO) Take-off: Guidance for Air Travel through the COVID-19 Public Health Crisis, a global standard framework of risk-based temporary measures for governments and the air transport value chain for safe operations during the COVID-19 crisis.

But the initiative has had a mixed response from governments despite ICAO's council president Salvatore Sciacchitano's plea for a harmonized approach worldwide to "building back better" in dealing with the impact of COVID-19. ■

Air cargo to the rescue in COVID-19 wracked world

If there is a bright spot at the region's aviation industry in these pandemic times, it is undoubtedly the air cargo sector. It has continued to operate capacity with freighters and in the belly of passenger aircraft to keep supply chains open and transport medical supplies across the globe.

If and when a COVID-19 vaccine is developed, air freight services will be crucial to distributing it worldwide. The International Air Cargo Association (TIACA) is working with Pharma.Aero, a non-profit organization headquartered dedicated delivering reliable end-to-end air transportation of medical supplies, to develop global guidance for the air cargo industry to enable optimal transportation of the COVID-19 vaccine.

TIACA said in a statement last month the guidance will be developed gradually in four work packages, overseen by a joint working group, to ensure feedback from all stakeholders in the supply chain of air cargo and pharmaceuticals.

"In the past few months, air freight has demonstrated once again its vital role in the global economy and distribution of essential medical supplies. In the months to come, air freight will again make an important contribution to the global public good and in fighting this pandemic by playing a vital role in the COVID-19 vaccine global supply chain."

The program aims to provide the air freight industry with clarity along the logistics chain including expectations and quality supply chain requirements, cargo capacity, handling and storage and track and trace requirements to transport the vaccine. At the same time, shippers will gain more understanding about the capabilities of the various logistics players.

"COVID-19 vaccine delivery will be one of the biggest logistical challenges in modern history. No one company can own the end-to-end vaccine supply chain," said TIACA board member and Global Head of Air Freight at Flexport, Neel Jones Shah,

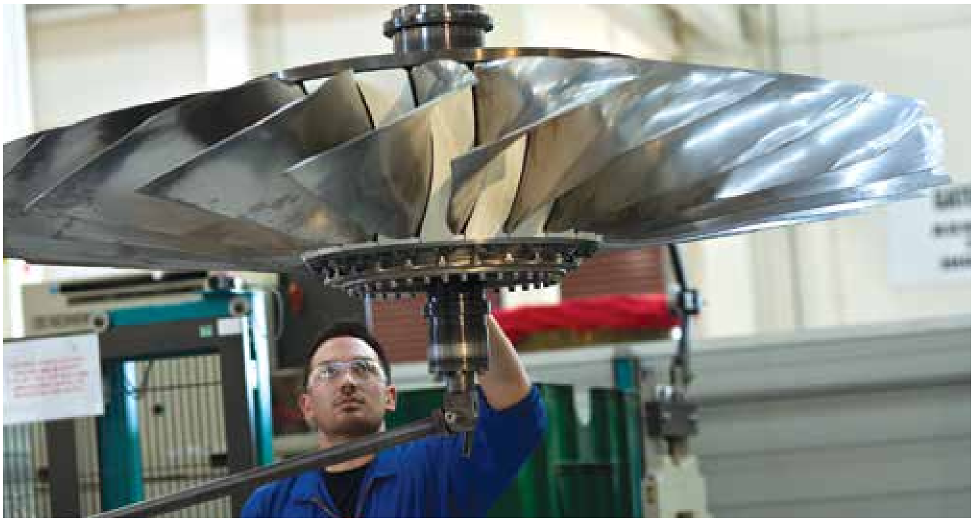
Pharma.Aero chairman, Nathan De Valck, said" "Amongst our members, i.e. life sciences and pharmaceutical shippers, certified airport communities and air cargo operators, we have a track record of project-based collaboration."

Members of the working group, who will be drawn from TIACA and Pharma.Aero, will liaise with international organizations developing the delivery standards for an anti-COVID-19 vaccine, and White Papers and conduct webinars as it works towards a year-end deadline for the program.

TIACA, based in Miami in the U.S., represents all sectors of the air cargo industry from shippers and forwarders to ground handlers, airports, airlines, manufacturers, IT providers and several related industries. ***By Tom Ballantyne***

Airline MRO revenue heads for 40% collapse

By Jordan Chong



Hibernation of commercial aircraft across the globe from COVID-19 has changed the outlook for aviation's MRO sector, Oliver Wyman's latest Global Fleet and MRO Market Forecast reports.

A July forecast of the sector for the next two decades, updated from February, showed the number of aircraft in service in the Asia-Pacific had fallen by 61%, to 3,618 aircraft.

Asia-Pacific airline fleets, which were operating 8,689 aircraft before the pandemic, now have approximately 5,334 of the region's collective airline fleet in storage, Oliver Wyman said.

It said the "baseline scenario" for the global fleet was that it would remain below pre-COVID-19 levels until 2023, which would result in a significant reduction in MRO services.

"Given the current outlook and assuming our baseline scenario, global demand for maintenance, repair, and overhaul in 2020 would be about US$50.3 billion, 45% lower than our original pre-COVID forecast of $91.2 billion," the consultancy said. "All regions in the world, aside from China, will experience declines in MRO spending of 40% or more," it said.

DIFFICULT DECISIONS FOR MRO PROVIDERS

The impact of projected lower MRO spending was borne out in the latest quarterly results of Chicago-headquartered AAR Corp, one of the world's largest aerospace and defence aftermarket services providers.

The company reported a net loss for the three months to June 30 of US$16.5 million, compared with a net profit of US$22.8 million in the same quarter last year, AAR Corp. reported in July. Revenue declined 26%, to US$416.5 million, AAR Corp said.

AAR Corp CEO, John Holmes, said difficult decisions to align costs with the lower demand environment included closing and consolidating some facilities, ending unprofitable product lines and exiting or restructuring underperforming commercial programs contracts.

The conglomerate has said its composites manufacturing operation was on the market, which Holmes said was not profitable in fiscal 2020 and "not core to our aviation services offering".

"For MRO, we started the quarter with full hangers," Holmes during AAR Corp's results presentation. "Throughout the quarter we delivered aircraft. In many cases, those aircraft were not replaced by additional aircraft. So we did see a decline through the quarter. We are at a depressed level."

Holmes described dialogue with customers as "very dynamic". While the maintenance schedule for the period ahead was still unclear, he thought there was a growing "backlog of maintenance requirements".

"There is actually a very significant amount of deferred maintenance that's building out there. So when we see a return to flying you might actually see a much quicker and more dramatic uptick in parts requirements and maintenance requirements," he said.

"Nonetheless, MRO capacity has been reduced by about 20%.

"We have sized our MRO operation for a much smaller labour utilisation in this fiscal year than we would have last fiscal year," Holmes said. "Against that smaller footprint as a percentage we are actually sold out approximately for the same percentage we would in a normal year. It's just on a much lower base."

Leading Asia-Pacific MRO, SIA Engineering Company

(SIAEC) said the coronavirus pandemic had shredded revenue for the quarter to June 30 by 54.1%, to S$118.5 million (US$ 1.3 million), from S$258.1 million a year ago. Flight activity was picking up from June, but the MRO said the increase was "not material". The reduced workload had shut down some of SIAEC's engine and component joint ventures on specific days to reduce costs.

"At our Singapore base, the number of flights handled in the quarter was about 13% of what we handled pre-COVID-19," SIAEC said in a business update in mid-July.

"Our base maintenance unit had fewer airframe overhaul checks and airline customers under our fleet management business saw a significant reduction in flying hours. Work volume at our engine and component joint venture companies also slowed as decreased flying hours resulted in extensions of maintenance intervals."

SIAEC is redeploying staff to areas with work demand, including aircraft disinfection and preservation maintenance. Some airline customers also had brought forward maintenance checks.

PRATT & WHITNEY STAYS CLOSE TO CUSTOMERS

Pratt & Whitney said it was expanding its MRO capability in the Asia-Pacific for its geared turbofan (GTF) engine, which features on the A220, the A320neo and the Embraer E2 aircraft family. It also powers the Irkut MC-21 and the Mitsubishi SpaceJet.

The business has included adding Air India Engineering Services Limited (AIESL) in March as an approved MRO for support of Pratt & Whitney GTF engines and customers in India. Its Singapore engine workshop, Eagle Services Asia, was upgraded in 2019.

"Across our network in the Asia-Pacific and globally, we are aggressively accelerating our MRO capability for the GTF family to incorporate available upgrades in anticipation of the recovery," the aerospace conglomerate said.

In an emailed response to questions from Orient Aviation, Pratt & Whitney said "airlines need to maintain their fleets so when the market recovers they are ready to ramp up operations to meet market demand".

Industry figures strongly indicate narrow-bodies have been the quickest to return to service. Pratt & Whitney said 75% of the global fleet of GTF-powered A220s were flying and 65% of A320neo family aircraft with the Pratt & Whitney GTF power plant were in service. [Our] Asia-Pacific airline fleet had a utilisation of around 50%, it said.

"From an MRO perspective, airlines operating on shorter routes means they are operating a higher number of cycles relative to flight hours," Pratt & Whitney said.

"Engines fall due for maintenance based on number of cycles and the environment in which they are operating. The engines coming due for overhaul will predominantly be those on the smaller narrow-bodies.

"Pratt & Whitney is well positioned for the recovery in commercial aviation because our engines are predominately on the new narrow-bodies; the A220, A320neo family and the Embraer E2 as well as powering the A320ceo family.

"We are the clear market leader in turboprop engines. The PT6 and PW100 family of engines are ubiquitous thanks to being on a plethora of aircraft types."

Pratt & Whitney said there had been a decline in engine overhauls required by airlines with many commercial engines on "power by the hour" programs.

The company was providing "comprehensive manuals, advice and support for preservation and storage of engines" from aircraft that have been parked.

Pratt & Whitney has field service representatives across the Asia-Pacific with some based on site and others using digital technologies, including engine data automatically transmitted to Pratt & Whitney's analysis centre in Singapore as soon as an aircraft touched down to identify potential issues and conduct predictive maintenance.

A mobile application, Onsight by Librestream, features a two-way audio-visual link that connects Pratt & Whitney's experts with the airline's engineers on the ground.

The application conducts borescope inspections that remove the need and cost of the company having a staff member on site at the airline.

Subsidiary Pratt & Whitney Canada has developed a kit for airlines that extracts an oil sample from an engine and returns it by email in a pre-paid envelope within 48 hours.

"The restrictions on international air travel and lockdowns in some countries have meant the value of engine monitoring and diagnostics has come to the fore during the pandemic, because it can be done remotely," Pratt & Whitney explained.

"COVID-19 has had a major impact on our commercial airline customers, which has affected us. It is vitally important we stay close to our customers and do what we can to help them during these difficult times, " the company told Orient Aviation.

GE AVIATION ANTICIPATES STEEP MARKET DECLINE

GE CEO, Lawrence Culp, said the company's GE Aviation business had experienced a 50% drop in engine installations in July, compared with a year earlier, in line with fewer aircraft deliveries.

Commercial aftermarket services and shop visits were down 55% and billings from customised device agreements (CSA) had fallen 55%.

At July 31, about 31% of the GE/CFM fleet was parked, GE said in its quarterly results presentation. CFM International is a joint venture between GE and Safran Aircraft Engines. It makes engines for the A320 and 737 families among other programs.

"Services are critical to the recovery of GE Aviation as we generate a lot of cash here especially with narrow-bodies. They are more than 40% of our revenue," Culp said during July's GE's quarterly results presentation.

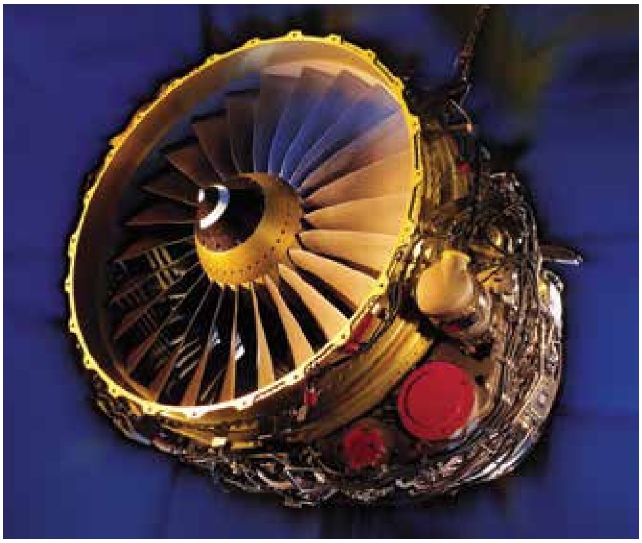
"We are planning for a steep market decline this year and likely a slow multi-year recovery. Longer term, the aviation market has solid fundamentals and we're committed to protecting the future of this business and our leadership position within the industry."

ROLLS-ROYCE SAYS THERE ARE SIGNS OF RECOVERY

Already struggling, engine maker, Rolls-Royce, said at its calendar 2020 first half results presentation there had been about US$1.452 billion less cash inflow in the six months to June 30, due to lower receipts associated with wide-body engine flying hours and fewer engine deliveries.

"Wide-body engine flying hours fell by approximately 50% in the first half, compared with the same six months last year with an approximate 75% decline in the second quarter," Rolls-Royce said.

"Since the low point in April, when flying hours were down 80% compared to April 2019, we have seen early signs of recovery with a marginal improvement in May and June led by an increase in flights in China, the Asia-Pacific and the Middle East."



COMPONENTS AND SPARE PARTS

The Oliver Wyman Global Fleet and MRO Market Forecast 2020-2030 report estimated spending on parts and materials, both used and new, would be US$26 billion in 2020, a 56% reduction from its forecast of US$60 billion pre-pandemic. The market was worth US$52 billion in 2019.

Spending on used serviceable materials (USM) in 2020 would be US$2.8 billion, representing about 11% of all spending on parts and materials. This represented a 40% fall, from US$4.7 billion, in 2019.

Oliver Wyman said MRO providers would face disruption in the USM market as inventory of sidelined and retired aircraft were stripped for parts.

"This cannibalisation will create a substantial ripple effect throughout aviation's supply chain and make it critical for MRO providers to ensure reliable sources of used parts," the report said.

"Access to a stable source of used parts, which are less expensive than new components, will be an advantage for MRO providers once air travel demand returns and airlines look to cut costs on operations.

"Because of this, MRO strategies need to focus on supply chain resilience and fixed costs to prepare for a long recovery period. Currently, demand and prices on USM are relatively low.

"It would not be surprising to see if market players, such as aerospace manufacturers, buy up supply to limit their loss of revenue on new parts, " the consultancy said.

LUFTHANSA TECHNIK OFFERS HOPE

A bright spot amid the gloom of the pandemic was the announcement in early August that 240 young people would begin their apprenticeships at Lufthansa Technik across nine different training courses and six study programs.

The global MRO originally planned to have more new apprentices in 2020 but COVID-19 had "made it necessary to adjust the number of trainees accordingly", it said.

"Even though we have no employment for many of our staff at the moment, we continue to train," Lufthansa Technik's human resources, engines and aircraft systems boss, Antonio Schulthess, said in a statement.

"One thing is clear: We will emerge from this crisis and we must be prepared in the best possible way for the demographic change in our workforce," he said. ■

Pilot demand to roar back post COVID-19

By Jordan Chong

Pilot training and flight simulator company, CAE, forecasts digital technologies to be more prevalent in the sector as aviation adapts to a landscape changed by the coronavirus pandemic.

Figures from the International Air Transport Association (IATA) showed airlines in the Asia-Pacific suffered a 87% drop in demand in April when the impact of international border closures and restriction of movement rules in a host of countries were at their most severe.

While there has been some improvement since then, it has mostly been in domestic markets, with travel between countries almost exclusively limited to repatriation flights returning passengers to their place of residence or transporting essential workers to their destinations.

As a result, thousands of cockpit and cabin crew and other staff working across the aviation supply chain either have been stood down or made redundant.

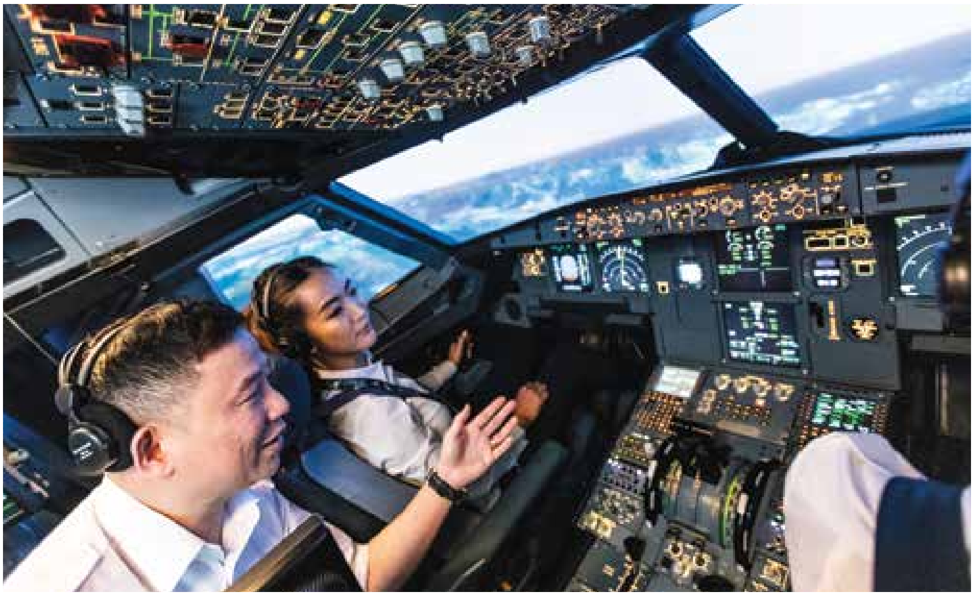
CAE CEO, Marc Parent, said COVID-19 had presented the company's staff and customers with "very significant challenges" from lower demand and disruptions to global operations.

But the global pandemic also had introduced improvements in the way CAE serve its customers despite operational hurdles such as the temporary closure of some CAE training centres and manufacturing sites and the omnipotent impact of travel restrictions.

Parent said during CAE's recent first quarter results presentation the average utilisation rate of its training network reached a low of 20% in the three months to last June 30 with half of all facilities either closed for a period of time or running reduced operations.

The average utilisation rate across the quarter was 33% and had continued to improve, reaching "upwards of 40%", as facilities were reopened and flight crews resumed some of their critical training activities.

"We've been adapting quickly to new realities by introducing virtual service offerings to support our customers as a response to border restrictions, including remote support for the installation, acceptance and qualification of the simulators," Parent said.



"Recently, we obtained Federal Aviation Administration (FAA) and other civil aviation authority approvals for virtual training at certain of our flight training organisations and we have developed remote instructor operating station solutions for live instructor interactions during training sessions."

LACK OF DEMAND

A lack of demand has led to airlines operating just a fraction of their regular schedules. Cathay Pacific Group said last month it was flying 8% of normal capacity in August compared with pre-pandemic levels. Singapore Airlines (SIA) said it was at about 6% in July and was planned to reach about 8% by October.

Countries with domestic markets have gradually increased flying as restrictions eased, but the re-emergence of COVID-19 cases has crimped planned growth.

Qantas said recently it was at 20% of normal domestic capacity, far below the 40% level the carrier had previously planned to achieve as local border closures prevented travel between certain states across the country.

Boeing's 2019 Pilot and Technician Outlook had projected the Asia-Pacific would require 266,000 new civil aviation pilots, alongside 266,000 more maintenance technicians and 327,000 new cabin crew, to meet demand in the next two decades. Demand would come from fleet growth, retirement and attrition, it said. The 2020 edition has not been released.

IATA has forecast passenger demand will not return to pre-pandemic levels until 2024, which leaves a lot of aircraft potentially sitting on the ground, or withdrawn, in the period ahead. The Asia-Pacific was expected to accept 300 jet aircraft deliveries (236 narrow-bodies and 64 wide-bodies) in calendar 2020, down 41% from 506 (355 single aisle planes and 151 twin aisles) in 2019.

With the global fleets shrinking rather than not growing, the prospects for pilots, at least in the short-term, appear bleak at a time of oversupply.

In June, Qantas said 220 pilots were expected to be made redundant "mostly" due to the retirement of the 747-400 fleet, with some 2,900 pilots to be stood down "from July 2020 onward". The Australian carrier has shelved plans to open a second pilot training facility, describing the project as on hold.

Other airlines that have publicly disclosed a reduction in their pilot corps include British Airways, Emirates Airline and Tigerair Australia, which has been shut in a restructuring by the new owner of of parent, Virgin Australia.

However, this period of oversupply was expected to be short, according to aviation consultant and pilot, Kit Darby, given the prospect a substantial number of pilots who have reached 65 years of age will be retiring in the period ahead, along with a significant number cockpit crew choosing to take early retirement.

"Pilot hiring will recover to 70%-80% of previous levels in one year or less, with a two to three-year recovery, back to the previous levels and beyond," Darby wrote in an analysis of the state of the industry and its projected recovery published on the ATP Flight School website.

"Full market recovery will be driven by future annual pilot retirements, averaging 4,100 new pilots per year. Note that this demand alone outnumbers the capabilities of the flight training industry. The pilot shortage remains. The return to normal growth will require twice as many new pilots, " Darby predicted.

Notwithstanding significant near-term challenges, the two largest original equipment manufacturers, Airbus and Boeing, said recently they believed the fundamentals that have underpinned the growth in air travel over past decades remained intact.

Airbus CEO, Guillaume Faury, said at the company's quarterly results presentation at the end of July that aviation "is and remains a long-term business". "It's not a question of if, but only when it will recover," Faury said."When we look at the long-term perspective, when COVID is behind us, we see very, very strong market demand and in some cases, even bigger because there has been this one, two, three, four, five years of growth that we observed pre-COVID-19."

Boeing CEO, David Calhoun, said during the Chicago-headquartered company's quarterly earnings presentation its commercial services business would take years to recover.

"Unfortunately, the prolonged impact of COVID-19, the further reductions in our production rate and lower demand for commercial services means we will have to further assess the size of our workforce and ensure we're aligning with the smaller market," Calhoun said.

"More hard decisions are likely ahead of us as we try to limit the impact on our people as much as we possibly can."

NEW SKILLS

Figures from Boeing indicate that of the approximately 2,500 aircraft with 20 plus years of service that were flying pre-COVID-19, some 1,000 had been retired. Industry analysis has shown narrow-body aircraft have been the first to return to service. This trend was tipped to continue in the period ahead, with long-haul travel the last sector to recover.

This means pilots certified to fly twin aisle aircraft, typically used for long-haul routes, face the prospect of either being on the sidelines for the longest time or heading back into training for narrow-body services.

It is this change that could also stimulate demand for pilot training, particularly the use of simulators necessary to complete testing and certification processes.

CAE's Parent said the company expected to deliver between 35 and 40 simulators in the 12 months to March 31, 2021, with the bulk of them scheduled to reach customers in the second half of its fiscal year, a reduction from 56 deliveries in the corresponding months in 2019. The company delivered two full flight simulators (FFS) in the first quarter, to June 30, 2020.

Demand for civil full flight simulators was closely linked to new aircraft deliveries. The total market for simulators was expected to be substantially smaller this fiscal year, Parent said.

"We expect to maintain our leading share of the available full flight simulator sales. We have the benefit of a large backlog of customer funded full flight simulator orders and the risk of cancellation remains low. We expect to substantially deliver this backlog over the next couple of years," he said.

Canada-headquartered CAE has launched a number of programs and products in response to the changed operating conditions, including a digital community platform, CAE Airside, that provided training and career resources to pilots grounded by the pandemic.

"The platform features articles and tools that were created on the subjects that matter the most to thousands of pilots surveyed around the world during this pandemic," CAE said in its first quarter financial results. It also has introduced instructor-led online courses for aviation maintenance training.

CAE chief financial officer, Sonya Branco, said the company was expected to book restructuring expenses of about C$100 million (US$76 million) in the next 12 months as it brought in changes to its operations related to the "optimisation of our footprint" and paid out staff made redundant because of the expected lower level of demand for some products and services.

"These measures include the introduction and acceleration of new digitally enhanced processes, such as remote installations and certifications and work from home practice," Branco said.

"Actions will include the consolidation of some of our facilities where overlap currently exists, so we gain the efficiencies of operating from larger centers. We will be relocating several training assets to optimise utilisation."

CAE's civil aviation training solutions business posted an operating loss of C$97.9 million for the three months to June 30 this year, falling into the red from an operating profit of C$98.6 million 12 months ago. Revenue fell 48%, to C$248 million, CAE said.

"The decrease in revenue from the first quarter of fiscal 2020 was due to lower utilisation across our network, lower revenue recognised from simulator sales due to lower deliveries and decreased demand for our crew sourcing business," CAE explained in its first quarter accounts.

During the quarter, the total backlog by value fell 15% to C$4.54 billion.

CAE has about 10,000 staff working at 160 sites in 35 countries across its civil aviation, defence and security subsidiaries and healthcare businesses. It reported a statutory net loss of C$110 million for the quarter, compared with a net profit of C$63 million in the prior corresponding period.

Parent said: "The world is obviously going virtual. Digitisation, if I multiplied maybe just exaggerating for effect, we have increased 10-fold.

"So, the investments that we make here, the processes, leverage and digital, is going to have substantial impact on how we deploy, train in the classroom, specifically, how we deliver simulators as well."

"With the benefit of some perspective over last five months, the positive news is we believe the worst of the pandemic impact on CAE may now indeed be behind us," Parent said.

"However, the pace of recovery is unlikely to be linear or quick. It will more certainly be dictated by the progression of the pandemic and the rate at which travel restrictions and quarantines can safely be lifted and economic activity improved." ■

Singapore Airlines Group to train local hospital teams

Singapore Airlines (SIA) said last month it would conduct a customer service training course for a local hospital, lending its expertise in training to other sectors of the economy.

SIA teams will train staff for Khoo Teck Puat Hospital's new patient care officer program. The courses are scheduled to start in September, SIA said in a statement in August.

The Singapore airline group said it also was working on other areas of cooperation with the hospital. "This includes the application of SIA's crew resource management practices – a wide range of skills that are used to enhance flight safety and reduce human error – to the hospital's operations," SIA said.

Beyond the collaboration with Khoo Teck Puat Hospital, SIA is exploring other training opportunities in areas such as customer experience and service excellence, human factors and resource management, digital transformation, airline operations and crisis management.

"Our proven instructional methods and active learner engagement, supported by qualified in-house developers and trainers, have successfully equipped more than 12,000 of our front-line employees with competencies in customer service and communication as well as teamwork and collaboration," SIA said. "This helps to drive service excellence throughout the customer journey, both on the ground and in the air," an airline statement said.

"In line with Singapore's push towards training and up-skilling, SIA can use our experience and expertise to support other companies and organisations. This can be done with speaking engagements, courses, workshops and programmes tailored to their requirements. This is an opportunity for SIA to diversify its non-airline revenue streams and allows us to deploy some our staff to these training roles."

SIA group boss, Goh Choon Phong

Orient aviation

26 YEARS