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PERSON OF HIS PEOPLE

CEO Izham Ismail eschews the trappings of the C-suite for shop floor feedback as he pursues financial resurrection for the Malaysia Airlines Group

Orient aviation 28 YEARS

More than eight in ten top aviation managers expect brain drain from industry in 2022

Braving brutal peer competition, Indian LCC Akasa to open for business

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COVER STORY

What are they thinking?

No-one should have been surprised by the International Air Transport Association's (IATA) stinging attack on airports and air navigation service providers (ANSPs) with some of them accused of price gouging to recover pandemic losses at the expense of their airline customers.

Relations between the airline body and Airports Council International (ACI) have been volatile for years, admittedly with some periods of calm. The basis of the fractious relationship are airport charges and airports infrastructure projects. In the latter case, they pass on the cost of these huge investments to airlines.

At IATA's AGM in Boston at the start of October, the airline lobby association's director general, Willie Walsh, had little choice but to object long and loudly to these practices given what has been happening on the airport charges front in recent months, but particularly in Europe.

Plans by London Heathrow Airport to raise its charges by 90% certainly appear excessive. Naturally, airports and ANSPs were quick to react to Walsh's comments. The most extraordinary comment came from ACI Europe director general, Olivier Jankovec, who said: "we should ultimately remember airlines can afford to pay airport charges." Really?

On what basis can he substantiate this assertion given the world's carriers have amassed losses of some $201 billion and have accumulated debt of more than $650 billion since the outbreak of the pandemic? It will take years for airlines to return to stable profitability and pay down debt, if there is not another global pandemic.

Worldwide, airports also have experienced dramatic declines in revenue that have resulted in big losses. The point is both sides should be helping each other for the sake of the industry. Airports should not be trying to exploit a bad situation. Airports are monopolies. Airlines, such as the major long-haul carriers flying out of the Asia Pacific, have little choice but to operate to them. They have to fly to destinations such as London Heathrow, Amsterdam, Frankfurt or even Los Angeles because that is where their customers want to go.

In normal times most of our region's carriers served these destinations daily. Airport and air navigation service charges are a significant component of the cost of scheduled flights. Big increases in airport charges will further damage their bottom line as they strive to recover from the COVID-19 crisis.

In most jurisdictions, including Europe and the UK, airports have to consult airlines about airport charges annually and give several months of notice of proposed changes. It can only be hoped local regulatory bodies, such as the UK's Civil Aviation Authority (CAA) in the case of Heathrow, can refuse to authorize increased airport charges at this time. ■

TOM BALLANTYNE
Associate editor and chief correspondent
Orient Aviation Media Group

IATA boss delivers dressing down to global airports

International Air Transport Association (IATA) director general, Willie Walsh, certainly lived up to his reputation for straight talking on the first day of the airline lobby group's Annual General Meeting in Boston, virtually declaring war on airports and air navigation service providers (ANSPs) by accusing them of outrageous price gouging to recover pandemic losses.

In a stinging attack reminiscent of the combative days of former director general, Giovanni Bisignani, he accused airports, particularly major hubs in Europe, for plans to hugely increase charges. No Asian airports were named and shamed, but the price hikes will certainly hit the bottom lines of long-haul Asia-Pacific airlines operating into Europe.

Walsh revealed London Heathrow Airport planned to increase charges by more than 90% in 2022 and also said Amsterdam Schiphol Airport was seeking to increase charges by above 40% in the next three years. In normal times, both of these destinations would be served daily by most of the Asia-Pacific's big carriers.

Airports were quick to respond. "We should ultimately remember airlines can afford to pay airport charges," said Olivier Jankovec, director general of ACI Europe (Airports Council

International Europe). "Airlines only pay airports if they operate and only weeks after they have collected revenue from passengers.

"Airlines are ill-placed to give us a lesson in preserving the interests of customers when they refused for months to refund passengers for flights that could not take place, with some still dragging their feet to do so," Jankovec said.

But Walsh was taking no prisoners. Other operators he named were Airports Company South Africa (ACSA) asking to increase charges by 38% in 2022, NavCanada for increasing charges by 30% over five years and the Ethiopian ANSP raising charges by 35% in 2021. He said confirmed airport and ANSP charges increases have reached $2.3 billion and more increases could be ten-fold this number if proposals tabled by airports and ANSPs are granted.

"A $2.3 billion charges increase during this crisis is outrageous. We all want to put COVID-19 behind us. But placing the financial burden of a crisis of apocalyptic proportions on the backs of your customers, just because you can, is a commercial strategy only a monopoly could dream up. At an absolute minimum, cost reduction—not charge increases—must be top of the agenda for every airport and ANSP. It is for their customer airlines," Walsh said.

Collectively, the ANSPs of the 29 Eurocontrol states, the majority of which are state-owned, are looking to recoup almost $9.3 billion from airlines to cover revenue not realized in 2020-2021.

"They want to recover revenue and profits they missed when airlines were unable to fly during the pandemic. Moreover, they want to do this in addition to a 40% increase planned for 2022 alone," Walsh said.

ACI's Jankovec retorted IATA was painting "a distorted and flawed picture" of the airport industry. He claimed increases in charges at airports place the burden of the recovery exclusively on airlines. "The claim was made that this would stall recovery in air travel and damage international air connectivity. This damaging assertion ignores the dire situation of Europe's airports," he said.

Airports in Europe have seen revenues collapse by -60% in 2020 and by -65% in the first half of this year. "Due to the predominantly fixed nature of their costs, airports have been unable to reduce them in parallel with falling revenues," he said.

"Rating agencies and financial analysts have recognized Europe's airports have no margin for more cost reductions. Just like airlines, Europe's airports have posted historic losses in this crisis.

"But unlike most prominent IATA member airlines based in Europe, they have not benefitted from the same financial largesse from their governments. As a result, they have had no recourse but to take on massive debt at market conditions. Gross financial debt at European airports so far has increased 200% compared with 2019."

For Walsh, that was a spurious argument. "Airlines undertook drastic cost-cutting from the outset of the pandemic, reducing operating costs by 35% compared with pre-crisis levels," he said.

"Airlines also sought government aid, the majority of which was in the form of loans that need to be paid back. Of the $243 billion that was made available to airlines, $81 billion supported payrolls and approximately $110 billion was in support that needs to be paid back." ■

Air services providers deny allegations of price gouging

Air Navigation Services Providers (ANSP) have strongly refuted accusations they are taking advantage of their monopolistic presence in aviation to price-gouge airlines debt stricken by the COVID-19 pandemic.

Civil Air Navigation Services Organisation (CANSO) director general, Simon Hocquard, said: "headline statements from the International Air Transport Association's annual general meeting could lead to the impression only airlines should be allowed to recover costs.

"Yet organisations across the entire aviation spectrum faced a significant drop in revenue in the last 20 months and have incurred substantial debt as a result of plummeting air traffic levels. The statements also undermine the considerable steps ANSPs across the globe have taken to address their revenue shortfalls."

He said a recent survey of CANSO members regarding COVID-19 impacts found 97% of ANSPs had reduced operating costs and 86% of members surveyed also cut capital expenditure in 2020, 2021 and beyond.

Additionally, the survey revealed 73% of ANSPs have been forced to cover the cost of continued operations by acquiring new debt. ■

Battle to overcome passenger vaccine hesitancy

Convincing travellers to return to the skies as the world recovers from COVID-19 may be easier in some countries than others, a recent survey charting passenger behavior has shown.

Although attitudes have changed in the past year, with more than half of those surveyed in the Asia-Pacific (51%) saying they would be confident to fly within the next six months compared with 40% in 2020, these sentiments are not universal.

Inmarsat's Passenger Confidence Tracker, the largest global survey of aviation passenger behaviour since the pandemic began, has compiled responses from 10,000 airline passengers globally, including 4,500 from the Asia-Pacific (APAC). The results revealed Singapore (37%), South Korea (36%) and Japan (30%) have the greatest hesitancy to travel. The largest proportion of these respondents said either they would wait more than a year to fly or until COVID-19 disappeared before taking their next flights.

There also is a generational difference when it comes to preparedness to board a plane. Older respondents were less inclined to fly in the next six months and most would want to wait longer. Younger respondents are keener to return to the air, but are more likely to travel with trusted airlines.

Interestingly, when it comes to travel confidence, 91% of passengers in the Asia-Pacific acknowledged the pandemic changed their long-term travel habits. Many will journey closer to home, with 36% of respondents revealing they intend to travel to less faraway destinations.

One unequivocal result of the pandemic is heightened passenger scrutiny of the health precautions and safety measures of airlines. When questioned about this issue, survey respondents were unified

in their attitude to vaccine passports. Almost five in ten APAC passengers (46%) believe COVID-19 vaccine passports are a good idea. Half of all respondents felt strongly enough about this issue to have them implemented immediately. Another 34% agreed they are a good idea but said they should only be introduced after everyone has been offered a vaccine.

Australia stands out as being the most opposed to the idea of digital health documents, with just 51% thinking they are a good idea. They are primarily concerned about the use of personal data (43%), a sentiment also shared by approximately a quarter of respondents in China.

Approximately 58% of those surveyed identified pre-flight COVID-19 testing as the most effective personal safety measure for air passenger travel confidence. Notably, 70% also agreed cabin cleanness is the most important factor in easing fear of flying in the pandemic era.

Most APAC passengers also want adoption of consistent worldwide safety standards (63%) and uniform hygiene practices (62%), the position of the International Air Transport Association since the pandemic began.

Inmarsat Aviation president, Philip Balaam, said one of the key take outs from this year's survey is the number of people who have taken a flight since the pandemic's outbreak has increased from 34% to 58%. ■

China overruled on emissions targets for airlines

IATA may have approved a resolution for the global air transport industry to achieve net zero carbon emissions by 2050, but it was the one item on the first day of the association's annual general meeting (AGM) in Boston that did not go through unopposed. Chinese airlines, it appears, are not over happy with the target. When the AGM called for comments or opposition to the proposal there were none in Boston.

But Liu Shaoyong, CEO of

Shanghai-based China Eastern Airlines (CEA), speaking online from China, drew attention to his government's policy of net zero emissions by 2060, not 2050. However, there were no seconders for an amendment so the original proposal was approved.

Interestingly, minutes later it was announced IATA had accepted an invitation from CEA to host the association's 78th Annual General Meeting and World Air Transport Summit in Shanghai next June.

IATA director general, Willie Walsh, said approval of a 2050 target was a momentous decision by the world's airlines to ensure flying is sustainable. "The post-COVID-19 re-connect will be on a clear path towards net zero. That will ensure the freedom of future generations to sustainably explore, learn, trade, build markets, appreciate cultures and connect with people the world over. With the collective efforts of the entire value chain and supportive government policies, aviation will achieve net zero emissions by 2050," he said. ***See IATA AGM report page 16.*** ■

Hong Kong LCC receives AOC

Hong Kong's Civil Aviation Authority has approved an Air Operator Certificate (AOC) for the special administrative region's newest carrier, Greater Bay Airlines. The LCC is now working with the Hong Kong Air Transport Licensing Authority for its public transport licence. "Although it is very challenging launching an airline during the pandemic, obtaining an AOC at this time reflects our commitment to the aviation development of Hong Kong, GBA CEO, Algernon Yau, said. ■

ATR facing most challenging time in its history as it turns 40

With anticipation building for ATR's 40th anniversary celebrations next month, the turboprop manufacturer is ensuring the occasion will be special with the announcement of a world first customer-centric digitized initiative designed to support the digitalizing of the industry in the post-pandemic era.

On October 7, ATR unveiled its latest addition to its client services suite. The cutting edge Customer Experience Studio, at its Toulouse headquarters, is bringing stakeholders as well as aircraft buyers into the studio environment either remotely or in person.

Equipped with seven cameras, a high performance sound system, touch screens and virtual reality devices, ATR said it is the first of its kind in the aeronautical industry.

The fully connected studio offers, through a series of interactive digital experiences, "a fully customisable and comprehensive touch and feel tour" of the company's products with a key focus of lower emissions, ATR said.

"The COVID-19 pandemic has deeply transformed our lives, however it also has acted as a catalyst in the transmission to new innovative ways of connecting to our customers and stakeholders," ATR CEO, Stefano Bortoli, said at the launch of the new facility.

"With this digital-first approach it will show, not tell, how ATR plays a leading role in regional aviation."

Major ATR milestones

November 1984: Cooperation agreement between Aeritalia and Aerospatiale to launch the ATR 42.
August 1984: ATR 42 makes maiden flight and is certified by European regulators to fly in September 1985.
December 1985: launch customer Air Littoral receives first ATR 42.
October 1989: Finnair accepts the first ATR 72 (72 seats) after its initial test flight in October 1988 and French certification in the following September.
First flights of the ATR 42-500 and the ATR 72-500, respectively, in September 1994 and January 1996.
October 2007: ATR announces launch of ATR-600 series with Air Maroc receiving the first -600 in August 2011 followed in 2012 with the delivery of the first ATR 42-600 to Tanzania's Precision Air Services.
February 2017: ATR and Braathens Regional Airlines conduct first Sustainable Aviation Fuel flight.
November 2017: ATR launches the ATR 72-600F, the first purpose-built regional freighter. Three years later, the first of the type was delivered.
October 2019: ATR unveils the ATR 42-600S Short Take-off and Landing program.
September 2021: ATR partners with Braathens Regional Airlines and sustainable aviation fuel (SAF) manufacturer, Neste, to achieve a 75% SAF demonstration flight in 2020 to produce anticipated emissions reductions of 64%.

The joint venture between Italian and French aerospace manufacturers was unveiled on November 4, 1981. In the following four decades, the company has grown from its maiden flight of an ATR 42 200 (42 seats) in August 1984 to the best-selling regional aircraft manufacturer in the world.

The company has delivered more than 1,500 of its ATR family aircraft to 200 airlines in 100 countries, facilitating the opening of 2,095 routes, the OEM said.

Its twin engine up to 90 seat aircraft are popular with airline customers because of their superior fuel efficiency, compared with regional jets, and an ability to operate to short runway destinations often in remote locations.

Until the global outbreak of COVID-19, ATR was adding Asia-Pacific airlines to its client list with several hundred ATR family aircraft flying in the region.

Major Asia-Pacific customers in recent years have been Lion Group's Wings Air, Malindo Air, and when being operated, Thai Lion Air. Other ATR airline customers in the region have included Air New Zealand, Bangkok Airways, Cebu Pacific's domestic arm, Cebgo, Indian LCC, IndiGo, and Malaysia's Firefly.

"In 1981, our goal was just as it is today: to provide regional connectivity to communities around the world. Now more than ever, our eco-responsible aircraft and dedicated teams are realising their unique values and purpose. Connecting more people, businesses and remote communities than ever before, helping them to create opportunities and transforming lives around the world," the OEM, now jointly owned by Airbus and Leonardo, said.

"Who would have thought when we started out that our aircraft could have made such an impact? So this year, let's celebrate 40 years of collaboration, connectivity, innovation, sustainability, excellence, expertise, opportunity and advancement. We call it 40 years of making a difference." ■

Tsunami of the skies ahead for India's airlines

Tata Sons takeover of the country's national carrier will change India's aviation sector forever, reports Anjuli Bhargava.

Many sectors of India's economy remain in the throes of coping with the shock of the global pandemic, but the country's aviation industry has been worse hit than most after the shutdown of flights in March 2020 and the emergence of a second wave of COVID-19 in April and May this year.

Ahead is another shock for the sector following the sale of Air India to conglomerate, Tata Sons, earlier this month.

Like all airlines in India, the national carrier has been struggling to survive through the pandemic. But unlike its rivals, Air India has been struggling to survive well before the pandemic. Post a botched merger between Air India and Indian Airlines in 2007-2008, the airline continued on its relentless path of deterioration alongside an unending drain on the exchequer. Its market share has collapsed to a fraction of its glory days value. Service standards have plummeted as has employee morale. The airline's aircraft reflect its overall condition: jaded, shabby and neglected.

On October 8, after one failed attempt to sell in 2018, India's financially strapped government sold the airline to Tata Sons, a part of one of India's large industrial groups and the conglomerate that founded the airline close to 89 years ago.

When the deal is completed, expected in December, the airline will have cost the conglomerate US$2.4 billion. The sale package is made up of $368 million in cash for 100% of the airline plus an agreement to take on $2 billion of its $8.2 billion debt.

The sale is momentous and historic. With it, the country's aviation sector is poised to change forever. The Tata conglomerate, widely known in India as the Tata's, already has two joint venture airlines in its corporate portfolio: AirAsia India and 51%-owned Vistara with Singapore Airlines (49%).

The aviation industry hopes, although it is far from certain, that the government's attitude to privately owned airlines will now alter. Throughout the history of Indian aviation, private airlines have accused the powers that be of favouring Air India with the disbursal of the best slots, privileges and treatment given to "The Maharajah".

Air India and Indian Airlines top management deny the allegations and counter argue most government ministers have variously favoured some private airlines usually for their own gain.

Post sale, it is hoped India's aviation minister and regulators will treat all airlines equally. Additionally, since Air India will lose its position as the national carrier, industry sources predict the allocation of bilaterals, slots, airport office accommodation, lounges and several other industry privileges often bestowed on it will now be available to all.

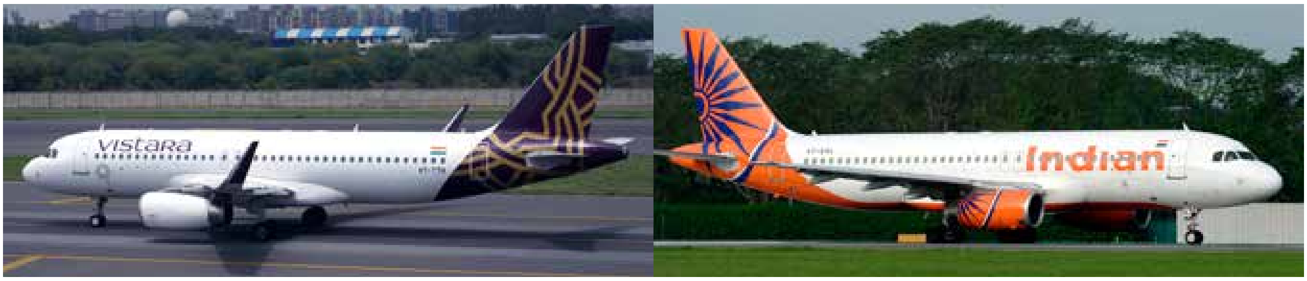
"We should see a much more competitive industry emerging as a result," Shakti Lumba, an industry expert and a member of IndiGo's founding team, told Orient Aviation.

Only time will tell, but what will certainly undergo a paradigm shift is the dynamics of the sector. If the Tata's successfully execute the merger of their two existing joint ventures into Air India in coming months, the new entity will emerge as the second largest airline in India. It will eventually offer competition to IndiGo, an LCC in its worst shape ever due to the pandemic. The outcome of this strategy will redefine the positions of India's other airlines.

It also will change the operational dynamics of foreign airlines, be it Emirates Airline and its UAE rivals, Singapore Airlines or the American carriers. Several of these companies depend on Indian traffic for a large part of their passenger demand.

With Tata's running Air India, these airlines will have a new, well-funded and reasonably hefty competitor with access to traffic rights, slots, pilots, technical expertise, and presumably, the determination to make Air India a success.

The new Tata entity and IndiGo will challenge foreign carriers who have enjoyed an almost free reign over Indian



traffic, particularly transit, in the past.

Depending on the aircraft the newly merged airline decides to operate, either Airbus and Boeing will win or lose. Pilots, cabin crew and aviation managers will have a possible new employer more trustworthy than most of the existing players. Skilled staff might jump ship for the security of Tata's.

Undercutting of fares, a practice Air India often indulged without thinking as the bill was paid by the taxpayer, should be less frequent, leading to an improvement, or at least altered economics, for its rivals.

So in general, it is fair to say the sale of the national carrier will redefine Indian aviation in ways we cannot yet fully envisage.

Tata's sources have confirmed the conglomerate will merge Vistara and AirAsia India into its overall airline operations. The details of the mergers are yet to be announced, but it is expected the final result will be one umbrella carrier large enough to contest IndiGo's hegemony.

Sources in Tata's said they were in a Catch-22 situation. The two existing airlines are making heavy losses and unless they attain a certain size, this is unlikely to change. "With a 10%-12% share between their two assets, the Tata's will continue to bleed," said Lumba.

To get anywhere, they don't have any option but to buy an airline like Air India to attain some size. A former Tata nominated AirAsia India board member said to "make good" on the investment, reaching a certain scale is critical and that is where the Air India purchase comes in, Otherwise, the group would face the very real prospect of continuing to bleed for decades in India's brutally competitive skies.

The next question that arises is will or can the Tata's, who set up the airline in October 1932, return the carrier to its previous glory? Former finance and aviation secretary, Ashoka Chawla, said Air India was once the "crown jewel" not just of Indian aviation but of global skies. Although it has sadly lost its "exalted position", there was "no reason", with correct handling, it could not re-enter the "hall of fame", he said.

Former boss, Vishwapati Tridevi, echoed this sentiment when he said "beauty lies in the eye of the beholder and the Tata's can see Air India's intrinsic value". The company only needs to get the right, experienced hands to unlock this value, he said.

This is the point at which doubts begin to surface about the deal. Do the Tata's, seen as the closest the country has to a "public private enterprise" have the bandwidth to pull this off?

Many pundits point out that despite having two airlines on its watch, Tata's has no experience in running such businesses because effective control of the two carriers remains with their joint venture partners. It has a freer hand at AirAsia India following the exit of Tony Fernandes, but it still has to sort out Vistara with Singapore Airlines - be it carrying the partner along or seeking its exit.

Others question Tata's overall management depth. Yes, TCS, one of the Tata Group companies, is profitable, but it is one of the few in the Tata stable that is. In general, the performances of Tata Group companies are not shining examples of corporate excellence. So the question is how will the new Air India owner manage something as ambitious as this?

Generally in India there is a negative attitude to inorganic expansions and mergers in aviation. It does not help matters that the new entity emerging from Air India's shadow is likely to be a mix of four different airlines: Air India, Indian Airlines and the two joint ventures carriers, one full service and the other an LCC.

"Assuming the Tata's operate one umbrella entity, the critical X factor will be how successfully they manage to merge different cultures. Even globally, it is recognised most attempts at inorganic growth stumble when the marriage of cultures fail", former aviation secretary, Ashok Chawla, said. A classic example is the merger of Air India and Indian Airlines. The two organisations remained rooted in their own individual cultures and failed to find common ground.

Another even bigger question is who will lead the new "khichdi" (broth) of carriers? Although AirAsia India CEO, Sunil Bhaskaran, has been at the forefront of the bid negotiations the group also has brought in many external consultants and advisors. The job would require a CEO of the calibre of David Neelman, founder of five commercial airlines including JetBlue and now Brazilian Azul, many in the industry reckon. A former Air India executive director said "mad, bad and dangerous to know" were the three terms used to describe Lord Byron by his lover, Lady Caroline Lamb, The same traits were, in his view, needed in anyone running the new Air India.

IndiGo's struggles to attract the right CEO for its plans don't offer much consolation. Although both founders were keen on a younger candidate to head the airline after former president, Aditya Ghosh, was asked to leave, they settled for Rono Dutta although age was not on his side. Dutta is holding the ship as steady as possible, but his time at IndiGo can at best be limited.

Recruiting expatriate talent to India's aviation sector, for love or money, has proved difficult for almost all of the country's airlines. Moreover, it is both expensive and not necessarily an ideal fit. India's operating environment is so alien that many expatriate managers have failed to acclimatize to it, failing in the end to deliver.

"We are like this only and this is pretty unique!" said a former ministry of civil aviation secretary. "India is not everyone's cup of tea. What works quite easily in other countries may not necessarily work here."

So the big question everyone is asking : Who will perform this miracle for the Tata's?

In the meantime, anticipation, excitement and trepidation are ruling the Indian skies following the sale. For thousands of the airline's employees and India's entire aviation sector, change is the only certainty. ■

India's new ultra-low-cost carrier, Akasa, chasing opportunity post the COVID-19 crisis

Setting up an airline in India is easier said than done. Here's why, reports Anjuli Bhargava.

Realms of academic literature dictate crises are the best times for business start-ups. The new kid on the block has a clean slate. No baggage so to speak. It can strike long-term deals at rock bottom prices with vendors and suppliers and young talent is available at cheaper rates, among a host of factors.

All this holds true for Akasa, the newest airline to enter India's aviation ken, funded by market mover, Rakesh Jhunjhunwala, and led by Vinay Dube, a former Delta Air top executive brought in by Naresh Goyal to fix Jet Airways when it was feeling the economic and political heat in more ways than one.

But industry experts and analysts predict Akasa's going may not be as smooth as it or others think. Several factors are likely to make its road ahead rocky and potholed. Former finance and aviation secretary, Ashok Chawla, struck a less than optimistic note when he said: "Akasa has chosen the right segment and it has some marquee names behind it. But it has entered a crowded space with established players. Already they have covered substantial ground [in the market]."

To begin with, airlines in India need a head honcho figure to navigate India's complicated rules, circuitous regulations and

quite often corrupt bureaucracy. "Who will be Akasa's Naresh Goyal, Jeh Wadia, Vijay Mallya, Ajay Singh or Rahul Bhatia ?" asks an industry veteran.

"Jhunjhunwala is primarily a financial investor and while former IndiGo president and CEO, Aditya Ghosh, holds a small stake in the carrier and is on the board, he is unlikely to play the role a Naresh Goyal or Ajay Singh (SpiceJet) would in helping the start-up LCC "navigate the complex web of India's establishment", a factor crucial for its success.

Secondly, Dube, although respected for his knowledge of commercial aviation, has very little experience about how Indian aviation operates. "Aviation is a mug's game in India where players spend much time ensuring things don't happen for their rivals," said a former Jet Airways old-timer.

"In today's scenario, an already highly stressed environment, many of its rivals, especially SpiceJet, could see a huge pilot exodus to Akasa if it buys MAX aircraft. It would have a lot to lose if Akasa takes to the skies," he said.

"I expect them to use their heft to delay the newcomer's plans", a former ministry of civil aviation secretary said recently. He said he has witnessed over the years many airline chiefs spend a fair bit of time "worrying about and scuppering the plans of rivals". Competition is better killed before it begins is the thinking.

Another reason why the industry is not fully convinced of the airline's success is that almost all its senior management is from legacy airlines. Barring Aditya Ghosh, Dube and the main team are either ex-Jet Airways or have had limited experience in low-fare airline management.

"This is another drawback I see for Akasa. The two are very different animals: a legacy carrier and a full-service one. Not everyone appreciates how different the two can be," said a former Jet Airways COO, speaking on the condition of anonymity.

Aviation history, not just in India but globally, is littered with examples of experts in one type of airline operating model attempting to run the other and failing. In Kingfisher Airlines' early days, Vijay Mallaya had brought in Alex Wilcox, who set up and worked for JetBlue, an LCC in the U.S. Wilcox quit very soon after he realised Mallya was talking low-cost but thinking and wanting a full-service airline. He felt his expertise was not required for Mallya's plans.

A senior IndiGo management member said this is more a mindset issue than anything else as all executives carry some legacy from all assignments. "Practices, service quality standards, in fact almost everything is determined by the culture you are groomed in and these experiences are never easy to change or shake off," he said.

Another crucial problem many see is the newbie's strategy of aiming for an ultra-low-cost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carrier (ULCC) space, a market category most argue does not exist in India.

"In India, we have low-fare airlines with high costs with some having a slightly lower high cost", said former commander, Shakti Lumba, A combination of high cost airports, high aviation turbine fuel (ATF) prices and a gamut of other factors mean airlines in India operate in a very, very high cost environment," he said.

"Charges for landing, navigation and other services at India's main metropolitan airports are higher than Singapore and Dubai by almost 30%-35%. Carriers in India also pay far higher rates for fuel, encouraging the ridiculous practice of [our] airlines refueling in other countries rather than at home.

"Moreover, unlike the U.S. and European countries, where airlines that offer no frills can function out of secondary airports with lower charges, there is not this option in India."

Chawla said at best the ULCC is a "branding gimmick and all players will be as low or high cost as an IndiGo or a SpiceJet, whatever you choose to call them". "Two of the biggest factors that allow a Spirit in the U.S. or any other ULCC to be so is they charge for both checked in and hand baggage.

"In India, passengers receive 15 kgs of free check-in luggage and 7 kgs of hand baggage. If average fares are around Rs 3,000 (US$40) net to Indian airlines, allowing airlines to charge for 22 kgs of baggage, it could mean an incremental average fare rise of Rs 500 per passenger."

In the U.S. and Canada, where ULCCs exist, the behaviour of full-service carriers and ULCCs is very different. It's not as if everyone adheres to the practices followed by each other. "The market is differentiated enough. Those who fly full service (FSC) would not fly with an ULCC. They are willing to pay for the conveniences and services a full-service airline offers," explained a former Jet CEO. In India, there is little difference between fares offered by FSC and LCCs although the former provides more services to customers. IndiGo and SpiceJet routinely lose fliers to Air India on this count" alone.

"Air India allows 25 kgs check baggage plus 8 kgs of hand baggage versus an LCC average of 15 kgs of checked-in luggage. The minute the government allows one airline to charge for baggage, everyone will quickly follow.

"Conversely, if any airline does not charge for baggage, it will have full loads as India's flying public is highly price sensitive. So industry sources say unless rules allow only one or two airlines to charge for baggage and they actually do it, this ULCC model cannot work in India."

For all the negatives, there is one huge positive for a newcomer. Akasa's biggest positive is it has not had to survive through the two years of the pandemic, a situation that afflicts every other airline in India.

All its potential rivals have reported massive losses and have balance sheets saturated in red ink. Akasa is starting with a clean financial slate. With seed capital funding of around US$100 million, it can easily launch a tidy but small operation and raise money through sale and lease back. If it orders 70 aircraft, industry insiders said Akasa could receive US$5 million to US$7 million per aircraft in the deal.

Also cash could start coming into the ULLC's coffers as flights are announced six months ahead and people start booking. Talent too will not be difficult to attract, especially at the mid and lower levels.

"The ultimate test will be delivery. If Akasa executes its operations to perfection, be it route strategy, financial management or bringing in productivity, efficiency and a sharp focus on costs, it can succeed because of the poor shape of all its rivals in the skies," said a former MOCA secretary. Although that, as India has amply demonstrated, remains a big if.

In the end, the Indian flying public stand to gain the most from Akasa's arrival in the market. More airlines translate into lower fares and more senseless undercutting, all of which is good news for air passengers. Taxpayers and travellers can only wish the brave hearts good luck and hope they make a success of their gamble. As the saying goes, you don't manifest dreams without taking chances. ■

Airline leaders predict a "brain drain" from aviation industry

In its Leaders in Aviation Survey 2021, global aviation recruiter, GOOSE recruitment, said 60% of those surveyed believed the pandemic would discourage people from joining the aviation industry.

The survey, the first to be conducted worldwide with aviation's C-suite bosses in the pandemic, also revealed many industry leaders feared redundancy, furlough and for their career futures.

Among its other findings was a willingness of 82% of respondents to change jobs in the next 12 months and a belief, held by 86% of those surveyed, that the future would be a hybrid between office and remote working.

The most important skills for industry leaders in a pandemic are communication, remote leadership and crisis management capability, GOOSE founder and CEO, Mark Charman, said.

"Our new reality will demand more from leaders, taking in what they have learnt in this time of crisis, listening to their employees and creating more empowerment for a better future for aviation," Charman said.

Other highlights from respondents in the survey are:

- *79% of respondents had adapted their leadership style during the pandemic.*
- *78% agreed workers would expect to be led differently post-pandemic.*
- *64% estimate it will take two to four years for aviation to recover to pre-COVID-19 levels.*
- *43% expect to increase the size of their teams in the next six months but 22% forecast more job losses.* ■


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AIRLINES FRUSTRATED AND PANDEMIC WEARY

The world's aviation chiefs, or most of them, met after a long drought of face-to-face dialogue at the International Air Transport Association's (IATA) 77th AGM earlier this month. The Boston gathering reinforced the pandemic weary sector's frustration with the politics of managing the pandemic. Associate editor and chief correspondent, Tom Ballantyne, reports.

It may have been a relief for the International Air Transport Association (IATA) to hold an actual in-person AGM, particularly after the postponement and then unavoidable cancellation of the annual gathering planned for Amsterdam in 2020. But if there was a common theme running through the commentary of speakers and on the delegate floor it was a deep frustration with the slow path of recovery for the industry strongly influenced by the snail like pace of governments in lifting border and quarantine restrictions.

A majority of the world's airline leaders did manage to attend the Boston AGM, although some delegates could not, including China's leading aviation bosses, because of their country's travel restrictions. They had to tune in on-line.

The result was a hybrid gathering that discussed everything from the environment and sustainability to the future of stellar performer, air cargo, during the pandemic. But it was, of course, dominated by a single issue: how to restore the industry to the pre-pandemic levels of 2019?

Ultimately, it was an AGM where the messages we have been hearing for more than 18 months had to be reinforced: flying is safe, with testing and vaccination rates increasing restrictions such as border closures and quarantine can be lifted, global standards needed for the adoption of vaccine passports and testing and governments must accepting Covid-19 is here to stay and living with it.

Unfortunately, they are messages many governments, particularly in the Asia-Pacific, have been and are continuing to ignore.

On the environment front, AGM delegates approved a resolution for the global air transport industry to achieve net zero carbon emissions by 2050, but even that vote was not a surprise given many member airlines already had announced their intention to meet that target.

Industry providers such as Embraer, GE Aviation and others were among those congratulating airlines on their official confirmation of the resolution.

But after 20 months of a pandemic during which carriers have grounded a large portion of their fleets, adjusted networks, dropped routes altogether, juggled schedules on an almost daily basis and coped with a myriad of complex and different health rules - not to mention massive losses and accelerating debt levels - to some it seemed there was no end in sight to the crisis.

In 2020, airline chiefs were saying 2021 would be better. Then along came the Delta variant and now they are predicting 2022 will be better.

But there is one thing the AGM audience did know. It is not only do airlines want to fly. Their customers want to fly. There is pent up demand among customers to return to the air and to travel. "People are increasingly frustrated with COVID-19 travel restrictions and even more of them have seen their quality of life suffer as a result of quarantine and closed borders," delegates were told.

They don't see the necessity for travel restrictions to control the virus. And they have missed too many family moments, personal development opportunities and business priorities because of them. In short, they miss the freedom of flying and want it restored. The message airlines are sending to governments is: COVID-19 is not going to disappear, so we must establish the means to manage its risks while living and traveling normally," IATA director general, Willie Walsh, said.

There is no doubt the demand was there, as proven by the rise in bookings any time restrictions are lifted, he said.

It was a viewpoint echoed by JetBlue CEO, Robin Hayes, the U.S. carrier that hosted the Boston AGM. When the U.S. announced in late September it would be opening its borders in November to allow fully vaccinated travellers from 33 countries to enter the country, JetBlue bookings increased by 900%, Hayes said.

At the AGM, IATA released a survey conducted in September that showed 67% of respondents thought the borders of most countries should be opened now, up 12 percentage points from a June 2021 IATA survey. Approximately 64% of respondents believed border closures are unnecessary and have not been effective in containing the virus - up 11 percentage points from June 2021.

Seventy three per cent of respondents said their quality of life is suffering as a result of COVID-19 travel restrictions, an increase of six percentage points over the June poll. The survey was conducted with 4,700 respondents in 11 country markets, including Australia, India, Japan, Singapore and the UAE in the Asia-Pacific and Gulf regions.

With vaccination rates increasing globally, 80% of respondents agreed vaccinated people should be able to travel freely by air. However, there was opposition to making vaccination a condition of air travel. About two-thirds of those surveyed believe it is morally wrong to restrict travel to vaccinated individuals.

More than 80% of the survey's recipients viewed testing before air travel as an alternative for people without access to vaccination.

The biggest deterrent to air travel continues to be quarantine measures. An overwhelming 84% of respondents indicated they would not travel if there was a chance of quarantine at their destination. An increasing proportion of respondents support the removal of quarantine if a person has tested negative for COVID-19 (73% in September compared with 67% in June) or if a person has been vaccinated (71% in September compared with 68% in June).

However, there were some anomalies in the poll results. While 71% of those surveyed thought the air quality on an aircraft matches the hygiene standards of a hospital operating theatre, 59% said they feared the air quality on a plane is dangerous. This thinking seems to indicate, despite an intense campaign involving scientific studies by IATA, Boeing, Airbus and others to show flying is one of the safest places to be during the pandemic, that this message has not got through to a large proportion of the flying public.

At the AGM, Walsh said the survey showed people wanted to travel and 86% expected to be traveling within six months of the crisis ending. "With COVID-19 becoming endemic, vaccines being widely available and therapeutics improving rapidly, we are quickly approaching that point in time. People also tell us they are confident to travel. But what those who have traveled are telling us is the rules are too complex and the paperwork too onerous," he said.

"To secure the recovery, governments must simplify processes, restore the freedom to travel and adopt digital solutions to issue and manage travel health credentials.

"People are willing to be tested to travel. But they don't like the cost or the inconvenience. Both can be addressed by governments. The reliability of rapid antigen tests is recognized by the World Health Organization (WHO). Broader acceptance of antigen testing by governments would reduce inconvenience and cost—costs the WHO's International Health Regulations stipulate should be borne by governments.

"It also is clear people accept testing and other measures such as mask-wearing as necessary, but they want to return to more normal ways of travel when it is safe to do so."

While nothing is certain given the nature of the pandemic and the ever present threat of new variants, Asia-Pacific airline leaders and their counterparts worldwide hope 2022 brings better times for the industry and that when they meet next June for the 78th IATA AGM in Shanghai, a recovery will be underway. Even then, they are aware a full return to 2019 air traffic levels, particularly in long-haul markets, is not likely to eventuate until 2024 or 2025. ■

** Tom Ballantyne "attended" the AGM virtually, unable to fly to the U.S. because of Australian Government restrictions on international travel.*


malaysia
malaysia airlines

PERSON OF HIS PEOPLE

He hot desks. He has relinquished the airline's downtown headquarters. At the carrier's offices near the Kuala Lumpur International Airport he works wherever he finds a seat. CEO and a Malaysia Airlines Berhad commercial pilot, Izham Ismail, is transforming the mindset and operating landscape of the national carrier. Associate editor and chief correspondent, Tom Ballantyne, reports.

It may not have been foresight but it certainly turned out to be prophetic. In mid-2019, well before the pandemic turned the airline world upside down, Malaysia Airlines Berhad (MAB) began experimenting with head office staff working from home. In the midst of a restructure aimed at recovering from losses and soaring debt, it was a way to economize.

The airline's office is adjacent to Kuala Lumpur International Airport, 80 kilometres from central Kuala Lumpur, CEO Captain Izham Ismail told Orient Aviation last month. "It was difficult to attract talent so we asked 'what if we worked from home?' Not knowing this would be the norm today, we started strengthening our infrastructure of working from home, working virtually.

"For our staff it meant they did not have to pay for petrol and toll charges and, indirectly, we were able to drive sustainability by shutting down more buildings. When 2020 arrived and the world went into crisis, Malaysia Airlines was an organization ready for virtual operations. In corporate Malaysia, MAB was the first organization to go fully virtual."

Today, MAB's operations are largely located in the South Support Zone at Sepang, near Kuala Lumpur International Airport, although most employees are working from home. "I have surrendered the office, giving it back to the Ministry of Finance so Malaysia Airlines is a full-blown working from home environment. I don't have an office now. I just move around wherever I get a space," Izham said. Of course, the carrier still has staff at the airport, working in maintenance and cargo, ground handling and at the airport terminal itself," Izham said.

'I reset the management team, the C-levels. I celebrate and respect inclusion so I brought in a new team. It did not have baggage and half of them were not even in the airline industry.

Today, the average age of the C-suite is 45 years old. Very young people come in and challenge me. They say 'hey, I know this is an airline, but what if'?

People were able to think outside the box. People are closer to the management team now. Pull down the barriers of being superior and subordinate. We are all in this together.'

Going virtual may have set the airline up to cope with the pandemic but before the crisis hit it had been on a financial and leadership roller coaster ride. After the talents of popular CEO, Idris Jala, took him to politics as a high level policy troubleshooter in Malaysia's government, Idris was succeeded by expatriate CEOs, Christoph Mueller and then Peter Bellew. Both arrived and departed within very brief periods of time.

They were followed by Jauhari Yahya, whose reign was dominated by two devastating fatal accidents: the disappearance of MH370 on a flight from Kuala Lumpur to Beijing in March 2014 and the shooting down of MH17 over the Ukraine in July of the same year.

As a result, MAB market share "dropped off the cliff" and staff morale hit rock bottom, said Izham, a 40-year veteran of the carrier and a pilot who rose to chief operating officer before being appointed CEO in November 2017. In an exclusive interview with Orient Aviation, he explained how close MAB came to bankruptcy, how staff morale was restored and how MAB won over creditors initially reluctant to support the airline group's revamped business plan.

Following the fatal accidents of 2014, MAB was taken over by Khazanah Nasional Berhad, Malaysia's sovereign wealth fund, but the company continued to report losses and debt levels still were climbing. Attempts to reset the organization with the Malaysia Airlines Restructuring Plan, or the MRP, were of limited success, although the staff payroll

'I told them – the employees on the ground in the hangar and baggage claim – I am not the CEO who walks on the red carpet. I am one of you guys. This organization helped me and my family. I have been here for the last 40 years, coming from a very poor background.

My father earned 30 Ringgit a month. This company kept me alive. So tell me what's wrong? By going on the ground I can hear them. I can feel them. I see them to a certain extent to really understand their pain'

was reduced by 6,000 employees.

By the time Izham took charge, it was clear much more needed to be done to save the company. "When I took the job I said to myself there are so many things I need to fix, where do I start? I figured out I should focus on the people first. I had a 100-day plan and I was concentrating on the people. Then I decided what to do with the business and the biggest problem at MAB, the balance sheet," explained Izham.

A key issue was Malaysia's airline market suffered from overcapacity, particularly with the presence of LCCs such as AirAsia. MAB was competing with them on their terms. An example, Izham said, was a domestic fare from Seoul to Jeju Island cost US$290. In Malaysia, 45-minute flights were being sold for $25. "I believed strongly the longer MAB was trapped in that market it would not be able to recover. So, in June of 2019 the team and I decided to go in the opposite direction," he said.

"We went to market with a premium fare, but we surrounded the fare with products. When I talk about products it is not about meals. It is not about the quality of the food, but our frequency and ensuring we have a good size market and capacity in the marketplace, flexibility in bookings. We improved the customer experience."

By operating as a premium carrier Izham does not mean luxury. MAB is not an Emirates or a Qatar, he explained. The transformation began to take effect. "In 2017, our net worth score was minus 22. In 2019 it went up to 27 plus. This a 40% movement," he said. Market share also improved, rising from 17% pre-2019 to 25% shortly before the pandemic struck.

"In any organization that has been going for many years you have a lot of baggage like overstaffing and legacy processes. I started introducing the need to put our customers first. In 2018, we saw a change in customer satisfaction. We were seeing traction. Then in 2019 we recorded a record-breaking score on the customer satisfaction index, from a low of 67% to 78%-79%. At that time, the customers were coming back to us."

Restoring morale was a key part of Izham's strategy for the rebirth of MAB. For two years, he spent a couple of days every week "on the ground", going in at three in the morning to join the baggage and ground handling teams to help them. "Not to spot check them but to understand their challenges and their problems," he said.

"By doing that I could create conversations and they could take me as equal. On a Friday, for example, at the end of the week, after work ended at 5.30 or 6.30, I would do my evening

prayers and then go to the hangar and mingle to hear what was happening on the ground."

The result was quickly evident. Every year MAB conducts a staff survey. Historically, the results were hopeless, said Izham. Less than half of the staff participated. By 2019, that had risen to 74%. In 2020, it was 85% and this year it hit 91%.

Given it was in the midst of a restructure, the pandemic was the last thing the group needed. "In late November, early December 2019, when the Wuhan crisis came up, I said 'hey, hang on, this is a crisis'. I assembled a team in December and said 'I hope it won't occur, but the organization needs to be prepared if this crisis spreads globally'," he said.

"That was way before the pandemic was declared. As we all know, eventually the world went into crisis. When it evolved a lot of decisions had to be made. I told myself I did not want to retrench anyone so I asked [the team] how can we do this?. We initiated cost-cutting. We reduced our capacity. Grounded planes. Cut the salaries and allowances of board members and also of management."

The outcome was interesting, Izham said. "By doing this, the organization became united. Initially, the management team was grumbling that their salaries were cut, but as time goes on, when lower income staff realize the management team sacrificed themselves to protect them, each of them comes to the management team and says boss thank you so much for sacrificing your salary to help us," he said.

"And the senior management team think 'oh my god I'm actually doing the right thing' and because of that the organization is united." Still, in 2019, MAB had a staff of 13,300. That is now down to 10,900 through attrition, people departing because they are unsure of the future of the industry and from contracts not being renewed.

Nevertheless, as the pandemic progressed, the balance sheet remained a major issue. "Around April, May, June (2020) something more drastic needed to happen. I went to the Board and said I believe this is the time for Malaysia

Aviation Group (MAG) to reset its legacy issues with the balance sheet," he said. MAG has three business sectors: airlines MAB, MASwings and Firefly; aviation services and e-commerce and travel services.

"The Board asked me: 'What's your proposal'?" Izham said. At that time, I was thinking of Chapter 11 (bankruptcy). Of course, the Board goes, 'hey hang on'." But Izham had been looking at other models, including Garuda Indonesia's past move to run a Scheme of Arrangement, seeking to come to an agreement with creditors and filing a case in the UK and Singapore to gain approval for a restructure.

"Around July, we started engaging the Board. In August, I went to the Board and said this is what we need to do. They asked what the success rate might be. I said, to be honest, this is a long shot. Maybe 10%? I said 10% was better than nothing. Either you shut down this organization or you give management a chance to pursue this agenda."

With Board approval, the management team set about talking with aircraft lessors, suppliers and investors. They worked 24 hour days engaging creditors across Asia, Europe and North America. Many creditors were reluctant participants, but the hard work paid off. In four months the team had won 100% participation from them.

Last February, the UK courts approved the deal as a "major component" of its restructuring program. The group's sole shareholder, Khazanah, provided a 6 billion Ringgit (US$851 million) capital injection into the company to 2025.

MAB had launched a long-term business plan (LTBP) in 2019. By this year it had morphed into LTBP 2.0. "What is the long-term business plan? The organization is in crisis mode. We have one track driving the financial restructure, another team running the crisis as it is and another [group] developing the business plan," said Izham.

"Today the legacy issue of MAB has been reset. We have reduced our liability by 15 billion Ringgit ($3.5 billion). We have addressed 10 billion Ringgit ($2.4 billion) of debt and we have brought down our debt to ebit ratio to 22%. We improved our balance sheet by 52%. So in the context of the financial restructure of MAB, we are lean and agile. What MAB needs today are for markets to re-open."

TLBP2 has five pillars: focus on the airline's own people, make the customer the centre of gravity, ensure security and

safety is in its DNA, work at the business and the environment and understand digital is its universe.

It incorporates increasing synergies with commercial partners, including airline partners in the oneworld alliance. The Asia-Pacific will remain its main focus of operations for business and the breadth of the business will be widened.

"Instead of having the airline and the aviation services business, our corporate strategy is to migrate to the airline/aviation business: MAB and subsidiaries Firefly and MASwings, the aviation services business of ground handling, cargo operations and MRO and then introduce the e-commerce platform to harness travel and leisure both air and non-air."

Like all airlines, COVID-19 has hit MAB operations hard. "We are operating at 15% capacity compared with 2019. Our forecast was that by quarter three this year we would be at minus 40% versus 2019. That was the plan," Izham said.

"Because of the third wave happening globally and the border restrictions, today we are in the region of 15%-17%. We foresee, with the rate of vaccinations happening in ASEAN and especially in Malaysia, which today has the highest vaccination rate globally, we should be achieving 80% vaccinated by the first week of October.

"Put that modelling into play, with bookings coming in, we calculate the capacity MAB will be putting into the market by quarter four - the latest will be November- December - will be around 35%-40% versus 2019."

MAB has 47 B737-800s, six A330-200s, six A330-300s, 15 A350-900XWB and six A380-800s. It also has firm orders for 25 B737 MAXs with 25 options. The A380s are grounded and are being sold. The airline is not exercising its options on the MAXs and expects to take the firm aircraft from 2023, with the last coming into the fleet by 2026.

As for the A380, Izham said it was a good aircraft during its time "but we strongly believe it does not fit our fleet just now or our future network. As soon as the fuel price hits $60 a barrel "the A380 is a goner", he said. "It is hoped they will be sold by the end of this year. They should depart the fleet by the second or third quarter of 2022," he said.

The network is expected to reach 70% of pre-COVID levels through 2022, Izham said, but the fleet, apart from the A380s, will remain the same because the company's agreement with its creditors contains a contingent deferral arrangement on rentals. If the market drops and does not pick up, the rental will be pushed back to 2024. "Hence, we don't have to let airplanes go and 90% of our planes are on operating lease. So, we will see MAB back to its original capacity by the second quarter of 2023," Izham said.

Throughout the pandemic MAB has not received any funding from the Malaysian Government. "I believe strongly the responsibility of a company lies with its shareholders. I remain steadfast on that. If I go running to the government for cash they would have to do the same for my competitors so I would not do that," he said.

Izham said MAB is a very different airline from a few years ago. "People are motivated. We are able to break down silos. For every project we run we appoint key members from across the organization so we have a cross functional team that runs projects," he said. Even though they were working virtually, staff had been working from morning till 11pm, so much so that six months ago Izham introduced a 6pm "tools down" rule.

As for the future, he has no doubt there will be more challenges. "If you ask me if 2022 is a home run year my answer is no. I believe 2022 is still a pressure year. Organizations and airlines need to be aware that until COVID-19 is treated like the Dengue (fever), the flu or Malaria, consumers will be very conservative. Next year is a year of recovery, but not totally out of the crisis," he said.

As for how Izham himself is weathering the pressure, he remains pragmatic. "Yes, I am tired. I am fatigued. I am burnt out. But every day I wake up and I tell myself and remind myself I believe in this journey and it's not stopping now," he said.

"In fact, my contract expired in November 2020. At that time, I thought it was perfect timing for me to leave. My chairman said 'Izham, we need you'. Then I realized it would be so wrong of me to leave now. No doubt it would have been the easiest way out for me and would put all the problems behind me.

"But then where do I stand in the community? Where do I stand as person? So, I decided to stay on. It's stressful and it's pressured, but the last four years have been the experience of a lifetime. There is so much knowledge I have gained. Today, I am trying to extend this knowledge to people around me, getting my young C-suites to follow me on this journey of learning and discovering. It's tiring yet interesting." ■

'We did a lot of activities to cut costs, but the one that really strengthened the outlook of people was that I went to the board and told them 'unfortunately I have to cut your salary. I have to cut your allowances'.

From the board right to assistant managers, everybody at the top had to take a pay cut from 10% right up to 60%. This money saved and protected the lower income earners. The objective was to secure jobs so no-one would be retrenched and, at the same time, costs were being managed.'

Down Mexico way for Asia's airlines?

Asian travellers bound for the U.S have little choice but to hop on a direct flight to Los Angeles, San Diego, San Fransisco or other West Coast destinations. Now, a new airport player is intent on convincing them there is an alternative, reports associate editor and chief correspondent, Tom Ballantyne.

Mexico calling. That's the message to Asia-Pacific airlines from that country's largest airport company, Grupo Aeroportuario del Pacífico (GAP). It is set to launch an aggressive campaign, as pandemic recovery gets underway, to lure carriers from across the Pacific to fly to the Central American nation.

GAP, which operates 12 airports in Mexico and two in Jamaica, believes there are good reasons to be confident some of Asia's carriers will seriously consider the opportunity. Firstly, at one of its major terminals, Tijuana International Airport (TIJ) on the U.S. border, it operates the Cross Border Xpress (CBX), an exclusive pedestrian bridge between Tijuana and San Diego. A brand-new Transit Processing Building is opening that will enable international passengers arriving at TIJ to go directly to U.S. customs and immigration without first being processed through customs and immigration in Mexico.

GAP's chief executive, Raul Revuelta, told Orient Aviation last month that anyone flying to Los Angeles (LAX) or San Diego from Asia knows how grueling the arrival process can be. "At LAX, if you are coming from Asia you can spend 45 minutes queuing. Here you are going to spend an average of seven minutes so entering the U.S. is really easy. The new building is going to do exactly that. No Mexican customs, only U.S. Homeland Security," he said.

For airlines, GAP offers another major incentive. The charges and fees at TIJ are 75% cheaper than San Diego and Los Angeles airports. As part of the launch campaign, new airlines flying into TIJ qualify for a year totally free of charges with a second year's fees discounted by 50%. There are additional cash incentives for advertising new services.

Pre-pandemic the only direct passenger flights from Asia to TIJ were from Shanghai and Beijing, operated by Hainan Airlines and Mexico's Aeromexico. They were cancelled when COVID-19 broke across the globe. After the U.S., China is Mexico's largest source of international visitors.

Ministry of Tourism of Mexico has reported that more than 168,000 Chinese tourists visited Mexico in 2018 and the numbers were on the rise. Tijuana ranks as a top destination for Asian travelers. In fact so much so that Mexico is developing "Anchor Attractions" a project aimed at catching the attention of more Asian tourists.

Revuelta, the youngest CEO of a Mexican listed company, told Orient Aviation in an exclusive Zoom call that like elsewhere in the world, the arrival of the pandemic hit the group's operations badly. "From April to June of 2020 it really was terrible. We lost 92% of our passengers, but after that the recovery was really strong, really robust. For the 2020 full year I would say we closed with minus 35% in the group. This year we are going to be around -10% versus 2019. Some specific airports, for instance Tijuana, are growing almost 12% more than 2019," he said.

The GAP CEO is well aware that attracting new customers now is difficult, particularly with large numbers of long-haul airliners still grounded. As recovery comes, he said the first step will be restoring Chinese flights with Hainan Airlines.

Tijuana is critical to GAP's long-term strategy. Manufacturing is the primary source of Tijuana's

> For sure, at the moment it is really, really difficult to attract new airlines from Asia, but at the end of the day I really believe the infrastructure should be there before the demand. We are working and preparing for the recovery of that market and to have all the infrastructure and correct facilities ready to receive them. We really believe the Asian market will come back

Raul Revuelta
Grupo Aeroportuario del Pacifica (GAP) CEO

growth, exporting medical devices, electronics, aerospace, automotive, and semiconductor products. Big Korean companies such as Samsung and LG have major factories in Tijuana.

Revuelta also sees opportunities for the SkyTeam alliance to expand its network in Mexico through KAL because TIJ has the best connections to a wide range of Mexican destinations.

Another reason for Asian carriers to consider Tijuana is VFR (Visiting Friends and Relatives) traffic, said Revuelta.

Southern California has a large population of Asian Americans, particularly Chinese, Japanese and Korean, with relatives in Asia. Ease of access between the U.S. and Mexico through TIJ and on to Asia would be attractive to traffic in both directions, GAP believed.

Apart from Shanghai, Beijing and Seoul, GAP targets for both passenger and cargo flights include Guangzhou, Hong Kong, Taipei and Tokyo. "Tijuana is a gateway to Southern California. It's an excellent access point for an Asia-based airline to serve both Mexico and Southern California," added Revuelta.

"Before COVID our passengers was really inconvenienced. They arrived in Tijuana, stepped out of the plane and proceeded through Mexican customs and immigration. Then they had to go across the bridge and through U.S. customs and immigration. It was terrible. With this new building there will be transit that bypasses the Mexican authorities. You will step out of the plane and go directly to the U.S. border. The other way it will be the same."

Apart from Tijuana and Guadalajara, GAP's other airports include Puerto Vallarta, Los Cabos, La Paz and Manzanillo in Mexico and in Jamaica Kingston and Montego Bay. ■

Boom times for EVA Air cargo

The year 2021 has brought EVA Airways (EVA), one of Taiwan's two leading airlines, recognition for its passenger service, winning awards from AirlineRatings, Travel + Leisure, SKYTRAX, and for the first time, Condé Nast Traveler's Readers' Choice award.

However, with the borders of Taiwan tightly shut to travelers for most of this year due to the pandemic, EVA's air cargo services, not its passenger cabins are in the spotlight when it comes to the company's profitability.

In the first three quarters of this year, EVA said, cargo operations earned TW$55.1 billion (US$1.97 billion) in revenue, an annual increase of 64.8%. The airline transported 631,000 tonnes of air freight, an annual jump of 28.3%, reaching a very impressive cargo load factor of 94.5%, reported Taiwan's United Daily News (UDN).

In the present fourth quarter, traditionally the busiest period in the air cargo industry, EVA almost certainly will experience a rise in cargo volumes and therefore revenue, especially after it takes delivery of three more 777Fs.

Last year the airline reached agreement with Boeing to convert a standing order of some 787-10s to three 777Fs. The first from the batch, registration number B-16787, was delivered to Taiwan on October 15, becoming the sixth B777 freighter in EVA's fleet.

Boeing is scheduled to deliver two more new 777Fs in November and December, expanding the airline's dedicated freighters to eight.

The 777Fs are operating more than 40 flights a week. In response to cargo demand, the carrier also has been flying 33 passenger airplanes in in-cabin cargo mode. These planes have been performing more than 50 flights a week.

Taiwan's exports rose for the 15th consecutive month in September. Recently, several foreign missions in Taiwan have urged the government to ease its strict COVID-19 border control measures, arguing they are hurting people-to-people exchanges and the country's commerce, reported Taiwan's Central News Agency. ***Tomasz Sniedziewski in Taiwan.*** ■

Partnerships critical for Embraer's Eve Air Mobility expansion in Asia-Pacific

By Jordan Chong

Eve Air Mobility (Eve) vice president of business development, David Rottblatt, says there is great potential for urban air mobility in the Asia-Pacific as travellers seek to retrieve time lost from traffic congestion in cities across the region.

Air taxi markets exist in many cities, but their usage is not widespread because of the usually high costs and limited networks that support the emerging sector.

The urban air mobility market is seeking to change that. At Eve, a developer of electric Vertical Take-off and Landing (eVTOL) aircraft, an air traffic management system is being designed for an urban environment and to answer the question of how to retrofit existing infrastructure for this form of transport.

Rottblatt said there is a lot of variation among Asia-Pacific countries in terms of preparedness for such transport systems. He nominates Bangkok, Manila and Tokyo, to name just three, as "ripe for this type of technology".

"The Asia-Pacific is one of, if not the engine, of this entire global economy specifically because of the human geography in many countries in Asia-Pacific and the type of congestion that already exists in many cities," Rottblatt told Orient Aviation in an interview from Boston.

"There is that shared pain point of traffic. There is that shared pain point of time lost.

"The Asia-Pacific is somewhat of an anomaly with respect to the rest of the world because of the heightened demand we expect some countries will have. Japan is an example. We think there will be as many as 200 to 300 eVTOLs needed to satisfy that demand in every major city."

Then there is Singapore, which is developing the urban air mobility sector without the history of an air taxi market.

"Singapore is leapfrogging the conventional industry of the air taxi market and going straight to eVTOL technology," Rottblatt said.

"It is very exciting that in spite of the fact it is relatively unfamiliar with the industry, it has become one of the world's earliest adopters of the technology by supporting our peers in this space and preparing for commercial operations in 2024.

"Quick, disruptive changes tend to be uncomfortable for a lot of communities, but Singapore has clearly demonstrated its ability to evolve very quickly."

Rottblatt also cited Melbourne in Australia, a city with a vibrant existing air taxi market, as one to watch for market growth.

"We are very happy to be partnering with Airservices in the Melbourne market where we will study building this business from this base and safely scale that industry," Rottblatt said.

"At the same time, there has been a history of difficulties with the community regarding noise from new technology entrants that has made that market a little bit more complicated."

Eve's eVTOL aircraft taking shape

Eve was officially launched in October 2020, but its origins began in 2017 in Embraer's business incubator program, EmbraerX.

Rottblatt said Eve has a similar approach to its Brazil-headquartered parent when developing its all-electric eVTOL aircraft.

Embraer has produced scores of business, commercial and military aircraft since it was founded in August 1969. Just as importantly, these aircraft have been certified by regulators in Brazil, Europe and the U.S.

"Embraer knows how to build and certify aircraft," Rottblatt told Orient Aviation. "We are not necessarily in a rush to get our product to market. It is more important for us that we get the design drivers right. With that in mind, we have been flying several proof of concepts in the last two years.

"We are in the process of building our full-scale rig that we hope to be flying by the end of the year.

"I don't think we are on the same timetable as some of the start-ups in the industry which are targeting 2024.

"We are looking a little after that let's say because of our own philosophy regarding aircraft manufacturing and certification, the way we like to do it and the way we like to pace ourselves to make sure we get everything right."

Rottblatt said the Eve eVTOL is designed to lift vertically, with two pusher props in the back of the aircraft to propel the aircraft forward.

"That is designed to ensure energy management is as efficient as possible, but also because we think it is a more comfortable flight for our passengers - that lift plus cruise configuration," Rottblatt explained.

"Because it has so few moving parts, we can achieve very competitive costs per seat per mile. The fewer things that move, the fewer things you need to maintain and the fewer safety concerns you may have."

Eve builds partnerships on air traffic management and airport infrastructure

The aircraft is only one part of the equation. There is also the air traffic management system that underpins the safe operation of eVTOLs and the infrastructure the aircraft requires for its flying operations.

The company is partnering with Airservices Australia on air traffic management and Skyports for the physical infrastructure.

"We are building brand new software from the ground up. We are validating a lot of the assumptions for what we believe will be critical for our urban air traffic management project by partnering with Airservices, our concept of operation with them and our concept of operation with the UK civil aviation authority," he said.

"It is teaching us a lot about what this environment will require. One of the ways we are differentiating ourselves with our urban air traffic management product development is we are building it at the same safety level as conventional air traffic management software. It is extremely complex, very redundant and very safe."

Eve recently announced an extension of its partnership with Skyports that is developing vehicle-vertiport operations in early adopter markets in Asia and the Americas.

Rottblatt, who is a helicopter pilot and a commercial fixed wing pilot, said the urban air mobility industry could take advantage of existing infrastructure such as helipads and ramp space at community airports. However, there are limitations that need to be addressed.

"Because eVTOL aircraft will be electric, energy management is crucial. An ability to fly as directly as possible from point A to point B will be needed for the safety case to be maintained, but also for the business mode," he said.

"Today, a lot of helicopter routes sometimes circumnavigate the city, specifically to avoid annoying people underneath. They don't fly as directly as possible because they are flying along visual navigation aids like train tracks, rivers, highways."

Another Eve partnership is with Singapore-based start-up, Ascent, to support entry of Eve's eVTOL aircraft across the Asia-Pacific for air taxi, cargo and air medical services.

Other players and recent deals

The urban air mobility sector was shaken up in June when it was announced that Vertical Aerospace had signed commercial partnerships and individual conditional pre-orders with American Airlines, Virgin Atlantic Airways and lessor Avolon for up to 1,000 eVTOL aircraft.

The order created buzz in the sector and perhaps confirmed, in some minds, that this was not a speculative market.

In late September, Eve signed a Memorandum of Understanding (MoU) with Bristow Group for up to 100 eVTOL aircraft, with first delivery expected in 2026. In a joint statement, the two companies said they also would work together to develop an air operator's certificate (AOC) for Eve's eVTOL aircraft. ■

GAINS FROM PANDEMIC PAIN ON HORIZON FOR AVIATION LESSORS

Aircraft lessors have had to dramatically adjust their business to cope with customers who have seen their finances battered by the pandemic. Many of them also have suffered losses lending support to expected consolidation in the sector. But for those who survive crisis, there is good reason for them to look forward to a golden future, reports associate editor and chief correspondent, Tom Ballantyne.

Forecasts of the growth in the aircraft leasing industry in the next few years vary wildly but whichever way you look at it, there is little doubt it is going to be a great business to be in.

According to a recent report from Market Research Future, with principal offices in the U.S. and the UK, the global aircraft leasing market is set to reach $62 billion in value by 2023, registering 4.75% annual growth.

And it gets better. In April this year, Statista, a Hamburg-based provider of market and consumer data, predicted the aviation leasing market will be worth $473.6 billion in 2026. Yet another forecaster, New York-based Polaris Market Research, said that by 2028 the global aircraft leasing market size will reach $539.68 billion.

What analysts do agree is that leasing will be a growing percentage of the operating fleets of airlines. Indeed, the expansion of aircraft leasing has been exponential. In 1970, only 0.5% of airline fleets were leased. In 2020 that figure had risen to 46%. Clearly, as airlines recover from the pandemic and strive to restore balance sheets that have suffered billions of dollars in losses sale and lease back deals with lessors and acquisition of new aircraft directly from lessors is likely to grow even more dramatically.

Page Executive, a division of UK-headquartered consultants, the Page Group, said: "most airlines are hesitant to purchase aircraft of their own — and for good reasons. A single B777-9, for example, can cost up to $409 million. It makes more economic sense for airlines to rent these aircraft".

"Not only does this increase the number of aircraft in the fleet, it does so without incurring a crushing financial burden on the airline in the long run."

The Asia-Pacific has been playing an increasing role in the expansion of the leasing sector. Since 2011, there has been a significant increase in demand from Asia Pacific-based airlines, particularly from China, India, Vietnam, Indonesia, and the Philippines, Page said.

"Since 2010, Asian banks, equity and debt capital markets, as well as the asset-backed securities market have played a major role in the aircraft leasing industry's strategic importance. As for the scale, there were about 800 airlines globally in 2018 and they will require more than 45,000 new aircraft in the next 20 years. Secondly, in terms of investors and funding, there are above 350 aircraft lessors, at least 200 active banks and above 1,000 capital market investors."

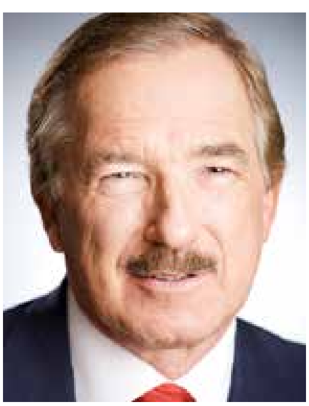
The aircraft leasing industry's centre of gravity has certainly shifted towards the Asia Pacific. Most of the top 20 lessors have reported 50% or more of their global revenues are generated from the region. And while Dublin was once regarded as the global hub for aircraft leasing, that mantle is shifting to centres such as Singapore, Hong Kong, Beijing and Shanghai. ■

Lessor consolidation ahead? Or maybe not?

There is no doubt these have been turbulent times for the world's aircraft lessors. Some have navigated the crisis better than others from aircraft and engine deferrals and even repossessions with airline customers. Now, there is talk of an industry consolidation as aviation begins its emergence from the pandemic crisis.

When aircraft leasing leader, Steven Udvar-Hazy, executive chairman of California-based Air Lease Corporation, spoke at the Airline Economics Growth Frontiers London conference last month he expressed aloud the fears and hopes of the sector's managements. Recovery in air traffic to pre-crisis levels, he believes, will take longer than many expect and it will be "turbulent" because of likely new virus strains and differences in vaccination rates across the world.

Conversely, he is confident the large numbers of aircraft ordered by lessors pre-pandemic will be needed by airlines despite the crisis. Nor does he view the downturn as creating "huge quantities of undesirable aircraft" in lessors' orderbooks.



Udvar-Hazy said that when carriers parked hundreds of aircraft early last year, a big number of these planes should have been replaced between 2017 and 2019. They were being kept in service as "surplus" assets in the prosperous market conditions of the time. Many of these aircraft will need to be replaced.

Among his other observations were that new aircraft demand will come from start-up carriers entering the market after the crisis, planes will depart fleets and be converted to freighters and environmental demands will prioritise flying fuel efficient fleets.

Whatever happens, many in the industry foresee an increasing trend towards consolidation following the proposed $30 billion merger of lessor major, AerCap, and GECAS. It will create the largest aircraft lessor in the world by portfolio value with a combined fleet of more than 2,000 airplanes and an additional 500 aircraft on order. Cirium data said the combined company will account for about 16% of the global passenger jet leasing portfolio and 15% by value. The lessor duo has a lessee base of 266 airline customers.

With that sort of sway, many competitors will have little choice but to consolidate, eating up smaller players. Indeed, those minor players are hurting the most from the pandemic. But just how much industry consolidation there will be is a matter of debate - but most agree it will happen.

SMBC Aviation Capital's Peter Barrett, CEO of a consortium of leading Japanese institutions headquartered in Dublin, has indicated the lessor could receive offers to participate in consolidation because it is one of the best capitalized firms in the industry. SMBC has 496 owned or managed aircraft. "If any opportunities present value and fit our strategy, we will certainly have a look at them," he told Reuters, and added events of the last 18 months would "probably accelerate" the sector's consolidation.

At regional aircraft lessor, TrueNoord, CEO Anne-Bart Tieleman told Orient Aviation: "we certainly think the aircraft leasing market will see some consolidation in the foreseeable future. This is part of the development of our industry'.

"COVID-19 is not the direct catalyst for this but definitely a reason why you might see acceleration of this process. As our industry grows, the size of an organization and balance sheet health does matter. Players in the market recognize this," he said.

"But it is certainly not going to happen overnight. It will take several years to make certain deals happen even if, from the outset, some of them seem to make sense on paper. This also is the case in our particular segment, leasing regional aircraft, although all on a smaller scale."

Other industry leaders are more cautious. Patrick Hannigan, CEO of CDB Aviation, a wholly owned Irish subsidiary of CDB Financial Leasing, believes lessors have more important issues to manage than mergers.

"The impact lessors have is limited at this time because there is too much uncertainty, a situation that is out of the control of lessors and airlines. The focus should be on the actions of governmental and provincial authorities in addressing health directives around the pandemic and managing protocols to facilitate proper passage and traffic between countries," he told Orient Aviation.

Aircraft Finance Lease CEO, Deepark Sharma, predicted organic consolidation will happen but not on any great scale. And Luc Morvan, chief representative at the Singapore office of MTU Maintenance Lease Services said the extent of consolidation remains to be seen.

"Economies of scale certainly could benefit certain providers, but it depends entirely on their business models, synergies with potential partners and fleets as well as the commercial intention behind any acquisitions if they are looking to change portfolio size, age, range of assets, geographical customer base etc," Morvan said.

Senior executives outside the leasing sector also appear happy with the prospect of more consolidation. Airbus CEO, Guillaume Faury, told analysts during the company's first quarter earnings conference call earlier this year that his first observation was lessors have remained very strong in the past year.

"They've been instrumental in enabling that industry to keep moving forward in a very, very challenging situation. It relies on the stability of the financial system. There is no financial crisis and that is very important for us." He acknowledged Airbus considers consolidation of some lessors important. "There are pros and cons in these situations. But overall, I would say we are fine with it," he said.

International Air Transport Association (IATA) director general, Willie Walsh, also has dismissed concerns about too much consolidation and the potential risk of anti-competitive behavior in the leasing sector.

"It is still a pretty fragmented industry," he said during a recent media briefing. "Generally, the leasing sector is competitive. There are lots of options out there for most if not all airlines. In fact, it would be fair to say that in many cases lessors have been part of the solution for the cash crisis airlines have faced through 2020. You have seen a lot of sale and leaseback activity.

"In most cases, these have been, from my personal experience (as former CEO of International Airlines Group), at rates I would have considered normal or near-normal. I have no concern about the leasing industry at this stage."

Alton Aviation Consultancy, which has offices in New York, Dublin, Hong Kong, Beijing, Tokyo and Singapore, has identified more than 900 passenger aircraft operated last year by "high risk" airlines—defined as operators carrying liquidity of two months or less and without government ownership. They acquired the majority of the 900 airplanes, most less than 10 years old, via lease.

"Lessors have supported struggling airlines with concessions. Now some need a structured plan to weather the crisis themselves," the Alton consultants wrote. The consultancy expects to see increased portfolio consolidation with well capitalized lessors acquiring assets or full portfolios from smaller players and investors either rationalizing their holdings or being forced to sell.

"The Asia-Pacific is a diverse region in so many ways that the industry's return will be fragmented and uneven. China has the advantage of a large domestic market which may be currently down, however the size of this market offers air travel advantages and thus will open before most others. Important to note is that even with the return of travel segments emerging, travel will not be easy due to inconsistent border rules and requirements which may hamper intra-region and certainly wider international travel. It may well be 2023 before it looks anything like normal traffic patterns"

Patrick Hannigan
CDB Aviation CEO

There is no doubt many bigger aviation lessors have weathered the pandemic storm reasonably well. AerCap Holdings, which reported a profit of $1.1 billion in 2019, but sank to a $299 million loss in 2020, recently announced it was back in the money in the quarter to June 30 to the tune of $1.173 billion.

In Singapore, BOC Aviation has reported a net profit of $510 million in 2020. In August, it announced an interim 2021 profit of $254 million. Profitability has been better from the second half of 2020, as earnings and cash flow outlook improved for most of its airline customers, particularly in China, Europe and the U.S., it said. The lessor has a portfolio of 536 owned, managed and committed aircraft of which 377 are owned.

At SMBC, Barrett reported 2020 profits of $15 million even though the company described the pandemic-hit year as the worst 12 months the industry had experienced.

After going through a bad patch last year, when it lost $47 million, CDB Aviation achieved a 46.2% rise in its first half profits, to $280 million.

"The first half of 2021 has seen some green shoots pointing to the start of an industry recovery in earnest, which is expected to accelerate in the latter part of 2021," the company said. CDB's Hannigan believes that over time aircraft leasing in the Asia-Pacific, as in other regions, will continue to grow as a component of an airline's fleet strategy.

"Today, the successful leasing of aircraft requires a lessor to bring to the table a variety of solutions to provide an airline with flexibility and meet their needs for growth," he told Orient Aviation in a written response.

Despite brighter news for some lessors, a major issue for the sector is negotiating with cash-strapped customers desperately in need of lease payment reductions or deferrals. Some airlines also have faced repossession of their airframes and engines.

According to ratings agency, Fitch, aircraft leasing companies have reported nearly 90% of airlines have been unable to make lease payments and/or have requested rent deferrals since the pandemic began.

Lessors also are dealing with increased defaults and lower renewals. The resulting reduction of cash flow, together with increased anxiety about when counterparties might resume honouring obligations, is creating significant stress for aviation lessors.

The extent of that pressure was revealed in a September note released by law firm, Stephenson Harwood. Headquartered in London, it has been advising Hong Kong's ICBC Aviation

Leasing on a range of aircraft repossessions and airline re-organization deals, involving more than 17 airlines across 11 jurisdictions.

The legal proceedings concerned more than 50 aircraft in multiple jurisdictions, including Australia, India, Indonesia, Japan, Korea, Malaysia, Nepal, the Philippines, Singapore, China, Laos, Thailand and Vietnam.

Briefs have included advising on Malaysia's AirAsia X's scheme of arrangement in Malaysia, which concluded with a seminal judgment in favour of ICBC in the Malaysian courts. AirAsia X recently posted a record quarterly loss of $5.9 billion, eight times more than a year ago and its ninth successive quarterly deficit.

Stephen Harwood also has represented ICBC in restructuring negotiations with Thai Airways International and advised on the repossession of engines leased to Tigerair Australia but located in Singapore. Stephenson Harwood partner, Simon Wong, said the Malaysian Court's judgment in relation to AirAsia X was significant because it dealt with the pertinent issue of whether a scheme of arrangement is regarded as insolvency proceedings for the purpose of the most important international treaty in aviation finance - the Cape Town Treaty. The Treaty is a convention defining mobile equipment, including aircraft, and specifies international rules on issues including repossession and the effect of a particular state's bankruptcy laws.

Despite the uncertainty of present times, major lessors are ordering aircraft and engines and insist they will eventually accept all previous orders. And some of them have seized opportunities where rivals have feared to tread.

Avolon Leasing, a Dublin-based lessor owned by China's Bohai Leasing, is extending its remit to the freighter conversion business.

With the growth of e-commerce in a rapid upward climb and air cargo revenue forecast to exceed $150 billion in 2021 and then double in the next decade, to capitalize "on this clear opportunity", Avolon has signed an agreement with Israel Aerospace Industries (IAI), the world's leading independent freighter conversion company.

Avolon will be IAI's launch customer for its A330-300 freighter conversion program. The agreement will see Avolon partner with IAI and take 30 A330-300 conversion slots with IAI between 2025 and 2028.

Avolon CEO, Domhnal Slattery, commented: "we identified IAI as a long-time global leader in the aircraft conversion business and the right partner for Avolon to capitalize on the unparalleled growth in e-commerce".

"Today, the global air freight market is worth more than $150 billion annually and the sector is transforming, with air cargo traffic forecast to double in the next 20 years. This agreement signals Avolon's intention to be a leading player in that expansion." ■

"Busy times" for engine lessors as airlines right size fleets

There are busy times ahead for aircraft engine lessors, sector insiders predict. "Lessors are becoming increasingly involved in asset maintenance, either by providing full maintenance support or by leasing assets until unserviceability," Chief Representative Singapore Office, MTU Maintenance Lease Services, Luc Morvan, told Orient Aviation.

"Already, we are seeing stronger demand for engine MRO support from the lessors. In addition, there will be a wave of maintenance events required to manage the return to service of the currently parked fleet. Technical teams will have a lot of work to do on this front, which we are already seeing reflected at MTU Maintenance with increased demand for our on-site and technical asset management services."

Willis Lease Finance Corporation senior vice president and chief commercial officer Americas & Asia, Craig W. Welsh, told Orient Aviation recovery in the region's lessor industry will vary with some countries emerging sooner than others.

"On the whole, we anticipate the Asia-Pacific to recover in the 2023 to 2024 time frame. From a lessor perspective, however, the industry could recover sooner as airlines will likely rely heavily on the lessor community to provide capacity for growth and also to defer maintenance costs as cash conservation will remain a priority for the foreseeable future," he said.

"As an example, many airlines use leased engines to replace engines requiring expensive refurbishments, allowing them to continue operating the aircraft

"Passenger traffic in many regions within Asia-Pacific is still well below pre-COVID levels as lockdowns and travel restrictions remain. Even in markets where there are no caps on utilization or capacity, passenger quarantine requirements continue to impose a damper on travel demand, especially in regions that rely heavily on international traffic. As a result, it would be no surprise if there are several airlines continuing to struggle financially, with debt still growing, especially those in jurisdictions that have received little to no government support"

Craig W. Welsh
Willis Lease Finance Corporation senior vice president and chief commercial officer Americas & Asia

while delaying the large cash outlay for the unserviceable engine's shop visit."

Welsh said a major question at hand was which airlines or regions may still be vulnerable to another wave of the pandemic.

"In other words, when considering new placements, lessors need to recognize that while things may be headed in the right direction today, it is possible tomorrow could quickly return to lockdowns and capacity limits by jurisdictions in reaction to outbreaks, once again hurting the airline's cash operating position and ultimately their ability to pay."

Overall, Willis expects the narrow-body market to recover the fastest, in particular the models with newer technology engines, Welsh said. "With better fuel burn and greater range than their predecessors, they are the more cost effective and versatile aircraft to operate. They can cover domestic and regional international routes as the latter recovers over time.

"We have already seen this to some extent in North and Latin America."

MTU's Morvan said: "airlines have been able to rotate and optimize their engines in the fleet through parked aircraft, so short-term lease demand is minimal."

"Trading activities have definitely increased in 2021 compared with 2020. Asset owners are actively looking to purchase assets they want to keep in their portfolios and sell those they may want to exit," he said.

"For engines, trading mainly has been used to generate cost-effective green time or postpone heavy maintenance events. We clearly feel the market is preparing for recovery.

From a trading perspective, full recovery to pre-pandemic levels in the Asia-Pacific probably won't come until 2024, predicted London-based Aircraft Finance Lease (AFL) CEO, Deepak Sharma, who said there has been a slight improvement in 2021 compared with 2020. China and India will recover fastest in the area of lessor activity.

"Price wise, it is unlikely lease rates will return to pre-pandemic levels soon, Morvan said. "But current commercial concessions are not sustainable for lessors in the long-term. Fleets will need to be operated longer for lessors to receive their return on investment,

"This will affect their opportunities to provide solutions to airlines for fleet refresh. In turn, lessors are looking to preserve book value, especially on the high-cost items, such as engines."

Another trend is airlines "right-sizing" their fleets. "Excess capacity will take an extended time to be reabsorbed by the market. Growth will be intra-regional and more narrowbody-focused to start," said Morvan.

"Some lessors have been quite aggressive about acquisitions during the Covid-19 crisis, capitalizing on distressed asset values.

"We expect a quicker disposition of older aircraft types s we emerge from the pandemic and lessors look to sell excess fleet. This will increase trading volume, in our area in particular, for green-time engine assets and material."

If the region manages to reach pre-COVID levels of travel in 2023, MTU agrees expansion is ahead from 2024, probably led by LCCs. Asia-Pacific markets with the highest portion of domestic travel will recover first – such as Australia, China, India, Indonesia, Japan, Korea and Vietnam, is the view of most leaders in the sector.

The downside, as pandemic jitters continue, is that more airlines could go out of business. ■

Airline financial standings worsen for regional aircraft lessors

Even though their customers are not using their aircraft in hard-hit long-haul markets lessors of regional jets and turboprops have had just as many hurdles to jump during the pandemic.

"The Asia-Pacific cannot be seen as a whole region as every country is in a different situation, but in general we see that due to the ongoing border closures, airline financial standings are continuing to worsen,'' lessor TrueNoord's sales director for the region, Carst Lindeboom, told Orient Aviation.

"It is a challenge to find decent credit in this market. Another challenge is dealing with aircraft deliveries and redeliveries, or worse, repossessions in these times of COVID measures, quarantine and border closures. The restrictions result in an inability to access your asset, which can be a substantial risk."

"TrueNoord is coping with this by hiring local representatives and carefully planning ferry flight crews around the various country restrictions. It is proving to be a rather complex puzzle every time."

The aircraft lessor, with offices in Singapore, Dublin, London and Amsterdam, leases regional aircraft to clients across the globe. In Asia, it has one Embraer E190 with Taiwan's Mandarin Airlines, two Dash 8 400s with Philippine Airlines, four ATR72-600s with Indonesia's Wings Air, three ATR72-600s with US-Bangla Airlines in Myanmar and five ATR72-600s with India's leading LCC, IndiGo.

"Aviation is a complex system. Airlines need to benefit from hub and spoke models with transit hubs to justify their fleet sizes and become profitable. As long as vaccinations in other large countries in the Asia-Pacific are lagging behind [herd immunity rates] widespread travel within the region will probably not be possible in 2022, but hopefully in 2023. So a full recovery of aviation will take some years"

Carst Lindeboom
TrueNoord Asia-Pacific sales director

The timing of the industry's recovery from the pandemic will depend on new waves of COVID-19 and its variants as well as vaccination rates, TrueNoord believed. "With the current vaccination rate, some countries, like Malaysia, Korea, Japan, Australia and New Zealand will soon reach levels required to open again," Lindeboom said. "This will probably lead to more and more green lanes between countries in Q4 and in the first quarter of next year.''

Lindeboom pointed out that at the start of 2021 everyone was sure the situation would be better. "It was for a while, but in recent months it has worsened in Asia and we have had to adjust again. We are hopeful things will pick up in coming months and that 2021 will indeed be better than 2020. We are in constructive talks with our current lessees and in the process of doing some new remarketing deals in region," he said.

TrueNoord, like other regional aircraft lessors, benefits from the fact its aircraft are present in strong domestic markets. "As cross-border travel will remain limited in the coming period, countries with a large domestic market will recover quite well. Before the recent surge due to the Delta variant, we had seen 100% + levels in some domestic markets and between city pairs in China, Vietnam and Taiwan. Also across India, Australia and Indonesia, domestic traffic picked up quite well. As soon as the current surge of the Delta variant is under control, I expect those markets to be the first to lift back up," Lindeboom said.

Assuming vaccinations reach required levels by 2022, he expects aviation will need another year to reach a new normal level. "People are very keen to travel and are able to afford it as they have been saving money during COVID. As soon as restrictions are lifted, I expect a rapid increase in travel," he said.

"This will probably not be 100% of 2019 levels because in general people will travel less, especially for business purposes. Studies have shown it will take another two years to return to 2019 market performance.

"I am afraid in the coming year the Asia-Pacific will be lagging behind the U.S. and Europe, but in the long run the region is where the most growth potential is. I am confident Asia-Pacific aviation will get back on its feet in the years ahead." ■

COMMUNICATIONS

Honeywell Aerospace unveils cockpit cloud communications technology

Honeywell Aerospace has unveiled **Anthem**, the aviation industry's first cloud-connected cockpit system.

The aerospace manufacturer said Anthem is the first in the industry to be built with an "always on" cloud connected experience that will improve flight efficiency, operations, safety and comfort for all categories of air travel.

Honeywell Anthem is powered by a software platform that can be customised for large passenger and cargo airplanes, business jets, helicopters, general aviation aircraft and "the rapidly emerging class of advanced air mobility vehicles".

Honeywell president and CEO, Mike Madsen, said the conglomerate was not just launching a new flight deck. "We are changing the way pilots operate an aircraft. In the same way we moved from flip phones to smartphones," he said.

The OEM estimates Anthem reduces pilot pre-flight preparation time, including wasted time in the cockpit, by up to 45 minutes per flight.

"Everyone who touches a flight is able to get information that matters to them when they need it," **Honeywell Aerospace Avionics vice president and general manager, Vipul Gupta**, said.

"The aircraft becomes accessible via the cloud computing infrastructure and things like maintenance data, flight plans and overall aircraft status are stored automatically by the avionics or ground-based applications used by support personal.

"This means data is accessible by any authorised user from anywhere." ■

MRO & COMPONENTS

Pratt & Whitney and MTU Maintenance Zhuhai to overhaul their first GTF engine in China

Global engine and component manufacturer and engine services provider, **Pratt & Whitney**, has inducted its first MRO of a GTF engine at the MTU MRO facility in Zhuhai, Southern China.

MTU Maintenance Zhuhai, a joint venture between MTU Aero Engines and China Southern Airlines, joined the Pratt & Whitney GTF MRO network last December and is now the first active GTF MRO centre in China.

The MRO shop inducted a PW1100G-JM model engine, which powers the A320 neo family late last month.

Pratt & Whitney aftermarket global operations vice president, Joe Sylvestro, said: "This is a monumental achievement for the GTF MRO network. We formally welcomed MTU Maintenance Zhuhai to the network in December 2020 and here we are in September sharing news about its first induction.

"The GTF is a young fleet with a long runway of growth ahead of it. To have an active shop in China brings immediate benefit to our customers in the region.

"We are eager for the induction space to build and for our other network members in China to begin maintenance operations as well. All this helps enhance the operations of our customers."

MTU Maintenance Zhuhai president and CEO, Jaap Beijer, said: "The GTF is a game-changing engine and MTU has been playing key roles in its design, manufacture and MRO."

The Zhuhai shop is one of several in the Asia-Pacific supporting GTF MRO work, including the OEM's Eagle Services Asia (ESA) in Singapore and IHI in Japan.

The U.S. headquartered conglomerate also welcomed joint venture **Ameco** in Beijing to its GTF MRO in 2020. Eleven airlines in China will be operating more than 200 A320neo family aircraft by December this year. The GTF MRO network is part of the OEM's EngineWise service solutions. ■

Orient aviation

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