Orient aviation

Vol. 19 No. 08 October 2012
orientaviation.com

PILOT TRAINING 'OUTDATED'

Pilots not equipped to cope with complex, computer-based cockpits, say experts

Poor pay key to safety inspector shortage

Tit-for-tat LCC war beckons in Southeast Asia

JAL relists but still faces "unfair" claims

PAL wants to build its own airport

SPECIAL REPORT: Inflight Entertainment and Communications

BPA WORLDWIDE BUSINESS

Orient aviation

PUBLISHED BY

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LOW-COST CARRIERS

Inspector shortages pose safety challenges

Last year was the safest on record for the world's airlines, including carriers from the Asia-Pacific. So far, this year has been even better.

But no one is sitting back basking in the success. It is clear the air safety regime faces urgent challenges in coming years.

One of the most serious is the real threat, which already exists at many of the region's regulators, of a critical shortage of safety inspectors to maintain oversight on an estimated 12,030 aircraft expected to join airline fleets in the next two decades, according to a Boeing forecast.

The problem for the industry is that airlines suffer financially from regulatory inadequacies. In Indonesia and the Philippines, lack of oversight led to a European ban on Indonesian airlines and the U.S. downgrading of the Philippines, barring its airlines from adding U.S. destinations or putting new aircraft on routes.

Regulators have a genuine problem. Their inspectors are generally civil servants on pay scales significantly lower than equivalent private sector jobs. Some governments have sought to solve the problem by seconding personnel from their national airlines, but that won't eliminate all shortages.

Balancing this massive forecast growth with effective oversight was a major topic at last month's Asia Pacific Aviation Safety Seminar (APASS) in Ho Chi Minh City, organised by the Association of Asia Pacific Airlines (AAPA).

As our story on page 18 reveals, a senior executive from the Civil Aviation Administration of Vietnam (CAAV) told delegates finding and keeping inspectors was a serious problem. It has had, at times, only half the inspection staff it requires. The good news is the CAAV, along with the help of the International Civil Aviation Organization (ICAO), has acted to solve the problem.

Together, they went directly to the country's president and prime minister and convinced them action was required.

The result: the pay of CAAV inspectors – currently up to a third of the salary paid to an equivalent professional at an airline – is to be doubled.

This is the sort of action which needs to be implemented across the region if qualified inspectors are to be attracted and retained by regulators.

It's not the only issue for air safety, but it is a critical one if safety oversight of the region's burgeoning fleets is to be maintained at the required level. ■

TOM BALLANTYNE
Chief Correspondent


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Tough times ahead for new THAI chief

Thai Airways International (THAI) *has appointed a political insider, 57-year-old* ***Sorajak Kasemsuvan****, as its new president. It follows the controversial sacking of* ***Piyasvasti Amranand*** *four months ago amid claims his departure was politically motivated.*

A member of the government of former prime minister, ***Thaksin Shinawatra****, who is living in self-imposed exile in Dubai, Sorajak was the only candidate for the job and is expected to start in November. He has no previous experience in the airline industry.*

Sources in Bangkok said he was hand-picked by the ruling Pheu Thai Party and that his nomination was supported by former leader Thaksin.

Sorajak held advisory posts in the former Thaksin administration as a vice-minister of foreign affairs and later as a vice-minister in the prime minister's office. He is currently chairman of the government-controlled ***Mass Communication Organization of Thailand****, the operator of TV Channel 9.*

Former THAI boss, Piyasvasti, was respected for steering the airline through troubled times and for making a strong stand against interference from the finance ministry, the carrier's majority shareholder.

Sorajak faces a tough challenge. THAI suffered a loss of $330 million last year, but after moving back into profit in the first quarter of 2012, slipped back into the red in the second quarter.

This prompted the airline's acting president, ***Chokchai Panyayong****, to warn if THAI was not properly managed, its financial position could reach "crisis level" this year.*

Separately, THAI's first A380, which arrived at the flag carrier on September 27, was scheduled to fly on the busy Bangkok-Hong Kong and Bangkok-Singapore routes at the beginning of October. THAI plans to put the five remaining A380s it has ordered to work from the Thai capital to Frankfurt, Paris and Japan's Narita airport later this year and into 2013. The aircraft are fitted to carry 507 passengers: 12 in first class, 60 in business and 435 in economy. ■

Spring Airlines setting up in Japan?

Spring Airlines, a profitable Shanghai-based, low-cost carrier (LCC), intends to establish an LCC in Japan in conjunction with a local investor.

Despite the current cooling in relations between China and Japan over the disputed Diaoyu Islands in the South China Sea, the establishment of a Spring Airlines foreign base will allow the privately-owned carrier to service third countries and expand its regional network. ■

Cathay Pacific bans shark's fin from cargo flights

Cathay Pacific Airways *has banned shark's fin from its cargo flights, with the ban to come into full effect close to year end. The carrier said it expected the transition to take approximately three months as it notifies shippers and puts new procedures in place.*

However, effective immediately, Cathay will not enter into any new contracts regarding the controversial foodstuff .

The airline said in a statement: "Cathay Pacific has decided to stop shipping unsustainably sourced shark-related products. Due to the vulnerable nature of sharks, their rapidly declining population and the impact of overfishing for their parts and products, our carriage of these is inconsistent with our commitment to sustainable development." ■

Cathay Pacific Airways: banned shipment of shark's fin products

ANA adds to B787 orders

Launch customer of the B787 "Dreamliner", **All Nippon Airways**, has added 11 B787-9s to its order book at Boeing, which will increase the carrier's Dreamliner fleet to 66. The confirmed order is made up of 36 B787-8s and 30 B787-9s, with deliveries to be completed by 2021.

ANA has 13 B787s of its original order of 55 Dreamliners in service. The planes fly from Haneda, Tokyo to Frankfurt and on eight domestic routes. The carrier put the Dreamliner on the Haneda- Beijing and Narita-Seattle routes this month and will launch a Narita-San Jose (US West Coast) route with the B787 in January. ■

PEOPLE

Former ***Qantas Airways*** *boss,* ***Geoff Dixon****, is the part-owner of another established public house in Sydney, Australia, following the purchase by the* ***Riversdale Group*** *of its seventh pub.*

Dixon, who is not averse to dropping into his pubs for a quiet beer, has a share in the group, which aims to develop an A$150 million (US$155.84 million) portfolio of quality drinking houses. The group has spent A$85 million on its seven pubs. ■

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SHORTTAKES

AIRLINES: **Africa World Airlines**, **Hainan Airlines**' joint venture airline in Accra, Ghana, launched services with flights to three Ghanaian cities flying two Embraer ERJ 145s. Shareholders are the majority investor, Hainan Airlines, the **China-Africa Development Fund** and two Ghanaian financial sector companies. **China Southern Airlines** has signed an agreement to establish a joint venture carrier, **China Southern Henan Airlines**, with the provincial aviation authority of Henan. The Guangzhou-based carrier will hold a 60% equity in the new airline, with the remaining shares controlled by the **Henan Civil Aviation Investment Corp.**

CODE-SHARES: Two of China's big three carriers, **China Southern Airlines (CSA)** and **China Eastern Airlines**, will operate a code-share on the Beijing-Paris route when A380s are the scheduled aircraft for the route. CSA has ordered five A380s, with three of the aircraft already flying in the carrier's fleet. The remaining two A380s will be delivered to CSA later this month and next January respectively.

COMPONENTS: **Cathay Pacific Airways** (30%) and **Hong Kong Aircraft Engineering Co. Ltd (HAECO)** have formed a joint venture company, **HAECO ITM Ltd**, to provide inventory technical management services for the airline, its wholly-owned subsidiary, **Dragonair**, and other airlines. HAECO will hold 70% of the new company.

FINANCE: **Etihad Airways** has completed the transfer of its increased shareholding in **Virgin Australia** – to 10% – following approval of the equity purchase by the relevant Australian regulatory authorities.

FLEETS: Taiwanese-based carrier, **TransAsia**, will take delivery of its first A330 next month, as part of its long-term fleet upgrade, which will add 29 new aircraft to the up and coming carrier by 2022. The ordered airliners are two A330-300s, six A320-321s and six A321neos (with six options) and eight ATR 72-600s (one option).

INFLIGHT: **Air New Zealand** has announced a cabin upgrade of its fleet of eight B777-200ERs at a projected cost of US$100 million. The carrier's deputy CEO, **Norm Thompson**, said **Panasonic** had been selected for the IFE upgrade because its system offered touch screens and weight savings. The upgraded interiors would also include the popular Skycouch seat. **Garuda Indonesia** and **Singapore Airlines** tied for first place with Australasian travellers in the latest independent **Roy Morgan Customer Satisfaction Awards**, followed by **Thai Airways International**, **Emirates Airline** and **Air New Zealand**.

LEASING: **China Construction Bank Financial Leasing Corp.** has ordered 50 of **Commercial Aircraft Corp. of China (COMAC)**'s C919s. **ICBC Financial Leasing Co. Ltd** has become the first Mainland Chinese customer for Airbus' neo aircraft type. Last month, the Chinese lessor confirmed it had signed a purchase agreement for 30 A320ceos and 20 A320neos with the Toulouse manufacturer. ■

Air safety professionals are becoming increasingly alarmed that current pilot training processes are so outdated they are failing to equip crew to cope with the complex, computer-based technology of modern jet aircraft

PILOT TRAINING 'OUTDATED'

TOM BALLANTYNE reports

Hero and "old school" captain, Richard de Crespigny: brought the crippled Qantas A380 into land safely. A pilot's job is to know their plane, he said

Major aircraft manufacturers are in the process of reviewing pilot training procedures as evidence mounts that several major accidents and incidents have been the result of cockpit crew failure to cope with the advanced automation and computer systems on new generation jets.

Ongoing assessments of improvements in training is the focus of leading air safety professionals, who are increasing their calls for enhanced global pilot training standards and a total revamp of training procedures.

Bill Voss, chief executive of the Washington-based Flight Safety Foundation (FSF) told a U.S. Senate subcommittee on aviation operations, safety and security that pilot training was "dangerously outdated".

And John Bent, a former Cathay Pacific Airways captain, now a consultant and board member of the Professional Aviation Board of Certification, told a safety seminar in Ho Chi Minh City last month that automation had reduced the frequency and need for past piloting skills in a complex aviation system.

"It can't train for everything. So the 60-year-old inventory-based, hours-prescriptive, box-ticking training formula will not properly address these new needs. Because

> Five years ago we passed the point where automation was there to back up pilots. Clearly today, the pilot is there to be the backup to the automation

Bill Voss
Chief Executive
Flight Safety Foundation

we do not know everything that will happen, we cannot train for it all, but we must prepare," he said.

Demands for a radical revision of training procedures have intensified in the past few years following a number of serious accidents. The worst, the crash of Air France 447 in the Atlantic on a flight from Rio de Janeiro to Paris, with the loss of 228 passengers and crew, was particularly unnerving for the industry.

It took two years to recover the black box from the ocean floor, but the information still could confirm the pilots had made inappropriate responses to a loss of automation. It was clear from the pilots' dialogue that they had no idea what was happening to their aircraft until it was too late.

Worse, one of the pilots was responding entirely inappropriately to a stall condition by pulling back on the stick rather than pushing forward, despite stall warning indications in the cockpit.

The issue was also highlighted in November 2010 with the dramatic events that occurred after a Qantas A380 flight, QF32, departed from Singapore. One of its Rolls-Royce engines exploded, sending shrapnel ripping through the wing and fuselage and cutting more than 600 wires.

The aircraft's ECAM (Electronic Centralised Aircraft Monitor) identified some 100 significant faults and checklists to be processed by the crew. Fortunately, there were five experienced pilots on board, led by Capt. Richard de Crespigny. They eventually managed to land the plane safely in Singapore.

"The training emphasis must change," said Bent. "Sometimes procedures and checklists may not be enough. With the Qantas incident and others, what happened on board are all things that aren't in the book. These are all things that we need pilots to understand. We need to train them for the unexpected, which is looking at things in a different way."

At the Asia Pacific Aviation Safety Seminar (APASS) in Vietnam last month, organized by the Association of Asia Pacific Airlines (AAPA), Airbus' regional senior director south and southeast Asia, Michel Menestrot, said the European manufacturer was evaluating improvements for better training.

"One of the things you will see in the near future with the Airbus A350 entry into service is that we will put a little bit more emphasis on understanding the aircraft rather than learning it. Basically, the complexity of the aircraft is such now that you can't really learn everything. What you want to do is to understand how it goes."

The director of aviation safety at Boeing, Corky Townsend, told the same seminar the U.S. planemaker was also looking at different kinds of training.

"One of the things we have noted is the kinds of training we have had in the past probably won't do as well going forward. So we are shifting some of our methods of how we train and we have been doing some surveys to understand how different sorts of training are received by different generations," he said.

Boeing's lead research scientist, Barabara Holder, earlier this year released a study of airline pilot perceptions of training and its effectiveness. She found pilots take much longer than assumed by manufacturers and airlines to become comfortable with operating a new flight management system (FMS).

The study found 63% of pilots struggle to manage the FMS on a new aircraft type until they have been operating it on the line for between three and six months.

More than 40% of pilots said that most of the FMS training they receive is done while flying the line, the implication being that the FMS training pilots complete on their type-rating work-up is inadequate.

Holder also noted there is no standardization among

See also:
Poor pay the key to air safety oversight inspector shortage. Page 18

aircraft manufacturers, avionics manufacturers, airlines or the regulators on how FMS training should be delivered, concluding FMS training had to be radically reappraised.

"We are looking at that and trying to appraise different forms of providing training, as well as shifting from largely rote training to more situational training so pilots have a better, broader understanding," said Townsend.

> One of the things we have noted is the kinds of training we have had in the past probably won't do as well going forward
>
> **Corky Townsend**
> Director of Aviation Safety
> Boeing

"We can't just have more so we have to figure out how to do better with what we've got. By doing training with various scenarios we believe you get a much better learning than just having the traditional engine cut and responding to it. Everybody knows you are probably never going to get an engine cut."

Airbus' Menestrot also talked about a changed approach, suggesting a type-rating course might be done in a way similar to how people handle new technology in everyday life.

"When we get a new electronic device nobody is looking at the manual. You are learning by trying," he said. "You take the device and you start punching the buttons. So, in the training we are trying to make this kind of learning available through external devices and computer-based programmes.

"People learn in a way that they are using every day. I have two young daughters and I can tell the way they play with computers and the way they learn things is completely different from my experience. At Airbus we are trying to identify these new ways of learning and insert it into training material."

Concerns about the ability of pilots to handle the complex automation of new generation jets such as the A380, the B787 and soon-to-arrive models such as the A350 are widespread.

As FSF's Voss puts it: "Five years ago we passed the point where automation was there to back up pilots. Clearly today, the pilot is there to be the backup to the automation.

"This is simply a realistic assessment of the world today, except we are not training pilots to be backups to automation. We have to own up to the fact that we need to develop new kinds of pilot training."

He added that pilots too often lose the mental picture of the aircraft's automation. "If pilots have no idea what automation should be doing, they also have no idea if everything they observe on the panel represents a normal operation.

"That's what happened to Air France 447. This is not just about better stick and rudder skills though … what you die from is not understanding what configuration will keep the aircraft in the air safely," said Voss.

Bent, also speaking at the Vietnam safety seminar, said mitigation of accidents caused by human factors remains the industry's major challenge.

He warned that the massive projected growth of aviation in the Asia-Pacific would be a factor, with 530,000 new pilots and engineers required in the next two decades. The figure worldwide is one million.

"Probably the greatest risk is the growth pressure in this region of the world. Airline safety benefits from generation three and four aircraft and many safety advances have been made, but the personnel supply threats exist and are quite serious," said Bent.

"First of all, with growth of this level we have a quality issue. With these requirements for a million pilots and engineers [worldwide] the problem really is: can we maintain quality processes with this level of growth?"

There is a lack of global standards in training policy and supply and an element of change resistance, said Bent.

> With requirements for a million pilots and engineers [worldwide in the next two decades] the problem really is: can we maintain quality processes with this level of growth?

John Bent
Board Member
Professional Aviation Board of Certification

"As an airline, would you buy an airliner without a quality process? No. Do we demand a global standard of SMS (Safety Management System)? Yes. Do we accept sub-optimal personnel selection and training processes without the enforcement of one broad global standard? We do. We accept people from all over the world from different training systems and different levels of quality process," he said.

"Upgraded selection (of pilot candidates) is absolutely vital. We've got different generational perspectives coming into the industry so we need to understand how we can select these new generations in a way that is valid. We need upgraded training that is much more relevant and quality controlled. It must not be frozen in concrete for another 60 years as the commercial pilot's licence was."

That is a widely shared view. The international Guild of Air Pilots, in a position paper, suggested that pilot selection methods be kept under constant review to accommodate the new skill requirements brought about by automation.

It recognized that manufacturers have done a great deal to address the way in which automated systems are operated by pilots, but emphasized the need to ensure future flight deck design must enable a competent crew to function adequately and without confusion throughout the operating regime, including abnormal conditions.

The guild said there was "positive evidence that some pilots are not being trained to a level that enables them to understand adequately not just how the automated systems work, but how to use them to best advantage in all circumstances – and when to discard the automatics and revert to manual control".

It also believed regulatory authorities and operators must remain constantly aware of continuing developments in automation and be prepared to legislate and operate accordingly.

The industry is not ignoring the problem. ICAO and IATA have been working closely on pilot training issues and IATA has an ongoing Training and Qualification Initiative (ITQI) programme which covers such things as EBT (Evidence Based Training), Multi-Crew Pilot License (MPL), Pilot Aptitude Testing (PAT), Instructor Qualification (IQ), Flight Simulation Training Devices (FSTD) and Engineering and Maintenance (E&M).

It arose from an industry-wide consensus that, in order to reduce accident rates, a strategic review of recurrent and type-rating training for airline pilots was necessary.

"Over time, aircraft design and reliability has improved significantly, yet accidents still occur, even though the aircraft and systems are operating without malfunction. Controlled Flight into Terrain (CFIT) is one example of this principle, where inadequate situational awareness on the part of the crew is almost always a contributing factor," said IATA.

"It is impossible to foresee all plausible accident scenarios in today's complex, yet highly reliable, aviation system and the circumstances of the next accident are difficult to predict.

"EBT addresses this by prioritizing the development and assessment of key competencies. Scenario-based training is recommended within an EBT programme, but the scenarios are simply a vehicle and means to develop and evaluate competence.

"Mastering a finite number of key competencies will allow pilots to manage an unlimited number of potentially dangerous situations in flight operations."

Despite all this, globally standardized pilot training procedures are likely a long way off. In the meantime, many flying schools have added cells to their training courses that cover coping with the unexpected in the cockpit, the so-called "startle effect".

One pilot who did successfully deal with it was Qantas Capt. Richard de Crespigny. How? As he explained in his book about the incident, *QF32*: "I'm old school in this respect. On board, I believe the pilot's job is exactly as written in the federal laws; pilots are 'responsible for the safety of the passengers and crew' regardless of what stands between them and disaster.

"Whether it's a fly-by-wire computer or a few cables connected to your rudder pedals, your job is to know your plane, be unafraid of the plane and to fly the plane." ■

Poor pay key to inspector shortage

There is concern air safety regulatory bodies in the Asia-Pacific will struggle to find enough qualified inspectors to maintain proper checks on the huge increase in aircraft to be delivered to the region in the next two decades. Many, like Vietnam, already are (see separate story).

Inspectors are mostly on civil service pay scales, significantly lower than in the private sector, making it extremely difficult to attract recruits or lure professionals away from airlines.

Small numbers of inspectors are not only responsible for oversight of airlines, they also have to check flying schools, airports and other industry players.

The issue was a major topic of debate at the Asia Pacific Aviation Safety Seminar (APASS), organised by the Association of Asia Pacific Airlines (AAPA) and hosted by Vietnam Airlines in Ho Chi Minh City last month.

Just how serious the situation has become was illustrated by Kim Trethewey, chief technical advisor of the International Civil Aviation Organisation's (ICAO) Co-operative Development of Operational Safety and Continuing Airworthiness Programme, Southeast Asia (COSCAP SEA), who gave delegates an insight into the results of ICAO safety audits in the region.

"In this region you go everywhere from 100% effective oversight to 10% effective oversight," he said. "But the bulk of the key areas within this region are in the vicinity of 50%-60% from the standpoint of personnel and the ability for them to do their oversight."

Andrew Herdman, director general of the AAPA, said critics of Asia point to the fact there are glaring disparities in regulatory oversight in the region. "If you tell the average member of the travelling public, who has absolute faith in the safety of air travel, and with good reason, don't worry about the fact that people are scoring 50% or 60% on a safety oversight scorecard, they would be worried. I would be worried," he said.

One problem was the perception that Asia lags Europe and North America when it comes to safety, which was not the case, added Herdman.

This perception has led to a situation where the U.S. Federal Aviation Administration (FAA) and the European Aviation Safety Agency (EASA) "have taken it upon themselves to act as global policemen in terms of enforcement of safety oversight.

"The problem we have with that as airlines is although they are [taking action] against regulatory oversight they are targeting airlines to apply pressure," he said.

Some Indonesian airlines remain on a European black list and the Philippines has been reduced to a Category 2 classification by the FAA, in both cases because of lack of aviation safety oversight by regulators.

There have also been reports that India, understood to be suffering a severe shortage of inspectors, is in danger of being downgraded by the FAA later this year.

Alan Foo, director of safety policy and licencing at the Civil Aviation Administration of Singapore (CAAS) - a statutory body not tied to government pay scales - said regulators across the region had their work cut out for them.

Singapore faced growth pressures similar to others, with the number of aircraft movements at Singapore Changi International Airport rising from 200,000 in 2005 to 300,000 today, much of it due to the growth in low-cost airlines.

"There are many challenges, including congested airspace, manpower shortages and the strain on oversight resources," said Foo.

"The challenge of a strain on safety oversight resources is going to be tough for regulators as we have to compete with airlines and industry for manpower and expertise. Unfortunately for the regulators government remuneration often cannot match what is available in the wider industry."

Herdman said the disparity in salaries between governments and airlines is widening, particularly

> "We don't want to go down the privatization route where we have profit-motivated regulators"
>
> **Andrew Herdman**
> Director General
> AAPA

in developing countries. "We need to think about how we narrow that gap. This a big, big challenge," he said.

Privatization of the regulator was not the answer, warned Herdman. "We certainly don't want to go down the privatization route where we have profit-motivated regulators," he said.

"These need to be governed bodies, but having them separated as corporate entities means they can have different pay scales and not be subject to the overall government budgetary framework. The money is available there either through channelling it from passenger service charges or having certification costs. It's got to be paid for."

Foo explained the CAAS became a statutory body in 1984. "We don't have to tie ourselves to government pay structures. Because of that we are able to offer more competitive salaries, especially to our flight operations inspectors," he said.

"Of course, the question is where do the funds come from? The CAAS adopted the model whereby we recover this from the aviation system. The passenger services charge is split in two. Part of that is used to fund the regulator.

"You can separate into a corporate entity, but you have to think through the funding model."

The Civil Aviation Authority of Vietnam's (CAAV) director flight safety standard department, Ho Minh Tan, said the authority was working towards a full cost-recovery system similar to Singapore.

"We are working with the finance ministry to increase our fee collection so we will have the budget to cover our activities," he said.

"We have had 15 years without any accidents. We said if we want to maintain that record we need to make these changes. That is how we convinced government give us a special salary structure."

Foo said regulators needed to collaborate more, share expertise and work towards avoiding duplication of inspections. Civil aviation authorities not only inspected their own country's aircraft, but those of arriving foreign airlines, which resulted in the same inspections being conducted multiple times.

This could be avoided if states accepted each other's approvals, said Foo. "If you reduce duplication it will allow states to shift their focus to other safety priorities," he said.

ICAO's Trethewey agreed. "None of us can afford to be duplicating the work that others are doing," he said.

But a country would not stop the inspections of foreign operators unless it was confident the oversight was strong, he added.

ICAO, said Trethewey, was looking at how to convince states to accept each other's approval. ■

... but Vietnam doubles inspectors' pay

The Civil Aviation Authority of Vietnam (CAAV) has been given the go-ahead by its government to double the salaries of its air safety oversight inspectors in a bid to boost numbers.

The CAAV has had as few as half the number of inspectors it needed to check the fleets of its fast-growing carriers, according to CAAV's director flight safety standard department, Ho Minh Tan. It was forced to second staff from national carrier, Vietnam Airlines.

Speaking during a panel session at the Asia Pacific Aviation Safety Seminar (APASS), in Ho Chi Minh City last month, Ho said like many regulatory bodies in the region, the CAAV had been concerned for some time about its ability to maintain proper oversight.

Flight inspectors pay in Vietnam was "as much as a half to a third" of that of a similar professional working for an airline, said Ho

In the past decade, the number of airlines operating in Vietnam has increased from two to five. Passenger numbers have risen 15% to 20% annually, with overall growth of 320%, said Ho.

"In 2001, we had 28 aircraft on our registry and now there are more than 90 with a seat capacity increase of 400%. We see air traffic growth in the next 10 years doubling," he said.

Vietnam's seat capacity has risen 400% in a decade

An International Civil Aviation Organization (ICAO) audit revealed the CAAV did not have enough inspectors. Ho said ICAO and the CAAV appealed to the Vietnamese government in a series of meetings, including meeting the president and prime minister, to help rectify the situation.

"The good news is that from next year we will have the budget to employ three or four more full-time inspectors because we have approval from the government," said Ho.

The CAAV also worked with a U.S. consultancy firm to enhance the country's safety oversight capability. ■

HAPPY 'FAMILIES'

It was said to be the key behind a "seismic" deal between two former enemies

By Tom Ballantyne

With last month's strategic shift by Qantas Airways to forge a 10-year alliance with Gulf giant, Emirates Airline, done and dusted along with its decision to ditch all flights to Europe through Asia, chief executive Alan Joyce has begun the hard sell to convince competition regulators to approve the deal.

If it is not, he warned, there would be dire consequences for the Australian icon.

Everyone knew the deal was on the cards, but no one expected the complex negotiations between the two major airlines to morph into reality so quickly. Ironically, because the Flying Kangaroo has spent most of the past decade slinging abuse at its Dubai-based former rival, the key to success was simple: Qantas chief, Alan Joyce, Emirates president, Tim Clark, and their respective senior executives got on like a house on fire.

At top secret meetings in the past six months, the two parties beat out an agreement that Clark has described as "seismic" to the airline industry. In May, they met at the exclusive, Emirates-owned Wongan Valley Resort in the Blue Mountains northwest of Sydney. The negotiations were tagged the "Darwin Project" because the first meeting took place in the resort's 1832 homestead, a site once visited by Charles Darwin.

A few months ago they were deadly rivals. Today, Emirates Airline president, Tim Clark (left) and Qantas Airways CEO, Alan Joyce, have struck a ground-breaking deal and are the happiest of families

In June, Qantas and Emirates chiefs held a clandestine meeting during the International Air Transport Association (IATA) annual meeting in Beijing. With the world's airline top brass gathering at the China World Hotel, Joyce and Clark decamped to the nearby Hyatt for their talks.

A month later, Joyce boarded an Emirates aircraft for the first time to fly to Dubai for further meetings.

By last month, Clark was ready to fly to Sydney to sign the wide-ranging deal. Given that regulatory approval is granted, the two airlines will coordinate pricing, sales and scheduling, code-share extensively and align their frequent flyer schemes.

As a result, Qantas will end its revenue-sharing agreement with British Airways. From next April, the airline will cease all its flights to Europe through the traditional Singapore hub - it operates only to London and Frankfurt - and switch to Dubai.

From there Qantas' services will be able to connect with Emirates flights to more than 30 European destinations. The two airlines will operate 98 weekly flights between Australia and Europe.

Qantas will still fly to London – but not Frankfurt – through Dubai. Joyce has indicated when the carrier begins taking delivery of its B787 Dreamliners in 2016 a number of the planes will be

Qantas Airways: new deal means all European flights will pass through Dubai rather than Singapore

used to add more European destinations through the Gulf.

A major benefit for Emirates in the new order is that it will gain access to Qantas' extensive domestic network.

"Neither airline will take equity in the other," said Clark. "By combining forces, both airlines will benefit from cost-savings and enhanced economic efficiencies, including economies of scale and joint purchasing, which will contribute to optimising the operating performance of each organization." He described the commercial relationship between the two carriers as "a first in aviation history".

Joyce believes the deal will help Qantas' international arm, which lost $450 million in its latest financial year ended June 30, return to profit by 2015.

But first he has to sell it to the competition watchdog. And he is talking tough.

In a submission lodged with the Australian Competition and Consumer Commission (ACCC), he warned if approval wasn't granted Qantas would be forced to stop flying to Europe.

"In the absence of the authorisation, it is likely in the medium to long-term Qantas would retreat to a 'virtual network' rather than an operating network. Under such a scenario, Australians would lose the benefit of Qantas operating a strong locally-based international network airline. That is not in the national interest," said Joyce.

Within a week of sealing the ground-breaking agreement, Joyce and some of his senior executives were meeting with aviation officials in Singapore to reassure them Qantas will remain a major player at Singapore Changi International Airport.

While its Singapore to Europe services would stop, he told them Qantas planned to increase services through Singapore by as much as 25%.

Its budget arm, Jetstar Asia, is based in Singapore and last month announced it is adding 70,000 extra seats to its monthly schedule from October 28, boosting capacity on services from Singapore to Kuala Lumpur, Bangkok, Phuket and Yangon.

Changi officials and Singapore Airlines (SIA) hardly raised an eyebrow when the Emirates deal was announced. A spokesman for the Changi Airport Group said Qantas was planning to step up connections between Australia and Singapore. "We understand that Qantas faces challenges in its international business and needs to restructure its network," he added.

Said an SIA spokesman: "Speaking in general terms, competition is not new and we have competitors on every route that we serve. We compete by offering the highest quality products and services across an extensive network."

Only time will tell whether the carriers' newly negotiated "love fest" will ultimately result in turning around the fortunes of Qantas' international operations, but analysts generally welcomed the move.

They agreed it was a much needed development. In August, Qantas posted its first annual group loss in 17 years, a deficit of $255 million.

Tony Webber, who was the Qantas Group chief economist from 2004 until last year, said the alliance with Emirates "will unambiguously improve its bottom line". But he said the "if you can't beat 'em, join 'em" strategy is an admission that Qantas can't compete with Emirates on price or costs, product and the network footprint in Europe.

Webber said the most pressing question was whether it would lead to the airline achieving more consistently its return on invested aircraft capital. "Time will tell, but it is doubtful," he said.

"The carrier is dogged by persistent excess supply or capacity, which results in yield and margin compression in an environment of growing unit costs."

He pointed out the alliance would have no impact on the Pacific (U.S.) route. It would also have little impact on competition and the supply of seats on most of Qantas' Asian routes, its South African route and smaller routes such as the Pacific islands.

"While Qantas will put a bandage on its international wound, the blood is still likely to seep through. But at least it has made a start in the right direction," said Webber. ■

QUOTES AT A GLANCE

"In the absence of the authorization [from the ACCC], it is likely in the medium to long-term Qantas would retreat to a 'virtual network' rather than an operating network"

Alan Joyce
Chief Executive, Qantas Airways

"... a commercial relationship [between Emirates and Qantas] that is a first in aviation history"

Tim Clark
President, Emirates Airline

"While Qantas will put a bandage on its international wound, the blood is still likely to seep through"

Tony Webber
Former Qantas Chief Economist

Tit-for-tat LCC war beckons

TOM BALLANTYNE reports

As Southeast Asia's single aviation market looms large, Indonesian carrier, Lion Air, has thrown out a not-so-subtle challenge to Asia's incumbent low-cost leader, AirAsia.

The message from Rusdi Kirana, president of fast-expanding Indonesian carrier, Lion Air, to rival airline group chief, Tony Fernandes, and his dominant AirAsia budget operation was clear: if you've come into my backyard, I'm coming into yours.

Just weeks after Fernandes moved his AirAsia regional base from Kuala Lumpur to Jakarta and announced he was buying 49% of Indonesia's Batavia Air for $80 million, a move cleared by Jakarta, Kirana has announced that, in conjunction with Malaysia's privately-owned National Aerospace & Defence Industries (NADI), Lion is establishing a new budget airline in Kuala Lumpur.

In a direct assault on AirAsia's home turf, Malindo Airways plans to launch operations from the Malaysian capital in May next year.

Kirana, at a press conference in Kuala Lumpur, wouldn't say how much Lion is investing in the new airline, but when it came to ticket prices, Malindo "may sell lower" than AirAsia.

And while the region's budget market is becoming crowded, he believed there was still a need "for two or three more airlines with specific business models by 2013". Lion will have a 49% stake in the new airline, with NADI holding 51%.

Fernandes reaction to the development was short and sharp. He vowed AirAsia would give Lion "a real run for their money".

Analysts agree Malindo is unlikely to pose a major challenge to AirAsia for some time because the Malaysian low-cost operator easily outmuscles its rival in terms of size and regional network. But they agree that longer term the rivalry could develop into a major turf war as Asean (Association of South East Asian Nations) open skies arrives in 2015.

In a report, Malaysia-based RHB Research Institute aviation analyst, Joshua Ng, wrote that in the medium-term AirAsia's lower cost structure, strong balance sheet, much larger size, highly recognized brand and good safety record would stand it in good stead against the new carrier.

"We do not believe Malindo can become a meaningful threat to AirAsia's domestic operations overnight as it will take time for Malindo to grow its operations

Lion Air: thrown down a challenge to AirAsia with its new LCC carrier

to a significant size to become a worthy rival to AirAsia. Over the longer term, its survival also depends on its ability to beat, or at least match, AirAsia's extremely low-cost structure," said the report.

Another report from Maybank Investment said it was confident that Malindo will be profitable in less than a year on domestic Malaysia and Indonesian routes given the strong demand and existing client base to tap onto. Other international destinations could take up to three years to turn profitable, it said.

Maybank said Malindo should be able to leverage on its parent's infrastructure to build efficient operations quickly. "Lion Air is a formidable opponent to AirAsia in Indonesia. We estimate Malindo Air's B737-900 aircraft has superior cost economics for flights which are above two hours against AirAsia's A320 aircraft," said Maybank. It added that with the entry of Malindo, AirAsia's virtual monopoly ceases and its yields are set to decline.

Kirana said Malindo will launch services with 12 B737s and plans to expand to 100 jets within a decade. Ultimately, it wants to fly to longer haul destinations in China and Australia.

Unlike other LCCs, Malindo will have in-flight entertainment, extra legroom and free light meals, as well as low fares, added Kirana. It will hub from the new budget terminal at Kuala Lumpur International Airport (KLIA2), which is currently under construction.

* As well as setting up Malindo, Lion and NADI have agreed to spend $15 million to establish an aviation training centre in Malaysia which will open next year.

NADI's entry into the airline joint venture revolves around its maintenance, repair and overhaul business (MRO), Airod, which is expanding in the region.

As part of the deal, Airod, which recently hired former Malaysia Airlines MRO chief, Roslan Ismail, as managing director, will undertake maintenance on Lion's fleet. ■

The orders keep on growing

Lion 'king' Rusdi and Fernandes keep planemakers happy

Nobody could accuse Lion Air president, Rusdi Kirana, of not being ambitious. In addition to establishing low-cost carrier, Malindo Airways, in Kuala Lumpur, he is setting up a full-service airline, Batik Air, in Indonesia. It will start operations next March.

To cater for this huge expansion, Lion has a huge order book. It is one of Boeing's biggest customers, having ordered 201 B737MAX and 29 B737NGs for delivery from 2014. Worth $22.4 billion, it was the U.S. planemaker's largest-ever commercial order.

Kirana said the planes are being financed with loans from the Export-Import Bank of the U.S., BNP Paribas and several other financiers.

It doesn't end there. After ordering five B787 Dreamliners during the Farnborough Air Show in June, Kirana last month ordered another 10 for delivery from early 2015 to boost his airline group's long-haul capabilities. He said the B787s will be flown by both of his new carriers, Batik and Malindo.

Lion's big rival, AirAsia is also ordering big. It placed an order for 200 A320neos this year, with options on another 100. It is reportedly close to adding another 100 to that list.

But Kirana said it's not about size. "We are not trying to be bigger than anybody. We have to work hard so that we can work better than them," he said.

Lion is the largest airline by market share and fleet size in Indonesia, with 100 jets. Owned by entrepreneur brothers, Rusdi and Kusnan Kirana, it began operations in 2000 and now flies to 73 destinations in Indonesia and five other countries. It carried 27.6 million of the 58 million passengers who flew within Indonesia last year and expects to carry more than 30 million this year. ■

U.S. president, Barack Obama, looks on as Lion president, Rusdi Kirana, and Boeing senior vice-president sales and customer support (now Boeing Commercial Airplanes president) Ray Conner sign an MoU for 201 B737MAX and 29 B737NGs last November, a deal confirmed at the Singapore Air Show in February

Record fleet order for PAL

Now the airline wants to build its own airport

Pictured at the Airbus signing ceremony from left are: PAL vice-chairman and treasurer, Harry C. Tan, PAL chairman, Lucio Tan, Airbus senior vice-president for Asia, Jean Francois Laval, and PAL president, Ramon Ang.

By Tom Ballantyne

When Philippine Airlines (PAL) president, Ramon S. Ang, signed the biggest aircraft order in the Philippines' history with Airbus in August to buy 54 new jets worth US$7 billion, he dropped an unexpected bombshell.

PAL wants to build its own airport. The airline, he explained, is ready to contribute $500 million to help fund the project, with the remainder of the cost financed with loans from foreign or local banks.

While Ang faces major hurdles to turn the dream into reality, which includes gaining government approval for the project and acquiring 2,000 hectares of land, the announcement makes clear that PAL's new controllers are serious about reviving the carrier's fortunes.

There are signs that PAL is on an upswing. After a year of labour strife and high fuel prices, PAL reported a net loss of $99.79 million in the year ended March 31. But its bottom line turned black in the first quarter (ended June 30) of the current year with a profit of $11.4 million, compared to a loss of $10.6 million in the same period in 2011.

Since the announcement of the Airbus order for 10 long-haul A330-300s and 44 A321s, Ang has boosted staff morale by declaring the fleet expansion means PAL will embark on a recruitment drive.

It is good news for the airline's 4,800 workforce, who last year saw 2,400 staff laid-off and another 500 retrenched after PAL's ground handling, ticket reservations and catering operations were outsourced as part of a rationalization plan.

Ang said the airline will need to double the number of flight attendants and hire more pilots as well as other staff. "There is no need for PAL to cut more employees. We will hire new workers," he said. PAL has 460 pilots, about 1,600 cabin crew and more than 2,700 other employees.

Ang's diversified San Miguel conglomerate bought a 49% stake in PAL, owned by Philippine tobacco tycoon, Lucio Tan, for $500 million in April. Tan remains chairman and chief executive, but San Miguel has taken management control with Ang as president and chief operating officer.

At the airline's recent annual shareholder meeting Tan said: "Despite multiple challenges last year, PAL stayed the course and dramatically restructured its operations, enabling your airline to attract much needed strategic investments and prime itself for a sustained push in the years ahead."

Ang, often described as a maverick businessman, has a long record of successfully turning troubled companies around.

In recent years, he has transformed San Miguel, changing its strategic path from its core businesses of food and beverage into a huge corporation with interests in power, mining, petroleum, infrastructure and telecommunications.

PAL is its first foray into the airline sector and Ang has vowed to turn its fortunes around in a year.

"PAL is a good airline and brand. We're confident we can turn PAL and its sister budget carrier, Air Philippines, around in a year," he said. A full return to profitability will be achieved through the implementation of a better sales and ticketing system and reduction in costs through higher aircraft utilization, he added.

PAL has 39 aircraft

comprising of five B747-400s, three B777-300ERs, four A340-300s, eight A330-300s, 15 A320-200s and four A319-100s. Four more B777-300ERs are scheduled for delivery through 2013 and 2014.

Delivery of the recently announced Airbus jets will begin next year. "The orders we are placing will play a key role in revitalizing PAL and growing trade and tourism in the country," said Ang. "At the same time, we will benefit from the low operating costs associated with new generation aircraft and the reduced impact on the environment."

Ang said PAL needs another 46 planes to bring its new aircraft orders to a planned100. He indicated 26 of the remaining 46 would be long-haul aircraft capable of 17 hour flights from Manila to destinations such as New York and Paris. "We are looking at B777-300ERs and the upcoming B777-X. We're also interested in the B787-9 Dreamliner," he said.

His greatest challenge will be the planned new airport. Ang won't give full details of the project cost and location, but said it would be 15 minutes away from the Manila suburb of Makati, where PAL is headquartered.

He believes construction can start as early as next year and the facility, with a terminal for the exclusive use of PAL and its budget sister Air Philippines, can be completed in three years.

The Philippines needs a new airport because Manila's Ninoy Aquino International Airport (Naia) in Pasay City, built in the 1950s, can handle only 36 flights an hour and is regarded as obsolete.

The government plans to turn the former Clark U.S. air base, some two hours drive from the capital, into the country's premier gateway.

Ang said PAL's new facility, which will initially have two parallel runways with space for two more, would have the capability of being able to handle four times as many flights as Naia.

"We still have to clear this with the government, but we are hoping they will support us. We plan to pitch this to President Aquino in January or February. Hopefully, this is aligned with the government's plans," he said.

In the meantime, the signs for 2012-13 are positive for PAL. After its profitable first quarter, July was also profitable.

The carrier has gained stability, increased its yields, load factors and cargo volumes. Fuel, which last year was 43.8% of its operating expenses, has eased in price and passenger volumes are rising. ■

U.S. frustration for PAL

Philippine Airlines has another major hurdle to overcome if it is to make full use of its new fleet.

It is now more than two years since the U.S. Federal Aviation Administration (FAA) downgraded the Philippines to CAT 2 status because of safety concerns.

The restriction is directed at the regulator, the Philippines Civil Aviation Board (CAB), for its lack of safety oversight. But the move also penalises PAL because as part of the downgrading the national carrier cannot add new destinations in the U.S. or change the aircraft type it uses.

The CAB is continuing to work with the FAA and the International Civil Aviation Organisation (ICAO) on improving its oversight, but there is no immediate word on when the Philippines will be reinstated to CAT 1.

However, Orient Aviation *understands it is hoped the situation can be resolved by later this year or in the first half of next year in time for the first deliveries of the new Airbus aircraft.* ■

Philippine Airlines: record order

Rex defies the odds

The Australian regional carrier's chairman, Lim Kim Hai, has introduced flexibility and diversification to Rex, which has resulted in record profits. But he reveals he never makes long-term plans.

TOM BALLANTYNE reports

The 55-year-old Singaporean executive chairman of Australia's Regional Express, or Rex as it is better known, Lim Kim Hai, rarely plans beyond six months.

"I must admit, I am one businessman who doesn't have either a long-term plan or any long-term ambitions," he said. "All I focus on is doing the job better every day.

"I believe in doing what we do well, being well organized and when there is an opportunity being in a very good position to respond. But I am probably a failure as an entrepreneur because I don't have plans."

Few would agree with him, particularly after the airline's latest financial results. In the year ended June 30, Rex, which celebrated its 10th anniversary last month, reported a record profit before tax of A$35.1 million (US$35.8 million), making it the most profitable listed airline in Australia.

"Even as almost every blue ribbon legacy airline in the world, be it Singapore Airlines, Air France, Lufthansa, Emirates or Qantas, reported profits plunging more than 60%, or even had losses, I feel humbled that Rex ended the financial year with a record 45.6% increase in profit."

Today, Rex operates a fleet of 95 turboprop aircraft, with 51 Saab 340s the mainstay of its operations. The remainder is a mix of various sized planes, from a Brasilia 120 used for freight, to 19-seat Beechcraft 1900Ds and two to three seat Piper Warriors and Seminoles.

It has two regional subsidiaries, air freight and charter operator, Pel-Air Aviation, and Dubbo-based regional carrier, Air Link.

Lim warned the current year will be tougher and less profitable. There are no plans for fleet expansion.

The Rex chief is no stranger to major challenges. Rex was born out of turmoil, when a group of Singapore and Australian investors, including Lim,

> "I am one businessman who doesn't have either a long-term plan or any long-term ambitions"
>
> **Lim Kim Hai**
> Executive Chairman
> Rex

Rex: bucking the trend with record profits

bought regional operators, Kendell Airlines and Hazelton Airlines, in 2001.

They were subsidiaries of Ansett Airlines, which collapsed the same year. Re-branded as Rex and launched in 2002, it lost $35 million in its first year of operations. It needed another capital injection to stay afloat.

At last month's anniversary celebrations, held at the airline's base in Wagga Wagga, Saab Aircraft Leasing president and chief executive, Michael Magnusson, who had flown in from Seattle for the occasion, disclosed the situation was so bad the Swedish company was on the verge of repossessing its aircraft.

Rex received a last minute reprieve when 55-year-old Lim, and another Singaporean partner, pumped a further $5-$6 million into the airline. A confidentiality clause means the chairman is unable to reveal the initial investment, but Lim is the largest shareholder with a stake of more than 20%. Based in Singapore, he remains a hands-on chairman with his Australian airline.

Rex crept back into profit in 2003, but as well as difficult trading conditions there was more drama to come. As big airlines went through another cycle of expansion in 2008 they began poaching cockpit crew from the regional carriers. Rex lost half its pilots in a year, which resulted in network cuts and flight cancellations.

That experience continues to haunt Lim. And that is the reason why Rex launched its own pilot training facility, the Australian Airline Pilot Academy, at Wagga Wagga.

"Pilot shortages remain a problem at times," he said. "It is the one area where we could have a collapse of the airline when there's a confluence of the external environment. That's the reason we started the academy. It is a defensive measure.

"We have a good airline business, but that could disappear within six months if there was a repeat of 2008."

Lim is close to ensuring Rex is protected against that scenario. Some 100 cadet pilots – they have to stay with the airline for seven years - have graduated from the academy and are part of the airlines 250-strong cockpit crew roster.

"More importantly, by the end of this year the first cadets will have graduated to captains. From that point on I will have a steady stream of captains coming into our ranks," he said.

"That will help us ensure we are sheltered from these crises that erupt from time to time. We know there is a build-up of capacity in Australia and we know that will perhaps hit us again in 12 months. We are making sure that whatever happens externally we have a high degree of stability within the airline."

Lim said several factors had contributed to the Rex group's success. "In the last 10 years, we have worked very hard in all areas of our operations. We have put a huge effort into making ourselves efficient and extremely productive.

"That has resulted in a cost base that is really low and helped to shelter us a little from the external pressures of price increases," he said.

It has helped that Rex is a diversified airline group. Apart from its regular public transport operations – some 1,300 weekly flights to 35 destinations in five states – the airline is making money from its air ambulance work, defence contracts, fly-in-fly-out operations (flying workers to and from mining operations on contract), freight and its pilot academy.

In the midst of Australia's natural resources boom, Rex has found fly-in-fly-out operations lucrative. "While we know there is a general slow-down in this resource boom due to world economic conditions, we have found that the momentum continues," said Lim.

As for the not-so-rosy prospects for the current year, there are good reasons why Rex may struggle to maintain the same level of profitability. It has been hit by a "triple whammy" of costs by government, all of which took effect from July 1: Australia's new carbon tax on aviation, additional security charges at regional airports and the removal of an En-route Rebate Scheme. The combined effect on Rex is about $4-$5 million a year off the bottom line.

To counter some of this, Lim said the carrier will pursue its "relentless internal initiative" to reduce costs. It has a productivity committee, now in its ninth year, which annually looks at the sustainable productivity initiatives that can be achieved.

"We are still finding sustainable gains – last year it was about $4 million – but on average we are achieving $2-$3 million of gains every year," he said.

"That surprises me because I thought once we had collected all the low-hanging fruit it would be harder and harder to squeeze out additional efficiencies. But it still goes on and I am confident that even in this current year we will be hitting our average gains.

"I believe that Rex can survive the [possible] cataclysmic period ahead just as we have survived the last decade of droughts, Middle Eastern wars, SARS, fuel price escalations, pilot shortages, the GFC (global financial crisis), volcanic ash and the Euro zone crisis.

"Our fundamentals are solid with no debt burden. However, our profits are expected to drop by 15%-25% in the current financial year." ■

JAL relists, but questions remain

By Geoff Tudor in Tokyo

Last month, to the delight of investors, alliance partners, customers, employees, the Enterprise Turnaround Initiative Corporation (ETIC) and the governing Democratic Party of Japan (DPJ), Japan Airlines (JAL) relisted on the Tokyo Stock Exchange (TSE) as the world's most profitable airline.

The transformation came 973 days after JAL had entered humiliating bankruptcy protection in January 2010 and was struck off the rolls of the TSE.

But before the ringing of the traditional bell signalling the resumption of trading faded away and celebrations came to an end, there was a warning for the JAL management not to let success go to their heads. Renewed accusations surfaced from opposition politicians and major rival, All Nippon Airways (ANA), that JAL's rehabilitation was "unfair".

The stock price was set at 3,790 yen (US$48.5), about five times the carrier's earnings forecast for 2012. Demand for shares exceeded supply and JAL overtook ANA to become Japan's largest carrier by market value.

Credit for the turnaround must go to Kazuo Inamori, management guru and founder of high-tech company, Kyocera, appointed by the new DPJ government to sort out the floundering carrier.

Japan Airlines: leaner and meaner than ever, but its opponents claim it has had favourable treatment

Drastic cost-cutting was the key to JAL's quick recovery. The carrier slashed staff numbers, reduced salaries and pensions, cut routes and grounded gas-guzzling, inefficient aircraft.

Now chairman emeritus, Inamori spoke of the danger of hubris. JAL must avoid becoming "inflated with pride" about its current earnings structure, he warned.

After previous successful restructurings, JAL slipped back into bad habits with excessive aircraft orders and plunging into reckless route expansion.

JAL still thought that it was its duty as national flag carrier to serve as many routes as possible for public good.

Scathingly dismissing the airline's management as "unfit to run a fruit and vegetable stall" when he took control in early 2010, Inamori subsequently gave JAL employees a strong dose of his profit-focused philosophy, through meetings and lectures. His 125-page white-bound book, *JAL Philosophy*, is compulsory reading for employees at all levels.

"I desperately wanted to rebuild the airline, but I wasn't sure we could do it. I feel vindicated now that we've done it", said Inamori.

JAL president, Yoshiharu Ueki, told media at a TSE press conference that the relisting was "part of our bigger goal of steady profitability".

However, in a media interview, ANA president, Shinichiro Ito, said the rehabilitation of JAL was "not fair" and urged the Japanese government to take measures to ensure JAL does not gain an undue advantage as a result.

"The rehabilitation process has distorted the competitive environment. We are concerned that the rehabilitation of JAL was not quite fair," he said.

Ito noted that ANA's new 175 billion yen share issue in July was partly aimed at defending itself against a revitalized rival. "We needed to strengthen our financial base to compete with a stronger JAL," said the ANA chief.

On September 21, ANA announced an order for 11 more B787s, bringing total orders of the new aircraft to 66, including 13 in service.

ANA and its political supporters have been insisting that JAL's rehabilitation plans conform to European Union (EU) guidelines on "public support" for airlines undergoing corporate restructuring with state aid.

JAL pointed out the guidelines were introduced because there were many different countries in the EU and a consistent framework was necessary for fair play. There were no such guidelines in either the U.S. or Japan.

Examples of EU restrictions included the increase of seat supply must not exceed market level, carriers undergoing rehabilitation could not become "price leaders" and governments must not favour airlines receiving assistance with priority rights and other opportunities.

By the end of the 2012 financial year, JAL will have reduced international seat supply by 40% and the domestic supply by 30% compared with 2008.

JAL estimates the amount of passenger flow to ANA had been worth about 70 billion yen in 2010-2011, which, said the carrier, did not appear to be unfair to ANA.

So far as "price leading" is concerned, the birth of LCCs in Japan has changed the air fare situation radically.

JAL's opponents claim the new Narita-Boston route, opened in April, and the carrier's investment in LCC Jetstar Japan were "serious problems", which have a direct effect on the internal market.

ANA and opposition party politicians are calling on the government to deny JAL new domestic slots at Haneda in 2013 when another 25 slots become available. JAL's response is that its allocation should match ANA and other carriers.

Another argument put forward by JAL's critics was that as JAL obtained a publicly supported loan, the introduction of new aircraft, which could improve competitiveness, should not be allowed.

JAL's response was that making it use old, inefficient aircraft that were partly responsible for its need to rehabilitate, did not make sense.

JAL benefitted from a tweaking of the Japanese tax code in 2011. Japanese companies already in bankruptcy protection or making losses can continue to use 100% of their cumulative losses to offset tax for seven years. This, said ANA, gave JAL an advantage.

After the trauma of bankruptcy, JAL has a clean balance sheet, which means less risk and lower interest payments. Also, it can take advantage of lower depreciation costs tied to the post-bankruptcy write-down of its fleet.

IATA director general and CEO, Tony Tyler, speaking at a press conference in Tokyo coincidentally on the day of JAL's TSE relisting, said Japan should ensure a fair and transparent policy for all airlines operating in the country.

"No airline should be given special favors, but neither should any airline be penalized," he said.

Tyler added he did not see any point in penalising Japan Airlines after helping with its rehabilitation.

Japan's transport minister, Yuichiro Hata, said the ministry would "closely watch JAL's rehabilitation progress to see whether the public assistance has distorted the circumstances of competition".

At the TSE press conference, JAL president Ueki said after years of being "unable to make sufficient investments", the carrier will provide more attractive products and services.

Last month, JAL announced it would have new seats in all four classes of its 777-300ER aircraft on key international routes, plus revamped inflight menus.

Coordinating the turnaround with Inamori was the government-supported ETIC, JAL's major shareholder since January 2010 when the company filed for court-protected bankruptcy. Since then JAL has received loans totalling 350 billion yen from the corporation.

ETIC extends funds procured through financial markets. There was no direct government funding with JAL, although if the process had failed the government would have covered the losses.

"[Relisting] part of our bigger goal of steady profitability"

Yoshiharu Ueki
President
Japan Airlines

These loans had to be paid back within three years and at the time of their issue it was thought it would be a close run race for JAL to succeed. But succeed it has.

JAL is leaner and meaner than it has ever been. But there is trouble ahead. The price of fuel is bound to rise and the global economy is uncertain. Japan's territorial dispute with China threatens bilateral trade and lucrative tourism links. At home and abroad the menace of LCCs will become a bigger threat to born-again JAL's existence.

This was reflected in the first days of trading, described as 'sluggish 'by analysts.

But the announcement on September 21, the third day of trading, that JAL was cutting frequencies on some Japan-China routes in October following passenger cancellations, sent the new stock below the IPO price for the first time.

Welcome back to the market, JAL. ■

"The rehabilitation process has distorted the competitive environment"

Shinichiro Ito
President
All Nippon Airways

BREAKTHROUGH

TOM BALLANTYNE reports

SpiceJet: could be one of the first Indian carriers to benefit from the country's FDI initiative

It has been a long time coming, but the Indian government has finally approved investment in the country's airlines by foreign carriers. The decision will boost debt laden operators, but may be too late to save some of them.

India's financially crippled Kingfisher Airlines is struggling to survive. It is not surprising, therefore, that its boss, Vijay Mallya, was delighted last month that India's Cabinet approved foreign direct investment (FDI) in local operators by overseas carriers.

"Bold decisions taken by government. Fantastic to restore confidence and kick start economic growth opportunities," he tweeted following the announcement. Later, he added "this will open up a wide range of opportunities for both Indian carriers and foreign carriers who wish to participate in the strong growth potential for civil aviation in our country".

Mallya, who led the lengthy lobbying campaign to convince New Delhi to make the change, said the move would allow Kingfisher to "re-engage with prospective investors in a more meaningful manner".

His real problem, according to some analysts, is that Kingfisher, some $1.4 billion in debt, needed at least $500 million immediately to continue operating, and could well be at the bottom of target lists of potential airline investors.

Foreign airlines are interested in taking direct stakes in one of the region's major growth markets, but finalizing any deal is unlikely to come quickly.

"Just because they are now allowed to invest does not necessarily mean they will," said CAPA South Asia director, Kapil Kaul.

"Carriers from the Gulf as well as IAG [which owns British Airways], Lufthansa and Singapore Airlines have been watching the sector. Informal discussions have taken place in several cases.

"But the balance sheets of most of the incumbent carriers are relatively weak and the sector faces numerous structural challenges. Foreign airlines will make their own assessments about a carrier being a suitable investment. Also, not all Indian carriers are seeking a strategic partner."

Under the new rules foreign carriers will be allowed to take up to 49% of an Indian operator. There are conditions. Interested companies will have to receive clearances from India's Foreign Investments Promotions Board and the aviation ministry and three quarters of the local airline's directors will have to be Indian nationals

"They will have to follow all the rules like plane acquisition and route disbursal laid down by the ministry," said civil aviation minister, Ajit Singh.

The question now is that having been invited, will foreign carriers come to the party? Given the fragile financial state of the global airline industry, throwing cash into an Indian market plagued with problems

and high costs will be a huge investment decision.

Few Indian airlines are making money. Last year, their combined losses amounted to $2.5 billion and the red ink is expected to reach the same level this year. In 2011, only one carrier, low-cost operator, IndiGo, was profitable.

Making money operating an airline in India's skies is extremely difficult. High costs, particularly state taxes on jet fuel, make it more expensive than anywhere else in the world to fly, and there are fierce price wars.

Indian low-cost carriers (LCCs) pay around $4,000 in fuel per block hour, 25% higher than LCCs elsewhere in the world. This makes their fuel costs higher by at least 45% globally, on a comparative basis.

Indian LCCs also pay high airport charges - Delhi Airport recently increased its charges by 350% - and raised ground handling charges by 40%.

Competition has kept fares low, too. For example, an air ticket in China on a comparable flight is 187% higher than in India.

Another issue is that some airlines have foreign non-airline investors holding close to the 49% FDI limit. This means if they want to introduce offshore airline expertise into their corporate structure these investors will need to sell their shares.

> "Allowing foreign direct investment by global airlines by itself is not a panacea. The critical problems of a high-cost environment, insufficient infrastructure and crippling taxes also must be addressed within a coordinated government-wide policy framework"
>
> **Amitabh Khosla**
> India Director
> IATA

Most observers and analysts believe budget carrier SpiceJet is the "best pick" among Indian airlines for investment. The carrier's chief executive, Neil Mills, said a day before the Cabinet decision was announced that the airline is open to selling equity to a foreign carrier if the offer was right.

A spokesman for SpiceJet said it has been in talks with a number of Gulf-based carriers pending the FDI decision.

CAPA's Kaul believes budget carriers, SpiceJet and GoAir, will be the first to benefit from the foreign investment decision. Cash-strapped Kingfisher, he said, would need to make a number of changes in its operations to attract investors. It had only an outside chance of survival, he said.

With 70% of its fleet grounded, it owes millions of dollars to banks, suppliers, aircraft lessors and its employees. Most of its pilots, engineers and many other staff have not been paid since March and employees are constantly threatening to strike. Key personnel have begun to jump ship.

Kaul also believed if the Indian government was serious about granting new operating licences to well funded start ups "we could, in due course, see the launch of greenfield joint ventures by carriers such as AirAsia, Jetstar and Tiger Airways".

Meanwhile, the International Air Transport Association (IATA) said the Indian government decision to encourage overseas investment was positive, but it warned it is unlikely to produce benefits unless the issues of high taxes and infrastructure costs were addressed.

"Allowing foreign direct investment by global airlines by itself is not a panacea. The critical problems of a high-cost environment, insufficient infrastructure and crippling taxes also must be addressed within a coordinated government-wide policy framework," said IATA's India director, Amitabh Khosla.

Civil aviation minister Singh said the policy change sent a clear message to a sector under financial stress. "Now, even the banks would look at them favourably," he said.

But he added: "I agree it is not a panacea for our airline industry, because we need to resolve the issues of high cost that plague the sector.

"However, you have to look at this policy long-term. To help this market grow we need this policy." ■

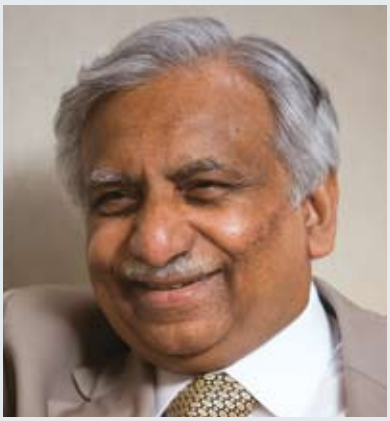
Etihad in talks with Jet

It is understood that executives of Gulf carrier, Etihad Airways, including chief executive, James Hogan, have had talks with Mumbai-based Jet Airways' founder and chairman, Naresh Goyal, and chief executive, Nikos Kardassis, in Abu Dhabi.

Sources said Etihad was interested in a minority stake and discussions centred around an evaluation of Jet's worth. The Indian airline's present market valuation is about $590 million.

Already a shareholder in Virgin Australia, airberlin, Air Seychelles and Aer Lingus, Etihad is widely known to view equity investments in other airlines as an important evolution of its partnership strategy.

However, Dubai's Emirates Airline has ruled out plans to invest in an Indian carrier. A spokesman for the carrier said: "Emirates has no plans to acquire a stake in an airline in India or anywhere else. We are busy focusing on the many aspects of our own growth, including the launch of flights to five destinations in as many months." ■



Jet Airways chairman, Naresh Goyal: been in talks with Etihad Airways executives

IFE REVOLUTION

TOM BALLANTYNE reports

Wi-Fi along with personal electric devices like smartphones, laptop computers and iPads could eventually seal the fate of seat-back entertainment

Asia-Pacific airlines are on an inflight entertainment (IFE) spending splurge, but it comes amidst a growing debate about the future of IFE and whether seat-back entertainment could become yesterday's technology.

When one of the Asia-Pacific's recognized leaders in inflight service, Singapore Airlines (SIA), disclosed it was spending $400 million to equip its aircraft with advanced inflight entertainment systems last month, in a bid to maintain advantage over rivals, it was hardly a surprise.

But another announcement, just a few days earlier, cemented a growing belief that keeping passengers entertained is heading along a new technology highway dominated by Wi-Fi, smartphones and personal tablets such as the iPad. For IFE read IFEC, or inflight entertainment and communications.

Carriers are rushing to take advantage of the explosion in the use of personal electronic devices by their customers.

While some operators, particularly low-cost carriers (LCCs), are already offering, or renting out, iPads loaded with entertainment to passengers, more, including full service airlines, are launching in-aircraft Wi-Fi to stream content directly to their customers' own devices.

SIA, in partnership with leading connectivity provider OnAir, owned by information technology provider, SITA, formally launched In-Flight Connectivity last month, part of a $50 million programme to bring high altitude internet and mobile data services to customers.

The system is currently deployed on 14 aircraft in the fleet, including all five of SIA's A340-500s, which fly the world's longest non-stop flights between Singapore and Newark and Los Angeles in the U.S.

Travellers can surf the internet, send and receive emails on smartphones and other electronic devices and send and receive SMS text messages with compatible mobile phones.

The technology will be progressively rolled out across all of SIA's long-haul A380-800, A340-500 and B777-300ER aircraft in the next two years.

SIA is not alone in setting out on this super highway. Other carriers in the region, including Garuda Indonesia, All Nippon Airways, Cebu Pacific and Thai Airways International are introducing the OnAir Wi-Fi service.

Philippine Airlines (PAL) is about to include Apple iPads among its inflight entertainment options onboard all trans-Pacific flights. Qantas Airways is launching QStreaming, which makes IFE available on passenger iPads on its domestic B767 fleet, following a successful trial earlier this year.

In the meantime, there has been a stream of announcements from Asia-Pacific operators who plan to fit the latest IFEC on new planes.

They include Malaysia Airlines (A380s), Air India (B787s) and China Southern Airlines (B777s), all fitting Thales TopSeries IFEC systems, as well as Taiwan's TransAsia Airways, which has selected Rockwell Collins' PAVES™ 2 for its new A320s.

Paying customers are not the only ones involved in the high-flying mobile communications revolution.

Qantas will be the launch customer for Boeing's Onboard Performance Solution for iPad,

Singapore Airlines: spending $400 million on upgrading its inflight entertainment products, including internet and mobile data services for passengers

which gives pilots the ideal speeds and engine settings for any aircraft, in any weather, on any runway. From next February, Japan's All Nippon Airways (ANA) will begin equipping its 2,500 flight crew with an iPad (see separate story).

Airlines are reacting to trends. Few people now travel without a smartphone or tablet device. Statistics show 10 years after becoming broadly available, smartphones have reached about 40% of the U.S. market. Their use in the Asia-Pacific is fast approaching that figure.

In Japan alone, nearly 20 million people own smartphones, up 28% from last year. This year, shipments of the phones have increased nearly 90% over 2011. The use of tablets, such as the iPad, is increasing at an even faster rate. SITA says some 330 million tablets will be sold worldwide by 2015.

In its latest airline IT trends survey, SITA found nine out of 10 airlines plan to engage with passengers through mobiles by 2015. They believe smartphones can support most, if not all, customer facing interactions, including customer service, commerce, inflight entertainment and passenger processing.

It said 93% of airlines have mobile services for passengers as a top investment priority in the next three years, with 58% investing in major programmes.

The trend has raised serious questions about the future of IFE, including the potential to ditch expensive seat-back solutions and replace them with wireless streaming of offerings direct to passenger electronic devices.

It would be an attractive alternative, allowing airlines to remove IFE hardware, and therefore significant weight, from their fleet that would save on fuel costs. Often fitted beneath the seat, taking out the hardware would also give passengers more legroom.

The concept is on some airline agendas. Cathay Pacific Airways chief executive, John Slosar, said in a recent interview that given the popularity of tablets passengers "no longer need some of the onboard entertainment facilities, for example, seat-back personal TV screens."

But there was a rider: Slosar made it clear Cathay wouldn't be removing in-seat systems any time soon. A Cathay spokesperson told *Orient Aviation*: "We continue to monitor trends in offering passengers the best choice of inflight entertainment. At the moment, Cathay Pacific is unlikely to implement any new system for the next five to six years."

While it is spending money on Wi-Fi products, SIA also remains committed to seat-back systems. Its $400 million spend includes Panasonic Avionics equipping more than 40 planes with a system that can provide broadband internet and global live television.

SIA will be the launch customer for Panasonic's new eXr system, which will offer the latest video screen technology and touch-screen handsets in all classes of travel, powering the carrier's KrisWorld entertainment system.

Tan Pee Teck, senior vice-president product and services, told *Orient Aviation*: "We have always been open to exploring all developments and possibilities in IFEC technology."

But he said SIA continued to see "a good future" for in-seat systems. "The next generation of systems will have many innovative features that will enable us to maintain our status as a leader in this area," said Tan.

"At the same time, we are open to evaluating other technologies and options as well. But it is, of course, about more than just hardware. Having strong content is extremely important. We are constantly expanding the on-board library of movies, TV programmes, audio CDs and much more."

Qantas QStreaming is also a partnership with Panasonic, using its eXW solution, streaming IFE direct to passenger iPads.

"We're looking at ways to evolve this technology platform even further with our partner Panasonic to bring new standards of inflight entertainment to our customers," said Qantas Domestic chief executive, Lyell Strambi.

Peter McLaughlin, executive director of Australia-based inflight entertainment content and technical services provider, Stellar Inflight, said airlines were looking at ways to remove weight from the aircraft. Upgrading the technology of IFE systems was one area where they could cut back.

"But I don't think they are going to rip seat-back systems out any time soon," he said. "But as new aircraft come off the line and as Wi-Fi becomes a little more common on aircraft, particularly on international flights, perhaps they are not going to order as many in-seat devices as they have in the past. It will take some time for that to catch up."

Indeed, Stellar won several significant contracts this year which involve providing content suitable for iPads, including SIA's new budget carrier Scoot, Virgin Australia, Jetstar, Malaysia's AirAsia group and Turkish Airlines.

Cebu Pacific Airways: one of a number of Asia-Pacific carriers introducing Wi-Fi service on board

"Whatever equipment they choose they are always going to need content," said McLaughlin. "They can have whatever hardware they like, whether it is wired into the seat or whether it is a supplied tablet or whether eventually it is their own device picking up the movies, TV shows or audio. For an airline content is still going to be the most important thing."

Analysts and industry insiders point out there are several major hurdles to overcome before a legacy airline would consider removing in-seat systems. While it will remove weight it would also be an extremely costly exercise.

"And what if you have a family of four travelling with only one or two tablets between them. You would have to carry a supply of tablets on board and that also would add weight to the aircraft," said one airline IFE executive.

Critics also suggest there are difficulties in streaming for hundreds of devices simultaneously, although this is denied by providers who say a single wireless access point (WAP) can support about 50 people. Thus a five-WAP configuration in an aircraft could support 250 people using their devices at the same time.

Yet another decision for carriers is whether to charge for the service or not. Recent statistics in the U.S., where around 30% of domestic flights already offer Wi-Fi access, show that less than 5% of passengers are willing to pay for the service.

While comparable statistics are not known for Asia-Pacific operators who offer Wi-Fi access, most of them do charge. For example, SIA last month offered promotional price plans for wireless internet access.

Available until November 30, the charge is US$25 for 30 megabytes of data and $10 for 10 megabytes. Previous plans cost $29.95 for 26 megabytes and $11.95 for 10 megabytes.

Another issue is Hollywood and the supply of first-release movies to airlines. Stellar's McLaughlin said film studios are extremely nervous about movies being streamed over Wi-Fi to passenger devices because of piracy issues.

> "Hollywood has always had an issue about any new technology where first release movies are going to be shown anywhere, and the aircraft is one of them"
>
> **Peter McLaughlin**
> Executive Director
> Stellar Inflight

"Hollywood has always had an issue about any new technology where first release movies are going to be shown anywhere and the aircraft is one of them," he said.

"Until they are convinced the security surrounding the Wi-Fi on airlines is there they will be sceptical. I believe the time will come when they will be convinced it is OK."

The surge in passenger use of personal electronic devices has sparked new concerns about the impact they may have on aircraft systems, such as navigation instruments.

It has led to a fresh study by the U.S. Federal Aviation Administration (FAA). Last month, it moved to set up a group that will include representatives from the mobile technology and aviation manufacturing industries, pilot and flight attendant groups, airlines and passenger associations, to look at the rules governing inflight use of the devices.

Airlines currently tell passengers not to use iPods, laptops and other devices while planes are taking off and landing. Under current rules, aircraft operators are left to determine themselves that personal electronics do not cause dangerous radio frequency interference in order to approve them for use during flights.

"We're looking for information to help air carriers and operators decide if they can allow more widespread use of electronic devices in today's aircraft," said acting FAA Administrator, Michael Huerta. "We also want solid safety data to make sure tomorrow's aircraft designs are protected from interference."

Meanwhile, there isn't any shortage of IFEC products from IT providers. Apart from SITA's OnAir system and systems from Thales, Rockwell, Panasonic and others, Lufthansa Systems last month launched Board Connect, a WiFi network that comprises a server on board the aircraft plus several wireless access points in the cabin.

Said programme head, Norbert Müller: "As no wiring is required to transmit data in the cabin, airlines can install Board Connect during routine maintenance or night stops without the need for additional ground time."

He said the weight savings generated by the elimination of wiring and data transmission hardware reduces fuel consumption on a B767-300ER by more than 80 tonnes a year. German carrier, Condor, will be the launch customer for Board Connect.

The general view within the airline industry is that although Wi-Fi streaming of IFE will become part and parcel of a carrier's entertainment offering, no one will be reading the funeral rites over seat-back entertainment anytime soon. ■

Tablets easing the pressure onboard

Airlines are finding that personal electronic devices, such as iPads, can bring huge benefits to their operations, both on the flight deck and in the cabin

All Nippon Airways: all 2,500 of its flight and cabin crew to be supplied with iPads on board

Last month, 300 pilots and cabin crew at Japan's All Nippon Airways (ANA) began a three-month trial using iPads.

It won't end there. From February next year, the carrier will begin providing all its 2,500 crew with the tablet device, a move the carrier says will reform the way it works, cutting costs and improving the quality of its operations.

And in Seattle last month, Boeing announced Australia's Qantas Airways would be the launch customer for its Onboard Performance Tool (OPT) for iPads.

The OPT will give pilots the ideal speeds and engine settings for any aircraft, in any weather, on any runway and, according to the U.S. manufacturer, help create gains in efficiency, range and payload.

These moves are typical of a growing trend among airlines to utilize tablet devices, which are lightweight and pack as much punch as a laptop computer.

ANA said the iPads will allow its flight crews access to weather and other flight-related information wherever they are, helping pilots choose the route and altitude with the least turbulence and help ensure operations run on-time. They will have constant access to the latest passenger reservation information and cargo volume information, helping optimize the fuel load for each flight.

The airline said paperless manuals would reduce printing costs and streamline the distribution and updating of manuals that can run to several thousand pages in a year. The iPads will also allow ANA to provide voice and video-based training and educational materials.

Qantas will deploy the OPT for iPad on 130 of its Boeing aircraft before the end of the year, using it as a standalone solution or backup to Class 2 or 3 Electronic Flight Bag (EFB) applications.

"The Boeing OPT is very well aligned with our flight deck mobile strategy. We especially appreciate the OPT's flexibility, which allows us to define unique policies and configurations to suit our needs," said Capt. David Oliver, head of flight technical for Qantas.

Since Boeing offered the OPT for iPad in July, more than 80 airlines have requested more information about the tool. "We have been very successful in the marketplace with our existing OPT application, but our customers told us they wanted a version for iPad," said John Maggiore, director of airline performance management at Boeing.

At a recent aviation conference in Brussels, IT provider, SITA, said there had been a significant increase in the number of airlines looking at how tablets could be used for crew, passengers and customer service.

SITA's portfolio director mobility, Paul Boyle, said key drivers included improving on-board passenger experience and increasing crew morale.

"The plans of many major airlines to give tablets to cabin staff will empower them to service customers proactively. At the same time, pre-flight preparations and post-flight reporting will gain from a more productive and flexible way of working.

"Early pioneers cite real-time insight into customer preferences across a range of areas, from meal requests to onward travel plans." ■

Flying start for Japan's LCCs

By Geoff Tudor in Tokyo

With three new low-cost carriers (LCCs) in operation since March the Japanese domestic market is experiencing a tsunami-like transformation.

Offering fares often 50%-75% lower than established carriers, the new LCCs have been successfully attracting cost-conscious first-time flyers. Now, the budget carriers are starting to steadily expand as demand picks up.

Shinichi Inoue, the chief executive of Peach Aviation, the first of the trio to take off, pointed out in a recent media interview that during the peak summer holiday season up to 30% of their customers were first-time flyers. They were people who would normally have travelled by inter-island ferry or long-haul bus.

"This shows the new LCCs are not just taking business away from existing airlines, but are creating completely new demand,"said Haruo Ushiba, a principal analyst of Japan Aviation Management Research (JAMR), an industry consultancy.

In the traditional Japanese *Bon* holiday period in August, almost three million people took domestic flights with Japan's 13 domestic airlines.

Of these, the three LCC newcomers carried about 3% of the total, or 82,503 passengers, but they achieved outstanding load factors. Peach Aviation, AirAsia Japan and Jetstar Japan reported seat occupancy rates of 94.3%, 91.2% and 89.5% respectively.

All Nippon Airways-backed Peach, flying out of Osaka's Kansai airport announced at the end of August that since its inaugural flight on March 3 to early last month it had carried 604,103 passengers on its four routes with well above target load factors of 79%.

The carrier is targeting four million passengers in 2013, four times the number estimated for 2012.

Jetstar Japan, a Narita-based venture involving Japan Airlines and Qantas, carried 100,000 passengers between day one on July 3 and August 21, recording an occupancy rate of 86%,

On August 24, Jetstar opened its second hub at Osaka Kansai.

The third of the new LCCs to take off was AirAsia Japan, on August 1. It is another carrier with an ANA interest as well as investment from Kuala Lumpur-based AirAsia. Like Jetstar Japan, it operates out of Narita.

"The new LCCs are stimulating the domestic market, which in recent years has slumped from a record 96 million passengers in 2006 to 77.6 million in 2011," said JAMR's Ushiba. "They are also starting to have a knock-on effect in other parts of the travel business."

The impact can be seen around Narita, where some hotels have packages for LCC customers offering ultra early check-outs and free transport to the airport terminal. Bus companies have launched low-fare late night and very early morning services between central Tokyo and Narita so LCC travellers can catch their flights.

And in Japan, where travel agents have a lot of clout, the budget carriers are cooperating with tour operators to offer low-cost package tours. A Japan Travel Bureau (JTB) Hokkaido tour using Jetstar Japan can be 30% to 50% cheaper than an identical package with one of the legacy airlines.

Ushiba likens the social impact of LCCs to the introduction of the high speed bullet trains in 1964 between Tokyo and Osaka, which created a boom in intercity travel.

"Suddenly, people discovered they could easily make the round trip journey in a day to attend meetings, weddings and other social events. The influence of the LCCs will be similar," he said.

A day trip to Sapporo – 832 km from Tokyo - is suddenly a feasible proposition for everyone, not just business travellers, thanks to the low fares. Air Asia Japan recently carried a school soccer team from Narita to Sapporo for a one-day tournament.

Peach has attracted day trippers from Osaka to Seoul for shopping trips. Jetstar Japan has flown day trippers to Okinawa.

Almost 50% of AirAsia Japan's passengers in its first month were retirees, considered a key market by the new LCCs.

Regulatory gripes remain, however. Jetstar Japan's chief executive, Miyuki Suzuki, regularly compares the position of Japanese regulators to an isolated "Galapagos" situation, citing as an example the transport ministry's insistence on foreign pilots requiring training to acquire Japanese licences, despite being highly qualified by global standards.

Quick turnaround times, a key feature of the LCC business model, is presently impossible in Japan because of a Japan Civil Aviation Bureau (JCAB) rule preventing passengers from boarding during refuelling.

Help could be on the way. The conservative Ministry of Land, Infrastructure, Transport and Tourism (MLIT) is reviewing about 100 regulations within the financial year after discussing potential changes with airlines.

Narita's 11pm curfew has also caused problems for the two LCCs based there. Jetstar Japan has been forced to cancel late night flights after running out of time, causing the carrier to spend heavily on hotels for stranded customers.

Ushiba believes Japan's LCCs will have a 30% market share by 2020. "LCCs are starting to change Japanese travel habits," he said.

However, Kei Shibata, chief executive and founder of Venture Republic, owner and operator of Japan's leading online travel search engine, Travel.jp, was even more bullish. Speaking at a recent conference, he predicted LCCs' market share could reach 50% within five years. ■

Peach Aviation: up to 30% of passengers during the peak summer holiday season were first-time flyers

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