

# Orient aviation

10th  
Anniversary  
Year



## CLUB BENEFITS

Alliances prove their  
worth in times of crisis

- No thrills for Japan's low-cost carriers
- Mercy missions big business for flying doctors
- Terrorism puts Indonesian carriers under extra pressure

newworld

**SPECIAL REPORT: Airport dynamics in China's Pearl River Delta**

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# ALLIANCES STEP UP TO THE MARK

**F**or Asian airlines a crisis is no longer something that comes along every decade. It has become an ongoing state of affairs for airline managements.

They must wonder what the next shock will be, where it will come from and how they will deal with it. We may now be talking about recovery from the impact of SARS, but the bombing last month of a five-star hotel in Jakarta reminds us there are other, ever-present threats to business stability.

Ravaged by SARS, regional operators not only have to nurse their way back to fiscal health, they have to do what senior industry bodies such as the International Air Transport Association and the Association of Asia Pacific Airlines have been urging for months: find new ways of doing business.

As our cover story this month shows, one key component in that quest may be membership of a major global airline alliance. Often controversial, sometimes maligned, alliances appear to have played a critical role in helping members confront the trauma of recent crises.

The airline groupings did not stem all the losses, but they allowed operators to react quickly, in co-operation with partners, to adjust capacity and networks and fine-tune them to meet precise levels of falling demand. Alliance members were able to swap ideas and not face the shock alone. When

SARS passed they helped spread the word that flying to Asia was safe.

More importantly, alliances have matured through crisis, moving from being mainly marketing tools to a more crucial role as a means of cutting bottom line costs. All alliances are now tackling the serious issues of joint purchasing of high-cost items. These include aircraft, fuel, information technology systems and co-operation on maintenance and spare parts.


















Asian airlines have achieved a great deal in recent years in trimming expenses, but they know they have to do more. In the years ahead, the savings for alliance airlines in joint purchasing will be immense.

As with all opportunities, alliance membership is not for everyone, at least not at this stage. Indeed, it would likely be possible to achieve some of the same goals through a variety of bilateral co-operative agreements with airlines.

One suspects, however, that all major international airlines will ultimately align themselves with an alliance to take full advantage of the cost saving and efficiency gains they can bring.

**TOM BALLANTYNE**  
Chief correspondent

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# REGIONAL ROUND-UP

## THAI CONFIRMS US\$1.4 BILLION FLEET UPGRADE

**T**hai Airways International (THAI) received government approval in August to buy eight new Airbus aircraft and seven five-year-old B747s from U.S. Chapter 11 carrier, **United Airlines**.

THAI president, **Kanok Abhiradee**, said the order was part of the airline's five-year US\$3.11 billion investment plan to expand the airline's fleet to 92 airplanes, increase its weekly services by 154 flights worldwide by 2007 and add 27 destinations to its network. THAI operates 825 services a week at present, but the carrier would like to increase its direct flights to cities such as New York and Chicago.

The president said the Airbus order of three A340-500s and five A340-600s would be delivered to the Bangkok-based carrier in 2005 and 2006 and would be financed up to 85% by loans, with some of the funds baht denominated. THAI will buy the B747s from United for cash.

"It is good timing for us



Thai Airways International: fleet to be expanded to 92 planes

to buy the planes from United because their aircraft and equipment are the same specifications as Thai Airways is using," said Abhiradee.

Meanwhile, THAI is expected to announce its plans for the sale of 23% of the carrier's equity in an IPO at present scheduled for later this year. THAI plans to offer 400 million shares to the market in a sale that would reduce the Thai Government's holding in the flag carrier to 70%.

## HONG KONG AIRPORT TO BE PRIVATISED

Financial secretary for Hong Kong Special Admin-

istrative Region (HKSAR) **Henry Tang** announced in August that **Hong Kong International Airport** would be partly privatised with the IPO slated for a Hong Kong Stock Exchange listing in 2004.

Tang said legislation would be introduced early next year to authorise the part privatisation, a step long planned by the HKSAR government.

At this stage he would not be drawn on how large the IPO would be, but he intends the sale to help the government manage a predicted short fall in capital funds in the next few years.

Tang's announcement received widespread endorsement from airlines and the chairman of the **Airport Authority Hong Kong, Vic-tor Fung**. Fung said privatisation "will bring discipline" to the authority's operations. Chief executive of the authority, **Dr. David Pang**, said privatisation generally takes about 18 months of preparation.

## ... JOINT VENTURE WITH SHENZHEN AIRPORT MOOTED

Twenty four hours after the privatisation plans were announced it was revealed the airport authority was seriously working on a proposal that would bring together the **Hong Kong International Airport (HKIA)** and its sister airport across the southern Chinese border in Shenzhen.

Dubbed the one airport two countries plan, it is believed the management of the two airports – which in fact are only about 50kms apart – are discussing the idea of the **Airport Authority Hong Kong** buying into **Shenzhen Airport**.

Bonded ferry services from

## Four Asian low-cost carriers planned

**F**our more Asia-Pacific low-cost carriers are on the drawing board, adding to the list of budget operators already operating in the region: Malaysia's **AirAsia**, Air New Zealand's **Freedom Air** and Australian domestic carrier, **Virgin Blue**.

In June, a former chairman of **Singapore Airlines**, who is now non-executive chairman of **Singapore Press Holdings** and the chairman of **Singapore Technologies Aerospace Ltd**, announced he was heading a consortium that would set up a regional low-

cost carrier called **ValuAir**.

**Lim Chin Beng** registered ValuAir with Singapore's Registry of Companies and Businesses in March and applied for an operating licence with the **Civil Aviation Authority** of Singapore recently. Lim was reported to intend to commence ValuAir services by mid-2004.

Meanwhile, in early August, the transport ministry of Thailand announced it had issued traffic rights to a new airline, **Thai Pacific Airlines (TPA)**, which is owned by a medical doctor, **Wasant Singhamanee**.

TPA said it planned to

fly to four destinations from Bangkok, starting with services to Sydney in October. Other destinations reported to be on TPA's route radar are Bangkok to Seoul, Osaka and Honolulu.

Separately, **Thai Airways International (THAI)** is believed to be still proceeding with its plans to set up a low-cost subsidiary and is currently seeking partners interested in taking up minority equity in the venture – including tour operators. THAI plans to lease aircraft and operate on domestic routes and routes within Asia.

In Hong Kong, where **CR Airways** was launched

mid-year (see page 42), it was reported by Agence France Press from Yangon in Myanmar that a Hong Kong company, **Strategic Investments**, would launch **United Myanmar Airlines (UMA)** in August, in a joint venture with state-owned domestic carrier, Myanmar Airways.

Tan said UMA would fly from Yangon to Bangkok, Singapore and Kuala Lumpur and expand services to Hong Kong, Shanghai and Penang within a year, offering up to 30 flights a week on two leased Boeing B737-400s. ■

HKIA to four ports in the Pearl River Delta – Macau, Shenzhen, Tai Ping and Shekou – are to commence soon.

Some analysts believe the Shenzhen partnership is important to the HKSAR's airport privatisation plans. They believe the success of the IPO could not be guaranteed unless the deal provided a platform into China.

### **QANTAS-AIRNZ BUY-IN SUPPORTED BY IATA**

**Giovanni Bisignani**, the director-general of the **International Air Transport Association (IATA)** said in Sydney in August that the Australian and New Zealand regulatory bodies should approve **Qantas'** plan to buy 22.5% of **Air New Zealand**, despite concerns about competition issues.

Bisignani said the regulators should look at the international picture when assessing the benefits of the deal and consider the difficult operating conditions airlines are experiencing since the 9/11 terror attacks, the global economic slowdown, the Iraq war and most recently, SARS.

Bisignani met with the Australian Prime Minister, **John Howard**, and the transport minister, **John Anderson**, during his Australian visit. Anderson personally supports the proposed acquisition. The Australian competition regulator is expected to announce its decision on the matter in September.

### **... NO-FRILLS ACROSS TASMAN**

**Air New Zealand's (AirNZ)** chief executive, **Ralph Norris**, said his airline plans to introduce a no-frills **Tasman Express** service to head off competition from **Virgin Blue** and the anticipated establishment of **Qantas** low-cost Tasman carrier, **Jet Connect**. Virgin Blue will start trans-Tasman services in October. Norris said in August the carrier's recently established domestic Express Class was easily transferable to trans-Tasman routes. He expected AirNZ to slash its trans-Tasman costs by double-digit figures.

### **RIDGWAY WOONGING HK GOVERNMENT**

**Virgin Atlantic's** chief executive, **Steve Ridgway**, was in Hong Kong in July with his manager of government and external affairs, **Chris Humphrey**, to lobby government officials and the industry about Virgin Atlantic's desire to fly from London to Australia via Hong Kong.

Talks between Britain and Hong Kong on expanding air rights through Hong Kong to destinations in the Asia-Pacific are expected to start in September. Currently, only **oneworld** alliance carriers **Qantas Airways** and **Cathay Pacific Airways** fly between Hong Kong and Australia. If Virgin is successful in its quest for fifth freedom rights out of Hong Kong, the route would be served by a third, and **Star Alliance** affiliated, carrier.

Virgin, said Ridgway, would like to be flying onward from Hong Kong to Australia six or seven times a week in the first half of 2004.

### **BRIEFLY**

**AIRPORTS . . . Beijing Capital Airport** has slashed the prices at its food and beverage outlets by 70% after being accused of charging first world five-star hotel prices. Outraged passengers said the same products cost five times less at other retail outlets in Beijing.

**CARGO . . . Air Macau**, whose main business comes from Taiwanese passengers stopping at the airport before flying into China, is considering establishing a cargo service on the Nanjing-Macau-Taipei route, with up to six Boeing B727 freighter services a week from October. **Shanghai Airlines** has launched three freighter services a week to Macau, a Special Administrative Region of China, after it was granted increased onward cargo space to Taiwan. The expanded services are part of the new through transportation agreement that allows the Shanghai carrier to transport up to 1,600 tonnes of cargo a month on Taipei bound **EVA Air** flights out

of Macau. At present direct flights between China and Taiwan are banned.

**CODE-SHARES . . . China Southern Airlines (CSA)** and **KLM Royal Dutch Airlines** will expand their current agreement to allow KLM to code-share with CSA to the Chinese cities of Guangzhou, Shenzhen, Wu-han, Changsa and Guilin. **Royal Brunei Airlines (RBA)** and **Singapore Airlines (SIA)** will begin code-sharing on flights between Singapore and Bandar Seri Begawan from September 15. RBA will operate 14 flights a week and SIA five services weekly between the two cities. SIA also has announced an economy class code-share with its part-owned partner, **Virgin Atlantic Airways**, on SIA's five times weekly service on the Singapore-Manchester route. The two carriers also operate code-shares on SIA's three daily flights from London to Singapore. **Thai Airways In-**

**ternational (THAI)** is now code-sharing with **bmi British Midland** on the UK carrier's services to Belfast, Glasgow, Edinburgh, Manchester, Leeds, Bradford, Teeside and to Dublin, Ireland.

**COMMUTER JETS . . . Sumitomo Mitsui Banking Corporation** and **Embraer** have finalised a US\$200 million syndicated seven year loan to fund the purchase of parts, components and equipment for the manufacturer's 170 & 190 jet programme.

**FLEET . . . Air China** took delivery of its first Airbus A319, powered by IAE V2500 engines, in July. The aircraft will join the fleet of **Air China Zhejiang**, which has eight Airbus planes in its fleet. **All Nippon Airways (ANA)** has received the first of four 74-seat Bombardier Q400 turbo aircraft, which it ordered in 2002. **China Airlines (CAL)** has received the first of its new Boeing B747-400 freighters ordered in 2002 as part of

CAL's planned purchase of 22 new aircraft. The aircraft will be used on the carrier's Taipei-U.S. route. In the first delivery of an order of five airplanes, **China Eastern Airlines** began operating its first Airbus A340-600, powered by Rolls-Royce Trent 500 engines at the end of July. It is the fifth operator of the A340-600 worldwide. Taiwan's second international carrier, **EVA Air**, has taken delivery of its first Airbus A330-200, powered by GE CF6-80EA3 engines. EVA has leased eight of the airplanes from **GE Capital Aviation Services (GECAS)** and will buy one more of the aircraft directly from **Airbus Industrie**.

**INFORMATION TECHNOLOGY . . . All Nippon Airways (ANA)** has bought the **Sabre Global Distribution System** for its electronic ticketing system operations in the U.S. **Thai Airways International (THAI)** has chosen **Lufthansa Systems' NetAdvance** to assist the carrier in analysing worldwide traffic flow, changing market requirements and the

origins of THAI bookings. The Bangkok-based carrier also operates Lufthansa Systems' **SalesAdvance** system. **Star Alliance** has introduced a comprehensive travel service for its members, which includes the use of flash technology to provide detailed maps of 42 major hubs serviced by the alliance's airlines.

**LEASING . . . Hong Kong's Dragonair** has signed a US\$100 million loan with **BOC Hong Kong (Holdings) Ltd.** The loan is expected to help fund the regional carrier's purchase of two A321 aircraft, to be delivered by the end of 2003. **Singapore Aircraft Leasing Enterprise (SALE)** has announced deals with four carriers. The lessor and UK low-cost carrier, **easyJet** signed a sale and leaseback deal for six next generation Boeing B737-700s. Also, SALE has delivered an Airbus A319 to **Blue Moon Aviation** in the U.S., an A310-200 to **Jordan Aviation** and an Airbus A320 to **Um Air** of the Ukraine.

**MANUFACTURING . . . Dirgantara Indonesia (DI)**, the Indonesian aerospace manufacturing group, will be closed for six months by order of its board, "because of its financial problems". DI had orders to build parts for the Airbus A380 as well as assembling European helicopters and aircraft produced for Spain's **Casa**.

**MROs . . .** Depending on Indonesian Government approval, the **SIA Engineering Company** intends to purchase 49% of **PT JAS**. The joint venture company will operate at 10 major airports in Indonesia.

**PEOPLE . . .** At its 16th annual board meeting, the directors of Taiwan's **China Airlines (CAL)** re-elected both **Yun-ling Lee** as CAL's chairman and **Philip Wei** as the carrier's president.

**ROUTES . . . Air France** will be the first European carrier to fly directly to Guangzhou from Charles De Gaulle Airport, Paris, when it com-

mences its five times weekly service to the southern Chinese city next January, with Airbus A340-300 aircraft. Leisure operator and **Qantas Airways** subsidiary, **Australian Airlines**, will increase its Cairns-Hong Kong services to three times weekly from October 26 and will add an extra service to Bali from Melbourne via Sydney. Pre-SARS level daily flights to Osaka and three times weekly services to Fukuoka also commence at the same time. Chinese airline groups are considering launching services to Queensland, Australia, following the signing of a new air services agreement between Australia and China two months ago. **China Airlines (CAL)** launched Taiwan's first service to Hanoi on July 29, and now flies between Taipei and Hanoi three times a week. CAL has operated to Ho Chi Minh City since 1992. CAL also has commenced four times a week charter services on the Taipei-Seoul route and introduced twice-weekly non-stop flights from Taipei to Honolulu. ■

## Mid-year traffic surge post SARS

By Tom Ballantyne

As the shadow of SARS continues to fade, Asian airlines and global industry executives expect capacity to return to near pre-crisis levels by the end of September. They also predict a return to profitability for the industry next year barring further shocks.

Carriers in the region reported a strong resurgence in bookings in July and August. In China, the geographic heart of the SARS epidemic, traffic returned to normal quicker than expected, according to aviation officials.

**Don Birch**, president of Asia's largest travel and airline ticket reservation company, **ABACUS**, said travel bookings in the region doubled between May and July, after the containment of SARS, with discounted tickets

helping to lure passengers back into the air. "The second half of 2003 provides us with an excellent opportunity to get the industry back to full strength. Not only are we witnessing an ongoing recovery, but also a surge of travellers to destinations in Asia and beyond," he said.

**International Air Transport Association (IATA)** director general, **Giovanni Bisignani**, remained cautious, but predicted the world's airlines will be back in profit next year. "SARS has now come under control and with the travel warnings lifted, airlines are rebuilding schedules and seeing passengers return. The worst is over, but the road to recovery will be long," he said, during an Asia-Pacific tour in August.

The impact of SARS has left deep scars on airline balance sheets. IATA has project-



**IATA director general, Giovanni Bisignani: the road to recovery will be long**

ed the global airline industry will lose US\$6.5 billion this year in addition to the US\$25 billion lost in 2001 and 2002.

Asian carriers were worst affected of all airlines by SARS. Traffic at Hong Kong's **Cathay Pacific Airways** plunged below 7,000 pas-

sengers daily at the height of SARS. In August the carrier reported its largest first half loss of US\$159 million. Days earlier, three other major operators, **Japan Airlines**, **All Nippon Airways** and **Singapore Airlines** announced combined losses of nearly US\$1 billion for their first quarters, ending June 30. (see *Business Round-Up*)

Global air traffic was down 11.8% in June, compared with the same month a year earlier, a marked improvement, however, from the 21% plunge in May, according to IATA.

Asia-Pacific airlines suffered a traffic decline of 35.8% in June, compared with a drop of 55% in May.

SARS affected more than 8,400 people and more than 800 individuals died from the disease, most of them in Asia. ■

# BUSINESS ROUND-UP

## SARS SWINGS CATHAY FROM PROFIT TO LOSS

**H**ong Kong based **Cathay Pacific Airways** reported a first half net loss of HK\$1.24 billion (US\$159 million) for the six months ended June 30, a result that revealed the dramatic impact of SARS on the international carrier.

The airline's chairman, **James Hughes-Hallett**, said the results compared with a profit of HK\$1.411 billion in the same period in 2002. He said the year started out much in line with the management's expectations, but that the onset of SARS in March "had a devastating and immediate impact on our business".

As the numbers of SARS patients in the region rose, Cathay Pacific's passenger numbers dropped by 32%, or 4.01 million compared to the same period in 2002.

Average passenger load factor collapsed by 13.7 percentage points to 64.4%.

Cargo revenue rose by 4% in the first half, but turnover declined by 21% compared to the first half of last year.

At the peak of the SARS crisis the carrier parked 22 aircraft, cut capacity by 45% and instituted a month of unpaid leave, later amended to three weeks, for every Cathay Pacific employee.

Hughes-Hallett said the industry was recovering rapidly now the region had been established as SARS free and that he expected operations at Cathay Pacific to break even in August.

The airline will have restored all services it cut during SARS by September. However, both Hughes-Hallett and the carrier's deputy chairman and chief executive, **David Turnbull**, stressed that although Cathay Pacific is experiencing rapidly increasing loads, the carrier "still has a problem with yields".

"It is very difficult to establish what yields will be



## SIA SEES RED

**D**evastated by the impact of SARS, the **SIA Group** reported a first quarter loss of S\$312 million (US\$177.8 million) to June 30, compared with a profit of S\$478 million in the same period last year. The company said group revenue fell by 35% in the three-month period to S\$1,653 million, operating losses had amounted to S\$377 million and losses per share were 25.6 cents. As SARS emptied aircraft across the region, the group's airline, **Singapore Airlines (SIA)** said passenger load factor dropped 18.1 percentage points to 57.4% and the number of passengers carried fell by 49.2% to 1.9 million for the quarter.

In June, SIA retrenched 414 ground staff and, in July, laid off 156 cabin crew and 26 pilots. The carrier later negotiated pay cuts of 5%-16% for its employees including ground staff and cabin crew. SIA management has accepted salary reductions of 16.5%-20% and the group's directors have taken a 50% reduction in their fees.

Pilots agreed to take up to two days no-pay leave every month from July this year while the carrier's cabin crew are operating on a roster from May 1 that incorporates seven days no-pay leave into their work schedule every two months.

Chief executive, **Chew Choon Seng**, said he was seeking another S\$200 million in savings at the carrier, but added he believed the worst was over for the group.

"The outlook for the next quarter and the rest of the year is uncertain. The success of marketing promotions to rebuild traffic would be at the expense of yields as sizeable fare discounts have to be offered and business travel is still relatively weak given current global economic conditions," an SIA Group statement said. ■

like in October, November and December," said Hughes-Hallett.

## JAL GROUP HIT BY CHINA SLUMP

The **JAL Group**, created last October from **Japan Airlines** and **Japan Air**

**System**, reported a loss of 77.28 billion yen (US\$644 million) for the first quarter of the 2003-2004 fiscal year as the impact of the Iraq War and SARS cut into passenger bookings.

Japan Airlines (JAL), releasing quarterly results for

the first time, said international passengers carried during the quarter declined by 46% to 1.9 million and services to China (one nation with several thousand reported SARS cases) dropped by 68%.

Revenue from international operations collapsed by 39% to 93.86 billion yen.

However, domestic revenue for the amalgamated carriers rose 1.2% to 155.57 billion as many Japanese travellers decided to travel in Japan rather than abroad while SARS presented a health threat in the region.

JAL Group executive officer, **Haruka Nishimatsu**, said: "The effect of SARS is taking longer than expected to wear away.

"But that is being made up for by a strong recovery in business travellers."

The JAL Group has not changed its forecast for the year and said it expected a net loss of 43 billion yen in the year to March 31, 2004 compared to a net profit of 11.65 billion yen last year.

## ANA STICKS TO PROFIT FORECAST

**All Nippon Airways (ANA)**, also releasing quarterly results for the first time, reported a net loss of 18.32 billion yen (US\$151.29 million) for the three months to June 30, but the airline said it still expected to report a profit for the full year.

"The worldwide spread of SARS dealt a severe blow to our group's mainstay business of air transport, as well as the travel and hotel business," a group company statement said. "And despite the smooth progress of our cost-cutting efforts, consolidated earnings ended up lower."

To offset the effects of SARS and the Iraq War, ANA cut back international services and reduced domestic operating expenses. Load factor on domestic routes during the period declined by 3.4 percentage points to 55.8%.

## **PAL POSTS FULL-YEAR PROFIT**

**Philippine Airlines (PAL)** reported a profit of 295 million pesos (US\$5.4 million) in the year to March 31, a turnaround from losses of 1.6 billion pesos a year earlier.

PAL said the improved result was a consequence of higher passenger confidence post the September 11, 2001 terror attacks in the U.S. and efforts to contain costs, especially for aircraft maintenance and fuel purchases.

However, the Manila-based carrier added that the impact of the war in Iraq and SARS began to take its toll on the carrier's bottom line in March and would affect results for the April-June quarter.

## **CSAH LAUNCHES DOMESTIC IPO**

The **China Southern Airlines Group (CSAH)**, the Mainland's largest carrier, which already is listed on the Hong Kong and New York Stock Exchanges, raised an estimated 2.7 billion yuan (US\$327 million) or 23% of its share capital, when it launched its domestic initial public offering (IPO) in late July.

The money raised, topped up with some loans, will be used to finance aircraft purchases and fund the group's expansion.

CSAH has said it will post a first half loss, caused by SARS and the Iraq war, when it announces its interim results at the end of August. Analysts predict the losses could be as high as 317.7 million yuan.

## **BRIEFLY ....**

**Asiana Airlines**, South Korea's second international carrier, reported a first half loss of 38.5 billion won (US\$32.5 million) compared with a profit of 10.7 billion won for the same period in 2002.

The carrier attributed the dramatic decline to the outbreak of war in Iraq, SARS and higher jet fuel costs for some periods in the six-month cycle.

**China Eastern Airlines (CEA)**, based in Shanghai, said passenger revenue during July doubled from June to more than 800 million yuan (US\$96.6 million), but the airline said it still expected to report a first half loss as a result of SARS.

Passengers carried at CEA dropped in May and June by 84% and 47% respectively as a result of SARS.

**SIA Engineering** reported a first quarter profit to June 30 of S\$22.9 million (US\$13.03 million), a decline of 51.3% over the same period in 2002.

The MRO company said it suffered a decline in business as airlines cutback on capacity during SARS, thereby reducing demand for line maintenance and airframe and component overhaul contracts. ■



Global alliances have been operating for more than six years. How have they survived a tumultuous three years of industry crisis? For most major carriers in Asia, it appears being a member of an airline “club” has become a significant tool in softening the blow of down cycles and rising costs in the industry. **TOM BALLANTYNE reports.**

## CLUB BENEFITS



**A**s SARS savaged Asia’s major airlines, tipping passenger traffic and cash flow levels into an unprecedented financial abyss, most of the region’s operators had an ace in reserve: membership of a global alliance.

While the alliances, be it Star, oneworld or SkyTeam, did not save them from the worst of the commercial impact of SARS, they allowed member carriers to share the pain with their partners. Airlines interviewed by *Orient Aviation* said co-operative measures and the exchange of ideas played a key role in helping them cope with the trauma.

Importantly, alliance partners in North America and Europe are playing a crucial role in spreading the message it is safe to fly to Asia.

And that’s not all. Asian alliance carriers insist:

- the adversity of the last three years, in which airline losses worldwide have approached US\$30 billion, has made membership of an alliance more important than ever.
- alliances have matured from marketing tools to strategic assets promising greater revenue opportunities and significant cost savings.
- major breakthroughs are being made on big ticket items like Information Technology (IT), joint maintenance and



**Star Alliance chief executive, Jaan Albrecht: “three years of crisis has shifted [our] thinking”**

engineering, fuel purchasing and the prospect of significant gains from joint aircraft purchasing.

In a wide-ranging series of interviews airline alliance managers and global alliance chiefs told *Orient Aviation* industry volatility in recent years – the pre-9/11 global economic downturn, 9/11, the Bali



**Managing partner of oneworld, John McCullough: airline’s creative ideas adopted by its partners**

bombing, the Iraq war and SARS – had produced a major shift in alliance tactical thinking.

Devotion to the ‘club’ is not universal, however. Japan Airlines (JAL) and Malaysia Airlines (MAS) are two major regional carriers that have maintained their independence and some analysts



remain unconvinced alliances are the answer for all operators.

But the message from the committed is that while alliances were originally "nice to be in", now they are a "must have" for the long-term survival of the airlines.

The reason? They believe significant cost reductions and increased efficiency, achievable through joint action, can help defeat the industry's Achilles heel: high capital costs and intense competition versus shrinking yields and low profit margins.

"At the beginning [of the alliance], we were focussed on rolling out products for the benefit of the customers. They were more revenue-up driven. Three years of crisis has shifted [our] thinking," said Star Alliance chief executive Jaan Albrecht, "Now we are spending a lot of time redirecting our internal resources towards exploiting cost-down initiatives."

John McCulloch, managing partner of oneworld, confirmed the shift. During the economic downturn leading up to the 9/11 terrorism attacks, oneworld moved quickly from being marketing-led to targeting cost reductions. "The focus became: what can we do to help our members conserve cash and take costs out of their infrastructure," he said.

Alliance airlines have plucked most of the "low hanging fruit", joint purchase of items like economy class blankets, food trays, carpets and inflight entertainment equipment and now they are tackling the high-cost items, including common specifications of aircraft to allow joint purchases (see separate story).

Maintenance is another key area of the industry that is receiving greater attention from alliance members. "If you think of the number of spare parts airlines maintain at facilities globally and the levels of inventory of these very expensive pieces, there is a great deal of room for co-operation and rationalisation," said McCulloch.

Hong Kong-based oneworld member, Cathay Pacific Airways, was one of the airlines hardest hit by SARS. Tony Tyler, director corporate development, said the alliance is more highly valued when times are tough.

"In the last six or seven years, we have had some terrible years, but we also have had some very good ones. When your planes are full and you are making lots of money the cost side is not seen as such a priority and you don't necessarily want to have the oneworld revenue. When your revenue picture starts to evaporate, you look to the feed you get from partners as valuable. Any help getting your costs down is very useful."

Bo Hee Won, senior vice-president international affairs and SkyTeam at Korean Airlines (KAL), said member-

ship helped buffer the impact of difficult economic times. "When SARS was at its peak we may have suffered a significant decline in passenger revenue without SkyTeam. Benefits from various cost-savings and incremental revenue from our code-share partners allowed us to deal with the decline of passenger revenue in the Asia region without taking a big hit.

"The business environment is becoming more difficult and the regulatory environment more open and liberal. With increased competition airlines must be prepared to compete by joining an alliance. That's the name of the game, to survive, to make the airline more competitive and increase profit margins."

Said Thai Airways International (THAI) vice-president alliances, Wallop



**Japan Airlines president and chief executive, Isao Kaneko: the bilateral way serves us and our customers the best**

Bhukkanasut: "We are seeing benefits from consolidated [Star Alliance] facilities like joint lounges, co-terminals, co-counters and more IT collaboration. We are working on joint purchasing of items like fuel, spare parts and inflight food and use of common facilities [like hangars and computer centres].

"We are talking more openly together and we are beginning to see what is possible, like joint purchases of aircraft, engines and IT. This is becoming even more important with the arrival of no-frills and low-cost carriers. At the end of the day we all see savings."

Major airlines have divided into three major groupings. Star, led by United Airlines and Lufthansa, has 16 members with another two – LOT Polish Airlines and US Airways – joining soon. The Asia-Pacific partners are Air New Zealand, All Nippon Airways, Asiana Airlines, Singapore Airlines and THAI.

The British Airways/American Airlines-led oneworld has eight members. Qantas Airways and Cathay Pacific are its regional partners.

SkyTeam, with Air France and Delta Air Lines leading the way, has six partners, including KAL. Northwest Airlines and KLM, currently in their own Wings alliance, are expected to become part of SkyTeam within 12 months.

All the alliances were born out of a desire to circumvent the straightjacket of bilateral regulation and cross-border ownership limitations by co-operating multilaterally. Initially focussing on joint frequent flyer programmes, marketing co-operation and code-sharing, the alliance stakes have been dramatically raised.

But they are not seen as the answer by all players. JAL's president and chief executive, Isao Kaneko, said the airline's policy of concentrating on individual bilateral alliances works very well. "That does not mean we are opposed to the multilateral alliance concept, but the bilateral way serves us – and our customers – best.

"We have alliances with oneworld, Star and SkyTeam members. We can offer our customers – and our partners – an impressive range of benefits. It's a win-win for all involved. We can be more flexible and in these difficult times flexibility is very important. Without closing the door on joining a multilateral grouping, we see no pressing reason to change our present policy."

MAS managing director, Mohamad Nor Yusof, recently told analysts the carrier had shelved plans to join any alliance and will focus instead on seeking more bilateral pacts for landing rights, code-sharing and joint marketing efforts. "Joining an alliance may have been the trend a few years ago but not now. There are new opportunities for those who can reposition themselves. This is what MAS is looking at, especially in Asia, and we are fortunate to have strong support from the government," he said.

JP Morgan transport analyst, Peter Negline, said alliance membership is a matter of "horses for courses". They do not suit everyone. Like any marriage, particularly in a volatile industry that has faced substantial shocks in recent times, alliances have had their ups and downs, he added.

He is right. Tricky internal issues, including financial problems, have erupted at United, American Airlines, Delta and Air New Zealand.

Negline said alliances have not made significant advances. "They have maybe taken a sideways step, but that's only because of all those exogenous factors. A lot of airlines that joined alliances probably see plenty of reasons why they make sense. I am not sure they have got into the



real nuts and bolts of it."

He described alliance savings to date as being mostly "around the margins", not in major areas such as labour, depreciation, fuel and maintenance costs. Nevertheless, agreed Negline, all savings are beneficial.

"Alliances will remain relevant until there is broader industry liberalisation removing restrictions," said Negline.

Paul Edwards, Qantas executive general manager strategy and network, said not having to face SARS alone was a major benefit. Qantas worked closely with partners ensuring capacity was reduced in line with demand during SARS. "We helped each other overcome the influence of some of those continuing shocks."

Edwards believed alliances have become more important, but said the jury is out on the reasons. "I don't believe it is because of the tough times, but because global alliances are industry's response to consolidation. With or without crises, profit margins are a perennial problem so airlines always will try to find ways of extracting better yields and margins from their seat sales," he said.

Qantas had taken advantage of the oneworld alliance to make speedy decisions. As post 9/11 troubles hit partner American Airlines financially, it took over the purchase of 15 Boeing B737-800 planes ordered by the U.S. operator. This was possible with little fuss because

the two carriers had earlier agreed on near-common specifications for the single-aisle jet.

"That's flexibility. The partners can help each other out in these circumstances," said Edwards.

The most important aspect of alliances during recent crises was information flow. Oneworld's McCulloch said exchange of non-competitive information was vital because creative ideas from one airline could be adopted by its partners.

Star chief Albrecht reported a similar trend.

How each alliance partner benefits financially from membership is difficult to assess, as many carriers are reluctant to quote figures. Various studies have suggested they could eliminate 10% to 12% from base costs of operations.

KAL is more specific. "We had about a US\$45 million benefit from SkyTeam activities last year, or US\$36 million in incremental revenue and US\$9 million of savings. We are expecting US\$70 million this year," said alliance vice-president Won.

A key aspect of alliances is the penetration they offer through partners into massive overseas markets, especially those in the U.S. "We previously had some difficulty in the U.S. market. It is so segmented we could not cover it. Through Delta we are now able to do that, helping our income stream and revenue,"

said Won.

KAL shares on 45 sectors with Delta within the U.S., a number Won said will increase to 100 by the end of 2003.

Cathay's Tyler agreed. "The overheads of oneworld are very light and it employs relatively few people. The budget is quite low, yet the benefits we receive in terms of the brand, extending our reach into markets we could not afford to cover, are immense. To get every American Airlines sales person selling Cathay is a massive benefit," he said.

Cathay's interline revenue from partners has grown enormously.

Japan's All Nippon Airways has had a rise in annual ticket sales of around US\$85 million since it joined Star. Qantas' Edwards said income from oneworld had increased by 40% to 50% in the last two years.

Airlines agreed alliances are not a total solution. "At the end of the day, while every alliance airline will tell you how much they value it, these are not common ownership alliances, they are commercial alliances," said Tyler. "Survival depends on your own quick wits and good luck."

"The alliance is the icing on the cake," said Albrecht. There were clearly identified areas where an alliance approach was more efficient or could provide a way of achieving additional cost savings, but airlines must do their own homework, too, he added. ■

## BIG moves in joint purchasing

**A**irline alliances are negotiating with Boeing and Airbus Industrie to thrash out a common specification formula for new large aircraft designs. *Orient Aviation* has learned these include separate talks involving oneworld and Star alliances with Boeing on its proposed new B7E7.

Moves on joint aircraft purchase have previously revolved around smaller regional planes, involving less complex specifications. Four Star alliance carriers – Austrian Airlines, Lufthansa German Airlines, Air Canada and Scandi-navian Airline System – recently agreed on common configuration for a regional jet, the first time this had been achieved on such a scale.

The four European airlines issued a joint proposal to Boeing for the B717, to Airbus for the A318, to Embraer for the ERJ 170-195 and to Bombardier on its CRJ 700/900 models.

Star's chief executive, Jaan Albrecht,

described it as "an amazing breakthrough" and said there is reason "to dream about the possibility of a Star standard for any new aircraft".

Oneworld's managing partner, John McCulloch, is more cautious.

He suggested the aim is not to agree on a common specification for the entire aircraft, but to reach a common standard on specific fittings, such as aircraft performance, cockpit layout, avionics and positioning of galleys and toilets. "There are some major opportunities going forward to be able to have one specification, yet one that can be personalised a little bit for each carrier," he said.

Senior insiders at oneworld confirmed the alliance is talking to Boeing about the 7E7. "It is the first new aircraft that presents an opportunity for [alliance partners] to band together at the product definition stage and say what would best suit the airlines in oneworld," one official said.

Common specifications would save

airlines and manufacturers alike millions of dollars.

Cathay Pacific Airways director corporate development, Tony Tyler, said joint aircraft purchase was the alliance "holy grail" because "these big ticket items make a huge difference if you get it right" and reduce the aircraft price.

He stressed it remained difficult to achieve this goal for big international airlines. "Specifying a B777-300 is a very different from specifying an A320. It is much easier to do it with a small aircraft than it is for the long-haul product. We are working towards it but are quite a way from achieving it."

Star member, Thai Airways International, vice-president alliances, Wallop Bhukkanasut, said the recent breakthrough by four of its members on regional aircraft specifications opened the door for other partners. "This could apply to big airlines buying bigger aircraft. There is no limitation as far as what we can see right now." ■



Australia's aviation regulator, Airservices Australia, is leading a push to rationalise air traffic services across the Asia-Pacific, simplifying a system that has been a cost-

ly thorn in the side of airline operators for decades. Success probably depends as much on politics as common sense, reports **TOM BALLANTYNE**.

**B**ernie Smith, chief executive of Airservices Australia, is a busy man. He is not only running an organisation responsible for control of 11% of the world's airspace, but he also has been quietly working behind the scenes to bring about a revolution in airspace control on a wider front.

For months now, informal discussions have been underway with countries in the region to map out a plan aimed at dramatically reducing the number of Flight Information Regions (FIR) airlines use as they negotiate international airways. Success would bring dramatic cuts in costs and save millions of dollars in duplicated air traffic control (ATC) equipment.

One proposal is to establish an international joint venture company with participating nations taking an equity share, seats on the board and assuming a role in decision-making. Huge areas of the Asia-Pacific could be controlled from a small number of ATC centres.

"Our customers [airlines] are asking why their aircraft need to fly through all these different FIRs owned by different countries. By doing so they receive slightly different service standards and methodologies and are certainly receiving different pricing regimes. There is a complexity in the system that does not need to exist," said Smith.

Today, satellite communication, data links, the global positioning system (GPS) and other advances mean vast areas of air space can be controlled from remote locations.

Theoretically, one ATC centre could control all the world's air traffic. Smith conceded that, in practice, that is unlikely to happen for parochial and sovereignty reasons as each country wants to control its own air space.

Nevertheless, there is a view that the world's 180 ATC providers could eventually be reduced to about 30. Smith wants Australia and the Asia-Pacific to be at the leading edge of that consolidation.

Smith, who was appointed deputy chairman of the International Civil Air Navigation Organisation (CANSO) in June, said no existing provider wanted to disappear. "But we think there are ways we might all share [control], yet retain the sovereignty capabilities of countries and give our customers a better deal. Nobody should lose out on this."

For some time Airservices has been

## Revolutionising control of the skies



**Chief executive of Airservices Australia, Bernie Smith: there is a complexity [with the FIRs] that does not need to exist**

running Solomon Islands airspace. "The Solomons is a great example [of the concept]. They could have chosen to install their own equipment and the cost would have had to be factored into the pricing regime," said Smith.

"Instead, they asked Australia to assist. We said yes. We have the ability to provide a very cost effective service, at the same time recognising the sovereignty that still exists in that airspace. They gain a revenue stream from that airspace. We provide the charging mechanism, repatriate the revenue to the Solomons and keep an agreed handling fee."

In July, a similar deal was signed with Nauru, another South Pacific island state.

"It is a very attractive proposition to some, but to others it is perceived as

a threat, as a larger country trying to impose its will on a smaller country. We must avoid that perception at all costs. It's not what we are trying to do," said Smith.

Airservices itself has been restructured. Since the mid-1990s the workforce has been reduced from 6,500 to a staff of 2,800. "We have, in a disciplined and diligent manner, set about putting our house in order. We have trimmed A\$120 million (US\$80.4 million) a year from our costs," said Smith.

Airservices is pursuing vigorously non-core work like the Solomon Islands project and assisting other countries install air traffic systems and equipment or training programmes. Airservices chairman, John Forsyth, said the ultimate goal would be for revenue from non-core activities to cover the air traffic service costs of customer airlines. "It's viable but I suspect [it will not happen] in my lifetime," said Smith. "It is a conceptual goal rather than an immediate target. It represents good intentions, to do the best we can for customers."

With annual revenue of US\$350 million – 70% comes from Australian operators Qantas Airways and Virgin Blue – Airservices earned about US\$18.8 million from non-core work this year. The aim is to increase this revenue to around US\$33.5 million annually. Customers include China, India, Vietnam, Singapore, Mauritius and South Africa as well as a number of Pacific islands nations.

This year, an Airservices application to Australia's Competition and Consumer Commission (ACCC) for a modest 0.6% price rise was rejected. Even if this small increase had been approved Airservices 2003 profits would have been halved. The ACCC decision will likely see the cancellation or deferral of a number of projects. ■



# Indonesian carriers under added pressure

**A**s the August bombing in Jakarta put increased pressure on Indonesia's airline and tourist industry, state-owned Merpati Nusantara already was facing tough decisions about its future after the country's finance ministry rejected the carrier's request for a US\$24 million bail-out package.

Merpati wanted a low interest loan. Without it, warned president Hotasi Nababan, the carrier would have to merge with national flag carrier Garuda Indonesia or launch a divestment programme to raise funds for working capital.

Merpati has suffered badly from new domestic competitors offering low airfares.

The government loan was needed to begin a fleet overhaul, open new routes and cover severance payments for employees in planned major lay-offs, said the president. Poor financial performance has seen the value of the company's assets drop from US\$111.5 million at the end of 2002 to US\$105.5 million in the first quarter of this year.

During the latest quarter the carrier lost US\$4.8 million, compared to a US\$5.2 million profit in the same period last year. With debts of US\$120 million, Merpati has revised down its 2003 profit forecast from US\$163.2 million to US\$6 million. Nababan said privatisation of the carrier may be an option. "Although we have not found any party interested in taking over Merpati, such an option should be given serious consideration," he said.

Merpati is not the only Indonesian carrier appealing for financial assistance. Bali-based Air Paradise International, which launched services to Australia in February with a leased Airbus A310-300, wants to expand into new markets, but owner Kadek Wiranatha told local media the growth of his airline would be contained without government financial support.

Air Paradise is struggling to break even and is seeking tens of millions of dollars in loans from state-owned banks to fund expansion. "The Balinese cannot wait; we need transport to bring the tourists here and for that we need help from the Indonesian government," said Wiranatha.

Currently flying twice weekly to Melbourne and four times weekly to



*Merpati Nusantara: Indonesian Government rejected bail-out package*



*Air Paradise: new Bali carrier under pressure*

Perth, Air Paradise has leased a second aircraft and plans direct flights to Seoul, South Korea, New Zealand and Japan by October.

However, the bombing of the J W Marriott hotel in Jakarta in August will

put additional pressure on Indonesia's tourist industry and its besieged airlines just as they had started to recover from the collapse in their business caused by the terrorist bombings in Bali in October 2002. ■



# NO THRILLS

By Daniel Baron  
In Tokyo

**As their western counterparts thrive, Japan's low-cost carriers are fighting strong headwinds in their attempts to keep flying**

**W**hile start-ups in other countries appear to grow exponentially overnight, Japan's small, independent airlines were, from day one, conceived with muted ambitions.

Although the barriers to market entry have, for the most part, come down, an operating environment constrained by an overcrowded Haneda Airport, through which 60% of the country's domestic traffic passes, and high operating costs, keep the eager young birds forever battling a stiff headwind.

Indeed, one of them, Lequios Airlines, never took off at all. Lequios, which was due to start service between Tokyo and Okinawa in June, abruptly threw in the towel, leaving a start-up

team of employees with no jobs and little chance of collecting unpaid wages.

Sapporo-based Hokkaido International Airlines (Air Do) declared bankruptcy in 2002 and has since been rescued by All Nippon Airways (ANA), which has invested 320 million yen (US\$2.69 million) in the carrier.

Will Japan's small, low-cost airlines ever expand at a clip seen by the likes of the U.K.'s Ryanair or JetBlue in the U.S.? Or are they destined to be eternal start-ups in a cottage industry? *Orient Aviation* spoke with the presidents of two of the cash-strapped carriers and learnt of the obstacles on the way to their success. ■

## SKYNET ASIA AIRWAYS

**I**n the summer of 2002, on the eve of the merger between Japan Airlines (JAL) and Japan Air System (JAS), *Orient Aviation* paid a visit to Shoji Shimoda, president of Miyazaki-based Skynet Asia Airways (SNA). His airline had just commenced operations with two aircraft and a single route, from Tokyo-Haneda to Miyazaki, in southern Japan. Funded heavily by local municipalities and businesses in Miyazaki, SNA was seen by many as having little chance of competing effectively with Goliaths JAL and ANA, which had been forced to surrender slots at Haneda to make space for newcomers.

One year on, SNA still had one route and was very much in the red (a state of affairs now shared by all of Japan's airlines large and small). Nevertheless, an ever-optimistic Shimoda offered a glowing appraisal of his airline's performance to date. "With six return services a day, we have the most frequencies in the market," he said, adding that average load factor was 85% in July, with strong advance bookings for the peak summer vacation period in August.

Shimoda lamented that a price war with the majors had eroded yields, but cited generous seat pitch (34 inches) on his fleet of four B737-400s, inflight snacks and beverages and a frequent flyer programme that rewards customers with cash as points of differentiation



**Skynet Asia Airways president, Shoji Shimoda: price war with majors has eroded yields**

that have built brand loyalty. "The repeat customers have brought us a lot of new business through word of mouth," added Shimoda, underlining the prohibitive cost of traditional advertising in the Tokyo market, particularly for an airline serving only two cities.

The president is now counting on another Kyushu city to generate much needed economies of scale in areas such

as sales and reservations. On August 2, SNA launched its second route, between Haneda and Kumamoto, with two additional B737-400s and new slots at Haneda, the first available since 2000. "We will be competing with both JAL and ANA," he said, "but we can hold our own with high frequencies. The 737-400 is just the right size for the job."

Shimoda also attributed potential for success on the route to the favourable leasing rates his airline has secured for the fleet. "The events over the past two years – the 2001 terrorist attacks in the U.S., the general global economic downturn, the Iraq war and then SARS – have helped us negotiate extremely competitive rates," he said.

The launch of the Kumamoto route has not been without glitches, however, notably the late delivery of the aircraft due to a certification delay. SNA was forced to postpone the launch by a day, an action that may have repercussions down the road in the form of closer scrutiny of all of the small carriers.

With capacity doubling as a result of the new route, SNA's president estimated turning out a net profit of 79 million yen in fiscal 2004. He also anticipated being able to eliminate the carrier's heavy debt burden of 1.1 billion yen by raising additional capital. The airline is already being propped up in part by local Miyazaki business groups eager to see the hometown



airline succeed.

Shimoda has another group on his side: Japan's Fair Trade Commission (FTC). Having granted JAL permission to merge with JAS, the FTC is now under pressure to prevent the failure of the smaller players. It flexed its muscles in September 2002, after the major carriers filed plans to slash fares on routes flown

by SNA and Skymark Airlines. The FTC intervened with a directive ordering them to halt the cuts, in turn setting a precedent, i.e., that a protective arm will be ready when the little guys cry foul.

With little chance of capacity increases at Haneda Airport in the near future, SNA will look elsewhere for growth, indicated Shimoda. "We have our sights

set on Kobe Airport," he said, referring to the new off-shore facility due to be completed in 2005. "The majors will not be interested in competing there due to their existing operations at Osaka's Itami and Kansai airports," added Shimoda. "We aim to be the number one carrier where we can achieve such a feat, and Kobe will be that place." ■

## SKYMARK AIRLINES

**M**asayuki Inoue, president of Skymark Airlines, echoed Shimoda's determination to excel where the majors could not, albeit from his base in Tokyo. Founded in 1996 as Japan's first new jet airline in 35 years, Skymark chugged along with one route (Haneda-Fukuoka) for several years. Now with four B767s, Skymark flies four scheduled domestic routes from Haneda, two (Haneda-Aomori, Haneda-Tokushima) taken over from ANA in April. The carrier will add a fifth B767 later in the year to boost frequencies.

Inoue, who assumed the post in 2002 after 14 years with British Airways, latterly as their regional business analyst, has faced a challenging first year on the job. In February, a crack found in one of the aircraft forced the cancellation of 115 flights, cutting profitability and putting at risk the airline's hard-earned reputation for safety. Adding to the headache was a static local economy and stiff competition from JAL/JAS and ANA.

As a result, Inoue predicted that Skymark would post a 640 million yen loss in 2003, its seventh consecutive year in the red. The carrier is now weighed down by a negative net worth of 4.1 billion yen. Inoue added the carrier was looking for additional capital and noted it had the backing of parent company H.I.S. Co., the travel agency group that formed the airline.

Inoue is positive that the sun is finally beginning to shine through for his airline. "Expansion from one scheduled destination to four has produced much needed economies of scale," he said, predicting an operating profit for the second half of 2003.

"Yields on the Fukuoka route are good and demand is very high for our charter flights as well," he added, referring to a service that Skymark pioneered last year: late-night charters from Haneda to Seoul using aircraft that would have otherwise remained idle. The carrier is hoping to double frequencies on the route in the near future and is looking at additional destinations that, like Seoul, would allow operation within Haneda's midnight to 6:00am window of exemption for inter-



**Skymark Airlines president, Masayuki Inoue: "sun is finally beginning to shine" despite facing its seventh successive year of losses**

national flights.

The lights inside Skymark's aircraft are sometimes on at midnight for another purpose: cabin crew training. This is conducted in the wee hours in order to maximise aircraft utilisation for revenue service.

As for product differentiation, Skymark is now providing a hot meal service in the front cabin, which it has repack-

aged as business class. The airline's fifth B767 will boast leather seats sporting individual video screens.

Inoue conceded that Skymark's high density configuration B767s provided more capacity than needed at certain times of the day. The choice of aircraft was made in consideration of the dearth of slots at Haneda prior to the carrier's launch in 1998. Asked where he would like Skymark to be in five years, Inoue said: "We hope to double the fleet size and become a strong leisure-oriented carrier both within the country and between Japan and other Asian cities."

It is an aspiration that sounds strikingly similar to that of SNA's Shimoda. With strong customer bases in Kyushu and complimentary fleets, why not put the two "skies" together to create a single airline, forging synergies that would reduce costs and present the big boys with a more formidable challenger?

The idea was promptly dismissed by Inoue and Shimoda, both of whom were firmly determined to go it alone, citing differences in goals and corporate culture.

Which brings us back to square one. It would appear that a unique operating environment and cottage industry mindset may indeed prevent Japan's independent, low-cost carriers from ever resembling their counterparts abroad, a thought sure to be relished by the owners of the two biggest cottages on the block: JAL and ANA. ■



**Skymark Airlines: A fifth B767 will join the fleet later in the year**

# Lao Airlines enters jet age

By Barry Grindrod  
in Vientiane

**L**aos, the land-locked country of five million people in the heart of Indo-China, is often described as one of the last undiscovered destinations in Asia.

And with a new name, a new look and its entry into the jet age, the country's small national carrier, Lao Airlines, is planning to reveal its rich history to growing numbers of travellers in the 21st century.

Formerly known as Lao Aviation, Vientiane-based Lao Airlines took delivery of its first leased Airbus A320 from Singapore Aircraft Leasing Enterprise (SALE) in July. The delivery signified a new start for a carrier that has had a chequered history since its launch in 1976.

Two more A320s are scheduled to join the fleet in the next three years as Lao

strives to become one of the principal carriers in Asia's Mekong Region.

The A320 will fly international routes between the Laos capital of Vientiane and Bangkok, Phnom Penh and Siem Reap in Cambodia and to Kunming, China. The aircraft also will service the main domestic route to Luang Prabang.

Lao hopes to add Singapore and Hong Kong to its network in the future.

Two ATR 72 aircraft already with the airline will be used on secondary routes. As well, Lao has two China-manufactured Y-12s to serve remote destinations in the mountainous districts of Laos that only can provide short landing strips.

Last year Lao carried 200,000 passengers, with 60,000 of them on international routes. It hopes to double this figure by 2004 with 7%-8% growth per annum thereafter.

Lao president, Dr Somphone Douangdara, said the state-owned carrier was



**Lao Airlines president, Dr Somphone Douangdara: airline seeking overseas investment**

seeking foreign investment in the airline of between 40% and 60%. It hoped the buy-in could be completed by the end of 2003. Interest had been shown from investors in Asia and Europe.

Dr Somphone said the airline had restructured early this year, had a new business plan and was re-building its image.

The carrier had revenue of US\$14 million last year, but failed to make a profit. The president said he expected Lao to be in the black in 2005 or 2006.

Earlier this year Air France Consulting signed a contract with Lao. Today, two of the European company's staff are working full-time with the airline, one as advisor to the president and the other as technical director of the airline.

Advisor to the president, Guy le Sann, said the A320 would be flown by Vietnam Airlines' (VNA) pilots until Lao pilots qualified to sit in the left hand seat. Four of the airline's pilots were undergoing training in Toulouse, he said. They would be required to spend six to 12 months as first officers on the A320 before taking command.

Lao has a close relationship with VNA and its president and CEO, Nguyen Xuan Hien, attended the delivery celebrations in Vientiane.

The two carriers code-share on routes and VNA will perform A-check maintenance on the A320.

Said SALE managing director, Robert Martin: "In the last two years the leasing market for this type of aircraft has fallen 30%-40% compared to 2000. Lao Airlines has chosen a very good time to enter the A320 lease market."

Between 1995 and 1998, Lao had a less than harmonious joint venture with China's Yunnan Airlines. ■



**Airbus senior sales director customer affairs, Asia, Paul Tuck (back left) and SALE managing director, Robert Martin, pictured with Lao traditional dancers in front of Lao Airlines newly leased A320**



Mercy missions big business for the ...

## Flying doctors

Medevac company teams up with Deer Jet in China

By Charles Anderson

**M**edevac has become big business for the French emergency services doctor who identified a gap in the market when he was transferred to his country's embassy in Jakarta in the early 1980s to work in Indonesia.

It was a time when western companies were moving to take advantage of Asia's development. "I realised the European system of emergency transport of patients was a concept that was not covered at all," said Dr Pascal Rey-Herme. "Asia-Pacific needed medical centres of excellence as well as transport to them. There was a lot of foreign investment and a lot of need for this service."

From there, he and co-founder Arnaud Vaissie have built a company, International SOS, headquartered in Singapore, that is staffed by 3,000 professionals at alarm centres, international clinics and 100 remote medical facilities on five continents.

Dr Rey-Herme is group medical director and Vaissie the company president. The last few months have seen them unveil a promising partnership in China, with Hainan Airlines' Deer Jet subsidiary.

They have proved their worth by utilising their new portable isolation unit to whisk a suspected SARS patient from the island of Penghu to hospital in Taipei, Taiwan.

Medical evacuations are not the only aspect of operations to which Dr Rey-Herme must attend. International SOS came into being after the Frenchmen's original AEA International, then

still largely Asia-based, acquired International SOS Assistance in 1998. The investment gave the company greater global reach and it now has clinics in countries as diverse as Myanmar and Australia, China and Nigeria, Azerbaijan and Vietnam.

A broad range of services is offered to companies working under challenging conditions.

But the ability to transfer a sick man or woman from a remote location to a hospital with competent facilities remains central to its activities, to the extent that

cated air ambulances spread around the world," said Dr Rey-Herme.

"These are aircraft operated by general aviation companies that work exclusively for SOS. They are reconfigured into permanent air ambulances and the operator operates them exclusively for us. SOS provides the medical complement."

A Cessna Citation 2, based in Port Moresby, for instance, transports clients from the wilds of Papua New Guinea and the Pacific islands to Australia. Lear 55s operate out of Baden in Germany.



Dr Pascal Rey-Herme

There is a Hawker 125-1A in Moscow and a Lear 45 in Singapore, in use temporarily while a replacement is found for a Falcon 200 recently transferred to join a Falcon 100, Lear 25 and Beech King Air 90 operating in Johannesburg and other parts of Africa.

"If that's not sufficient, we have agreements in different parts of the world with other general operators," said Dr Rey-Herme. "We can call on them on a case by case basis. They can be

better [for us] because of their location." Aviation auditors are used to ensure the quality of the companies.

All this requires much advanced planning, especially when it comes to flight clearance. Three regional centres, in Singapore, Stuttgart, Germany, and Philadelphia in the U.S., are manned by flight dispatchers. Pre-agreements that meet conditions in a specific location are set up with civil and military authorities. Emergency flight plans are submitted and contact activated at both ends to speed up the process.

"Depending on the part of the world, we hope to get very, very fast clearance," said Dr Rey-Herme.

In frontier areas, decisions have to be made quickly and receiving accurate



A new portable isolation unit was used by International SOS to transport a SARS suspect to hospital

last year aviation companies working for International SOS flew 383 missions involving 1,798 flight hours in the Asia-Pacific alone.

Globally, the figures were 1,192 missions and 7,759 hours. The company expects to top 10,000 flying hours in 2003.

International SOS, in fact, owns no planes. Its first choice is to put patients on commercial flights through its 24-hour online connections to reservations systems of major international airlines. But when that is not possible, as is often the case, or when a patient might be seen as posing a threat to other passengers, medevac is the answer.

"Our first line is a network of dedi-

© International SOS 2003

information can be a challenge. A helicopter could be needed, depending on the terrain, road transport to an airfield might be the answer. But the quality of the operator concerns Dr Rey-Herme the most. "You have to get a reliable company," he said. "But you may have to use an operator you have not used previously."

He must also ensure his own staff are up to the challenge.

"We have to train our team of nurses and physicians. They can be competent in a hospital, but to work on an aircraft where space is limited is different. You may have the same equipment, but not a lot of space," he said.

The Frenchman has seen his clientele change over the years. "Initially, when we started our operation, the demand was mainly westerners or Japanese working for large corporations. But more and more demand is coming from national companies. We still serve the foreigner, but we are also taking care of Hong Kong and Singaporean people when they travel or Thais when they work in a remote location. The client base is changing."

The increase in Asia's economic clout has caused that shift in emphasis.

In China, Dr Rey-Herme pinpoints the development of personal and health insurance as a reason for growth.

"Say a Chinese, working or travelling for a national company in the western part of China, may wish to be brought back to Beijing, Shanghai or Guangzhou. Until recently, the price of such transport really limited the possibility. The development of insurance in China has made it affordable to get a premium."

International SOS's deal with Deer Jet has resulted in the first jet-operated medevac service in the country. A Hawker 800XP has been converted to act as an air ambulance exclusively for the company.

It will operate within China and also cover emergencies in countries such as South Korea, Japan, Mongolia and Singapore. In its new configuration, the Hawker can carry two stretchers and two medical staff or one stretcher, two medical staff and two family members.

The partnership is the result of earlier cooperation with Deer Jet. Dr Rey-Herme is optimistic about future growth in China, with the possibility of smaller aircraft being placed in other locations to serve the domestic market. ■

**T**he SARS epidemic saw International SOS bring a suspected sufferer to a designated SARS hospital in Taipei from an outlying island at the request of Taiwan's health department.

The call to fly to Penghu came from the National Aero-Medical Consultation Centre at 11am. Within two hours the company's portable isolation unit and other protective equipment were loaded on to a Fokker 50. The flight was under way by 1pm and arrived in Penghu 45 minutes later. It landed in Taipei at 4.30pm and the man was transferred to hospital 10 minutes later.

The portable unit, which folds to fit into a carrying case, has since been further developed by Dr Roger Farrow, the company's deputy group medical doctor. It can fit into all planes used by International SOS and allows patients to be maintained for longer periods and in greater comfort. Two units are in service in Taiwan and Southeast Asia with eight more planned for centres worldwide. ■

# AIRPORTS in the Asia Pacific

## DELTA DYNAMICS

**It's co-operation and competition for the five airports in China's booming Pearl River Delta**

**By Charles Anderson**

**W**hen the representatives of the Pearl River Delta's (PRD) five airports met in Zhuhai in June, much of the talk was about SARS, the killer virus that had emptied their runways and departure halls two months earlier.

SARS' effect on the airports' business and management, along with the mitigation and precautionary measures each had implemented, were discussed and lessons learned. Precautions had been effective, making it safe for passengers to travel, their concluding press release stated.

A little self-congratulatory perhaps, but nevertheless an example of how the airport authorities in Hong Kong, Guangzhou, Shenzhen, Macau and Zhuhai can work together to meet the challenges they share.

In this instance, it was a health risk that hopefully will not recur, but one that badly affected business in the booming manufacturing zone in which they are all based. The delta has the highest per

capita income in China. It generates one-third of China's total exports. Its future development and the interaction, sometimes competitive, between Hong Kong, Guangzhou and the mega-cities that have sprung up there are endless sources of speculation.

The PRD A5 Group, as the airports' organisation is called, was formed in 2001 to bring cohesiveness to their operations. With five airports within a 50-kilometre radius, it made sense to seek out common ground and streamline whatever joint operations could be implemented.

But the members of the A5 Group face other, more fundamental, challenges over their future roles in China's aviation regime and to what extent they, and the cities that built them, will cash in on the delta's phenomenal development.

For the Special Administrative Region (SAR) of Hong Kong, already a key international and cargo hub, some of the questions are:

- how to maintain and increase its present status in the face of competition from Chinese cities such as Guangzhou, Beijing and Shanghai.



**Hong Kong International Airport: needs to consolidate its status as an international and regional hub in the face of competition from China's major airports**

**SPECIAL  
REPORT**



- whether to build a stronger flight network to secondary mainland cities.
- how to back the SAR's push for a top strategic role in the delta region as Hong Kong repositions itself since its return to Chinese sovereignty.

For Guangzhou, with a fine new airport due to open in July 2004, there is a desire to:

- secure a role as an international hub, to add to its strong domestic passenger and cargo networks while the Chinese central authorities are trying to build up critical mass for Beijing and Shanghai.
- ensure the new airport is able to utilise its increased capacity, both from next year and during further stages of planned development.

At Shenzhen, which has no international routes as yet, co-operation and co-ordination with Hong Kong are critical. Its domestic network is strong and, with the city's port areas booming, it is unlikely to be short of cargo.

Macau must prepare for life after tour groups – stopping off between Taipei and China to satisfy Taiwanese travel requirements – when direct flights between Taiwan and China are allowed. And Zhuhai Airport, struggling economically, must seek a viable future.

The A5 Group, which has so far held five forums, last year signed a Letter of Intent to co-operate in areas such as flight diversions during emergencies and typhoons, communications procedures, provision of essential services to diverted flights and passengers and use of resources and technical assistance.

Five task forces are working on emergency support, joint promotion, passenger and cargo processing, training and development and security. A website is being developed, IATA's Simplified Passenger Travel (SPT) programme (see separate story) is being studied and moves are under way to establish co-operation programmes on human resources management and development. Air traffic management alone gives ample scope for worthwhile developments.

Although keen to be seen as one of five members, Hong Kong International Airport, with Shenzhen, Macau and Zhuhai on its doorstep and taking into account the SAR's own ambitions within the delta, is an obvious force within the group. As one analyst said, A5's significance is in Hong Kong's hands.

Hong Kong's airport authority chairman is Victor Fung, whose family company Li and Fung is one of the city's trading giants. As chairman of the Hong Kong Trade Development Council for nine years to 2000 he was a keen proponent of cross-border trade. Now he is carrying that vision into the aviation sphere.

Cargo is already being ferried from

cities around the delta to Hong Kong airport, which handled 2.48 million tonnes of freight last year, the most in the world. Of that, 70% is China related, with the bulk coming from the delta.

Passenger numbers – 34.32 million – give it fifth ranking among airports globally. Those passengers, too, could be increasingly transferred from neighbouring airports, especially Shenzhen, for international connections, with more border checkpoints opening between Hong Kong and Shenzhen and an ambitious 29-kilometre bridge linking Hong Kong with Zhuhai and Macau likely to get the green light.

Fung spelt out his vision at an air

in emergency situations, better training of staff and so on. Traffic throughput may also be increased through improvement of inter-modal connections," he told *Orient Aviation*.

Hong Kong's master development plan sees phased growth of its infrastructure until 2020, when 87 million passengers a year can be handled. At present that maximum figure is 45 million. Forecasts of 5% annual passenger growth mean its final capacity may well be utilised within a few years of 2020 instead of a couple of decades later, as was originally envisioned.

The Airport Authority Hong Kong has recently awarded a design services



**Shenzhen Airport: co-ordination with Hong Kong is critical**

cargo forum in Hong Kong. "The PRD air network significantly enhances our region's connectivity and accessibility. Together we cover 45 countries with 179 destinations worldwide, including 80 cities in the mainland," he said. "Strengthened co-operation between PRD airports in the further development of multi-modal links will significantly enhance the region's connectivity with more international destinations and inland cities in the Chinese mainland.

"Secondly, and more importantly, a strong partnership between Hong Kong and the PRD will vastly expand the entire region's customer base."

Li Qing, general manager, China business, for Airport Authority Hong Kong, talks on a more practical level. "For example, through co-operation, the five can enjoy a more efficient use of airspace, better deployment of resources

contract for its SkyPlaza transportation and business centre, an extension of the existing passenger terminal and a central part of the SkyCity development. A covered coach station for cross-border and tourist traffic, waiting lounges, check-in facilities, retail and entertainment areas are all due to be completed by the end of 2005 to link with the opening of the nearby Disneyland project and a new International Exhibition Centre on the airport site. A nine hole golf course might also be built at the airport.

An on-site logistics centre, Tradeport, has been completed, an express cargo terminal is under construction and the authority is looking into the feasibility of a cargo consolidation centre in the delta itself.

Away from these impressive developments, Hong Kong's airport faces a challenge over increasing its mainland

## STOP PRESS...

**Hong Kong International Airport is planning to privatise. It is also discussing buying into Shenzhen Airport, it was announced at press time, in a proposed project dubbed one airport two countries (see page 6).**

routes.

Figures quoted by aviation expert David Dodwell, of Golin/Harris Forrest in his August 2002 report, *Building the Hong Kong Aviation Hub: the Mainland Dimension*, funded by Cathay Pacific Airways, highlight the dilemma.

When it comes to connectivity to mainland cities, Guangzhou at that time served 70 cities, Shenzhen 51 and Hong Kong 48. But when it came to international traffic, Hong Kong had connections to 48 countries and 131 cities, Guangzhou, 18 and 19 respectively, and Shenzhen nil.

"Hong Kong may be well ahead of mainland competitor hubs in terms of international connectivity," Dodwell wrote, "but if this is not matched by seamless and comprehensive mainland connectivity, the international connectivity will be a diminishing competitive advantage.

"As leading mainland carriers begin to offer through-tickets from domestic Chinese cities to destinations in third countries, with fast turn-around times in Shanghai or Beijing, so Hong Kong's fragmented 'offering' – of a Dragonair flight from a modest number of mainland cities, transferring in Hong Kong onto a Cathay Pacific flight to a foreign destination – will become progressively less attractive."

Recently, Cathay Pacific was given permission by the Hong Kong Government for three passenger and three cargo flights a week to China. The airline is now awaiting clearance from Beijing.

If granted they will be the first China flights for Cathay Pacific since 1990 when it handed the routes to Dragonair after it, and parent company Swire, had taken a majority stake. This has now changed with the Mainland's China National Aviation Corp (CNAC) the majority shareholder at Dragonair.

Comparatively high charges and fees at Hong Kong airport, an especially important issue for small aircraft and short-haul intra-regional or domestic China flights, could mean Shenzhen and Guangzhou will become preferred hubs for travel by mainland Chinese into and out of the delta, he said.

Dodwell concluded that Hong Kong needed to restrain airport landing charges and fees to remain competitive within the region. The SAR also should modify constraints on Cathay's routes into China and Dragonair's international routes and cargo, moves which have since come to pass.

The use of smaller aircraft to secondary cities, either through the two main carriers or others seeking to find a place in the market, also means Hong Kong's airport authority must weigh up the economic implications of accommodating short-haul flights with lower passenger

## THE PEARL RIVER DELTA AIRPORTS

### Hong Kong International Airport

Opened: 1998

Passenger capacity: 45 million

Future capacity: 87 million by 2020

#### Figures (2002)

Passengers: 34.22 million

Cargo: 2.48 million tonnes

Flight movements: 206,630

### Guangzhou Baiyun International Airport

Opened: 1950s, new airport opens 2004

New airport capacity: 25 million

Future capacity: 70 million by 2030

#### Figures (2002)

Passengers: 16 million

Cargo: 592,000 tonnes

Flight movements: 147,000

### Shenzhen International Airport

Opened: 1991

Capacity: 17 million

#### Figures (2001)

Passengers: 9 million

Cargo: 211,000 tonnes

Flight movements: 87,873

### Macau International Airport

Opened: 1995

Capacity: 6 million

#### Figures (2002)

Passengers: 4.17 million

Cargo: 111,000 tonnes

Flight movements: 37,500

### Zhuhai Airport

Opened: 1995

Capacity: 12 million

Passengers: 750,000 (approximate)

numbers, which affects the cost-effectiveness of passenger throughput, versus encouraging Shenzhen, Macau and Zhuhai to act as shuttle airports, with Hong Kong sending travellers on to international destinations. Or, implement a combination of the two.

Said the Airport Authority's Li Qing: "Hong Kong is a preferred airport for international travel. Airports like Zhuhai and Shenzhen have virtually limited international destinations.

"Mainland passengers travelling overseas and international travellers travelling to the mainland can use these airports as one airport system. Macau is a different story, as its main traffic is

Mainland and Taiwan related.

"We have been focusing on improving the inter-modal connection between these airports. These include, for example, a marine cargo terminal and a passenger terminal connecting the PRD ports with Hong Kong's airport and simplification of CIQ (customs, immigration and quarantine procedures)."

Guangzhou, meanwhile, is giving China Southern Airlines, the mainland's largest airline, a spanking new home at its new Baiyun complex. Final capacity will be 70 million passengers by 2030 and, although domestic growth could take up much of that, authorities there will be pushing to make its "international" airport truly international to underline Guangzhou's position as provincial capital and to ensure that capacity is fully utilised.

Derong Lui, project director for the aviation division of Parsons, who is overseeing aspects of design, planning and construction, sees Guangzhou as the first airport in China designed specifically on the hub concept. "That is going to be important, with more and more people transferring from Guangzhou," he said (see separate story).

Li Qing believes there is plenty of room for both Hong Kong and Baiyun airports to thrive. "Both have their own captive market," he said. "For example, Hong Kong residents will be unlikely to travel to Guangzhou to fly and vice versa.

"There are areas in the delta where some overlapping may occur. In such cases, the choice of which airport to use will be a function of many factors, including convenience in terms of frequency and destinations.

"Hong Kong's strength is its international connectivity. It is also very well connected to the major cities like Shanghai and Beijing. Guangzhou's strength is that it is better connected to secondary cities in China. However, it has much less developed international connections compared to Hong Kong.

"One point that is commonly overlooked is that as China becomes more affluent, the pie, especially that in the PRD, is also becoming bigger," said Li. "These are issues that are in the common interest of the PRD airports, including Guangzhou, to work out together. Hong Kong International Airport fully supports such cooperation."

Li believes the A5 Group forums play an important role. "It is a forum in which to exchange ideas, deal with issues of common interest and also get to know the people of the other airports much better," he said. "Closer integration with the PRD is an irreversible trend for Hong Kong and the forum is a venue for the airports to play their part." ■

# COUNTDOWN

By Charles Anderson

**A**t the airport complex taking shape, 20 minutes by a new express freeway from the centre of Guangzhou, in southern China, heavy construction work is largely completed and workmen are now busily engaged inside the shell of the buildings where the city's aviation expansion will be based for at least the next 30 years.

Baggage handling systems and return escalators are being assembled and electricity and plumbing systems installed as the onerous task of interior finishing is tackled. Completion is now expected by the end of the year with an official opening in July 2004 still on track.

Initially, Guangzhou Baiyun International Airport will be able to carry 25 million passengers a year and one million tonnes of cargo, almost double the capacity of the airport it is replacing. Thirty percent more aircraft movements can be handled.

The expansion is sorely needed. Guangzhou's present airport, 30 kilometres to the south, in the suburbs of the city and first used some 50 years ago, hit capacity in 2001.

With terminal expansion included in the second and third phases of growth to 2030, provision for a third runway to be added to the two already built and, more immediately, a metro railway planned to ease the way into the busy capital of Guangdong province, there is no doubt that Guangzhou authorities mean business.

"The reason why we're building a new international airport is simply because the old airport is too small and cannot meet the city's needs," executive vice mayor Zhang Guangning was quoted by CNN as saying.

While that is undoubtedly true, Guangzhou also sees its new airport as serving China as a whole, as a primary hub of national and, hopefully, international importance. And it wants new Baiyun to play a leading role in the Pearl

River Delta's expansion.

Already listed on the Shanghai stock exchange, the airport's first phase alone is costing US\$2.4 billion. By 2030, when authorities hope the region's expansion will have matched their vision, they want to see 70 million travellers a year using its facilities.

Derong Liu, project director for the aviation division of Parsons, the giant U.S. company tasked with passenger terminal and terminal area concept design, design coordination of construction documents and aspects of operational management, says the new airport stands out from others for a number of reasons.



**A plane unloads China Southern Airlines' equipment at Guangzhou's present Baiyun International Airport for use at the new airport to be opened in July 2004**

"From the design concept, we used American management methods, but we combined these with Chinese practice," he said. "We have separated departure and arrival traffic. That means much less of a jam in the airport terminal area. And we have kept the Chinese way of centralised ticketing and separate boarding. That was key to our design.

"Of course, we used state-of-the-art equipment, but we kept a low construction cost. When it comes to building a new terminal, this is the most economical airport in the world."

Comparing the first phase of new Baiyun to similar airports in the U.S., and notably Hong Kong, Liu says its 46-gate, 20-host stand terminal in a 350,000 square metre construction area cost a third of what would be spent in those places.

Baiyun's biggest customer, China

Southern Airlines, the largest of the country's new aviation groups, has big ambitions, so the hub concept is an essential element in the airport's design.

"The hub concept is going to be important with more and more people transferring from Guangzhou. That's why we built it as a hub," said Liu. "For an airport, efficiency is number one. The traffic flow, baggage flow and passenger flow are very clear.

"Our design also uses state-of-the-art equipment to ensure safety and security. Baggage handling has five levels of security checks and we have top-level passenger security checking equipment. On safety, our design provides the best for aircraft movement in the airport area."

Inside the terminal, the centralised ticketing area covers 45,000 square metres, with 144 counters, 36 of which will be international. The airport, rather than individual airlines, will be responsible for passengers. They will cross over an elevated road bridge, after paying departure taxes, for security checks and then go straight into the departure holding area.

Commercial space is included on the ground floor,

while a shell area has been built below, ready for the metro to arrive, which is a job for the municipal government. An international business centre, convention centre and airport hotel are taking shape on two hectares of land put aside for the purpose.

The latter is still under construction, with completion expected around the same time as the airport's official unveiling. New Baiyun's opening can only come after up to six months of verification and checking of equipment systems as well as the wholesale transfer of material and people from the old airport.

The final switch will be made overnight, with one airport closing with the last flights of the day and the other opening first thing next morning. And while new Baiyun gets moving, old Baiyun will close its runways and wait to be knocked down, to make way for a shopping centre. ■



# No-shows at Noto

By Daniel Baron

**T**he spanking new 2000-metre runway at recently opened Noto Airport in Japan's Ishikawa Prefecture should be a welcome addition to airport capacity in a country known for its perennial shortage of landing slots.

There is, however, one small problem: the new airport is attracting almost no traffic. Critics of the project, which cost an estimated 24 billion yen (US\$200 million), fear the facility will end up as yet another Japanese airport that defies conventional wisdom, i.e., that public works projects should be driven by actual potential demand rather than by political or historical factors.

In 2002, the prefecture embarked on a sales blitz to pitch the new airport, hoping to sign up flights from all of Japan's major cities by the time the facility opened in July 2003. The reality of a low population (200,000) and the proximity of two other airports, in nearby Komatsu and Toyama, however, rendered the road show an exercise in futility.

In the end, only one airline, All Nippon Airways (ANA), committed to operating at Noto, with a single return daily service using a B737-500 of subsidiary Air Nippon (ANK).

Fearful only one flight a day would not generate enough

interest in the region, not to mention revenue, the local prefectural office struck a deal with ANA under which the carrier will fly two return services daily instead of one. In exchange, the prefecture will pay ANA up to 200 million yen if the average load factor on the extra flight falls below 70%. The carrier agreed to go along with the unconventional arrangement for one year.

Load factors between Haneda and Komatsu and Toyama airports in 2002 came in at below 70%, suggesting the experiment may not extend beyond the agreed period.

The demand/capacity mismatch is also attributable to the fact that scheduled services on regional jets are not yet allowed at Haneda Airport, which, with its lack of landing slots, has for years given priority to moving large numbers of people on large aircraft.

Japan's media had plenty to say about the state of affairs at Noto, whose construction was given a green light prior to the central government's adoption of a newly "rationalised" five-year airport plan.

The *Nihon Keizai Shimbun*, Japan's main business daily, wrote that "unless Noto can attract stable tourist and business traffic from metropolitan Tokyo, Noto Airport may become another third-sector regional transport venture that lives off public money". ■

## Patience pays off

**I**t has been a long time coming, but when Bangkok's Suvarnabhumi International Airport opens on September 29, 2005 it will be 45 years after the need for a new airport was first identified.

Don Muang Airport, the world's oldest international airport, has been heavily overstretched for years.

In 1960, the Thai Government accepted the findings of a study that "Bangkok should have another new commercial airport to separate civil planes from military planes and to be in line with urban growth."

A year later, Thailand's Ministry of Transport and Communications identified a 3,200 hectare site for the airport at Nong Ngu Hao, 25 kms outside Bangkok in Samut Prakan province.

Between 1963 and 1973 the land was purchased, but by 1974 doubts had been raised about the site.

The new airport was then put on the back burner until 1995 when the government approved its construction – on the site chosen in 1961!

Since then it has been on and off the



**Don Muang Airport has been overstretched for years**

drawing board several times as governments came and went in Thailand. But in 1998 the Thai Cabinet approved the first phase of Suvarnabhumi Airport.

The King of Thailand laid the foundation stone of Suvarnabhumi, which means the golden land, in January 2002.

When the 200 billion baht (US\$4.65 billion) first phase opens it will have two runways (4000 metres and 3,700 metres)

capable of handling 76 flights an hour. It will have the capability of handling 45 million passengers and three million tonnes of cargo a year.

The airport will have 51 parking bays at the passenger terminal and 69 remote bays. The ultimate plan is for Suvarnabhumi to have four runways, handling 112 flights an hour. Its capacity will be 100 million passengers and 6.4 million tonnes of cargo annually.

Thai Airways International (THAI) is investing 13 billion baht in new facilities at Suvarnabhumi.

These include a maintenance centre for light and line maintenance, a cargo complex covering 568,000 square metres, an operations centre, inflight catering kitchens capable of producing 65,000-70,000 meals a day, rising to 85,000 meals in five years, as well as ground support and customer services.

THAI also will have a 30% share-holding in a 600-room hotel at the airport. The two other shareholders, the Airports Authority of Thailand and the Krungthai Bank will hold 60% and 10% equity respectively in the project. ■

By Charles Anderson

**A**viation heavyweights who want to see a super-secure, one-stop check-in and immigration and boarding process adopted globally are hoping Bangkok's new airport, scheduled to open in September 2005, will be the first built specifically to utilise their Simplified Passenger Travel (SPT) model. Singapore Changi International Airport's third passenger terminal, to be completed in 2006, also is a target.

SPT is an industry initiative counting the International Air Transport Association (IATA), the International Civil Aviation Organisation (ICAO) and the International Biometric Industry Association (IBIA) among its prime movers. The Association of Asia Pacific Airlines (AAPA), Airports Council International (ACI) and Société Internationale de Télécommunications Aéronautiques (SITA) also are members.

It aims to harness the advances biometrics offer to produce a system that whisks the passenger from airport hall to airplane seat using a single document containing information required by present day check-in, immigration, security and boarding gate personnel. Security would be enhanced, as would efficiency and cost-effectiveness.

"Bangkok offers the first opportunity to build an airport on the SPT model," said IATA spokesman Tony Concl. "IATA's director general, Giovanni Bisignani, was in Bangkok in February where we met with the transport minister, Suriya Jungreangkit, high officials from the New Bangkok Airport Co. and Thai Airways International. The minister was very keen.

"Whether that works into the airport being built on an SPT model is another step. At least the idea is being seriously considered. The other airport we will be talking to is obviously Changi."

Said Concl: "Documentation is a

## Bangkok, Changi could be first with one-stop check-in



**Singapore Changi International Airport is tipped to be among the first to introduce the high security one-stop check-in initiative SPT**

problem. So if we can reduce the amount of false documentation in the system, that will go a long way to ensuring the right people are sitting next to you on the aircraft."

Biometric scanning using the iris, face geometry or hand features is the answer, said Concl. Put tickets in a chip inside a passport that also includes the

results of this scan and you have a single document that is much harder to forge and also cuts manpower needs at a time when a lower cost base is essential for the industry's revival.

"If we can have automatic passport readers that have passport recognition as we do now, why can't they do a little bit more and integrate the boarding pass with that?" asked Concl. "Maybe if you throw in some kind of radio frequency chip, then as you are approaching immigration, officers there already will know who you are."

SPT was in the works before 9/11. It aims to convert governments, regulators and other aviation authorities to the cause and to encourage the adoption of global standards. Cathay Pacific Airways, Japan Airlines, All Nippon Airways and airport authorities in Australia, Japan's Narita Airport and Changi are among working group members.

Pilot schemes have included the automated passport check scheme using facial recognition technology for Qantas staff at Sydney airport and Japan Airlines' automatic check-in using iris and facial scanning for its frequent flyers at Narita.

"They are programmes that run within the system," said Concl. "Once people see the benefits and understand the system it is a lot easier to convince the next airport." ■

## No major changes in master plan

**A** new master plan covering the development of Sydney Airport over the next 20 years foresees no changes to curfews, flight paths and the 80 movements an hour cap on landing and take-offs. It also said there would be no new runways built. The draft plan, released by the Sydney Airport Corporation Ltd (SACL) in August will be available for comment for three months.

The airport's chief executive, Max Moore-Wilton, said the facility has the capacity and infrastructure planning in place to manage all of Sydney's projected growth in domestic and international traffic for the foreseeable future. The plan fore-

casts annual growth of 4.2% to 68.3 million passengers by 2021-24. But aircraft movements in the same period will be more gradual, rising 2.4% annually to 412,000 a year.

There would be no extension or duplication of runway infrastructure although some new taxiway and apron developments would be required.

Under Australian law the country's now privatised airports must review their master plans every five years.

A similar draft plan released in August for Brisbane Airport indicated that facility would require a new runway by 2012. ■



# Sikorsky deal Down Under

By Charles Anderson

**S**ikorsky Aircraft Corp. has strengthened its presence in Australia, already home to one of the largest Sikorsky helicopter fleets in the world, by buying Helitech's aerospace service and product support business in Brisbane for an undisclosed sum.

Helitech has dealt in product support, component distribution, maintenance and repair of military and civil helicopters in Australasia. Its parent company, soon to be renamed, will continue representing Bell Helicopter Textron and Bell Agusta while Sikorsky will fold its support and service capabilities into Sikorsky Aircraft Australia Ltd (SAAL), first established as a local service business in 1996, and now part of the company's Worldwide Customer Service organisation. Two hundred Helitech employees are involved.

Sikorsky is hoping the acquisition will help it expand SAAL's offerings to civil customers in the region. Already one of the country's 20 largest military

contractors, SAAL provides spare parts and support services to the Australian Government's helicopter fleet.

"Adding these Helitech operations to the Sikorsky family provides a substantial footprint in Australia," said Sikorsky president Dean Borgman.

Also in Brisbane, Eurocopter has geared up, through its wholly-owned subsidiary, Australian Aerospace, for assembly of the Australian defence force's ARH Tiger and Eurocopter's EC120B machines, by expanding its airport facility which includes hangar, workshop, store and office space.

The Tiger, an armed reconnaissance helicopter, has started production there, which will continue until 2008. Australian Aerospace, which plans to expand from 230 personnel to 350 within three years at its bases in Sydney, Melbourne, Brisbane and Auckland, has a wide range of responsibilities under the Tiger programme.

Skills developed under the programme in Brisbane are also being used for assembly of the EC120B Colibri, a four-passenger, new generation air-

craft targeted at civilian and parapublic markets.

Australian Aerospace, which handles civilian sales and support for all Eurocopter models, is tasked with assembly and testing of Colibri for the southern hemisphere. Initially, three helicopters a quarter will be produced in Brisbane. The facility can manufacture up to 24 a year, the company target for 2006. ■

**H**ong Kong is to have a new, temporary domestic heliport at West Kowloon, replacing the existing one in Central that will close in November to make way for a harbour reclamation project.

The new facility will be in use for at least two years. A permanent heliport is planned for either a cruise ship terminal to be built at the old Kai Tak airport site, or at the Macau Ferry terminal, where Helicopters Hong Kong operates its scheduled Hong Kong to Macau service. The temporary terminal will cater for charter and sight-seeing flights. ■

## REGIONAL AVIATION

# Third Hong Kong carrier takes off

**H**ong Kong-based CR Airways, touted locally as the Special Administrative Region's new, third airline, has launched operations cautiously, with commercial charter flights to Laoag in the Philippines, a 90-minute hop from Hong Kong International Airport, **writes Charles Anderson.**

Under a deal with travel agents and a hotel and casino operator there, the company aims to fly to Laoag three times a week, depending on demand.

Chairman Robert Yip, who also chairs Hong Kong-listed China Rich Holdings Ltd, is confident routes to secondary Chinese cities can eventually be secured. At present the focus is on places such as Meixian in Guangdong, Wenzhou in Zhejiang, Nanning in Guangxi and Jinan in Shandong, towns and cities where scheduled flights are not yet available.

Negotiations with authorities in Chinese cities were continuing, but services would not start for eight to ten months, Yip said during a launch celebration. Similar services are being considered to leisure destinations such as Danang in Vietnam and Siem Reap in Cambodia.

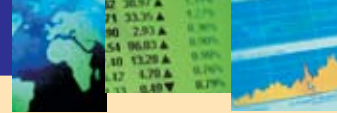
At present the airline's single plane, a 50-seat Bombardier CRJ-200, will be chartered to Hong Kong, mainland and foreign travel agents for tour groups.

Hong Kong lacks a strong network of services to secondary Chinese cities. CR Airways is seen to be testing the waters about both landing rights and profitability of such services.

The airline is planning to operate with one aircraft for six months, with one more plane being added to its fleet every half year if required.

Laoag was chosen as the launch destination for CR Airways because it was popular with Hong Kong, Taiwanese and mainland tourists, said Yip, who was on board in late June for the inaugural flight. Air Philippines operates a larger Airbus A320 three times a week on the same route.

The fledgling carrier, which up to now has operated a single Sikorsky S762+ helicopter, has taken a stake in Shandong Rainbow Business Aircraft, a subsidiary of Shandong Airlines, which has a small fleet of the regional jets. The CRJ-200 is on lease from this operator. ■



STATISTICS FOR MAY AND APRIL 2003

## THE DEVASTATION OF SARS

Compiled and presented by Kris Lim of the Research and Statistics Department of the Association of Asia Pacific Airlines Secretariat

### MAY 2003 STATISTICS

**T**he Association of Asia Pacific Airlines (AAPA) passenger traffic fell sharply in May as the SARS crisis deepened. International passenger traffic, measured in revenue passenger kilometres (RPKs), plummeted 45.5% while the number of passengers carried (PAX) was down by 54% year-on-year, to just over four million.

AAPA member airlines carried almost one million fewer passengers in May compared to the already depressed month of April. Overall passenger load factor (PLF) was 51.2%, down by 20.2 percentage points, despite a decline of 23.8% year-on-year in available seats kilometres (ASKs).

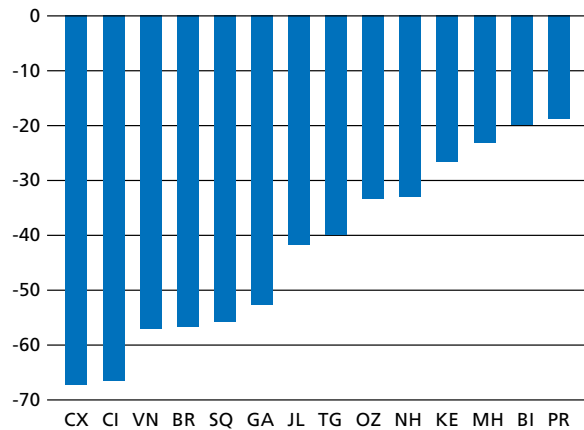
All carriers experienced sharp contractions in RPKs, with Cathay Pacific Airways (CX) suffering the most – a massive fall of 67.5%. Other carriers – China Airlines (CI), EVA Air (BR), Singapore Airlines (SQ) and Vietnam Airlines (VN) – from the SARS-affected areas also reported a more than 50% drop in RPKs. With the exception of Philippine Airlines (PR – 72%) and Korean Air (KE – 60.5%), all carriers registered a PLF of 50% or less.



At the height of SARS Cathay Pacific Airways experienced a 67.5% decline in RPKs

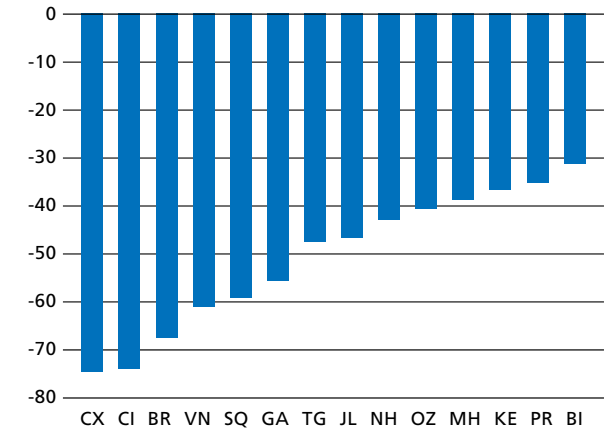
#### RPK GROWTH BY CARRIER

Percentage (May 03 vs May 02)



#### PAX GROWTH BY CARRIER

Percentage (May 03 vs May 02)



### ROLLS-ROYCE NEWS DIGEST

**“Rolls-Royce has won a \$900 million order from Emirates for Trent 500 engines to power 20 Airbus A340 aircraft.”**



**Rolls-Royce**



Malaysia Airlines recorded a 31.1% rise in FTKs in May

## CARGO

The SARS crisis continued to have slight impact on freight traffic in the region in May. The international freight tonne kilometres (FTKs) showed a negligible increase of 0.04% over May 2002. Capacity declined 2.4%, resulting in an improved freight load factor (FLF) of 68.6%.

Six carriers reported growth in FTKs offering a degree of consolation during this difficult time. Malaysia Airlines' (MH) FTKs rose 31.8%, followed by EVA Air (13.3%) and Royal Brunei Airlines (BI - 11.4%).

On the other hand, Garuda Indonesia (GA), Thai Airways International (TG) and Philippine Airlines saw their FTKs decline by more than 10%. In terms of FLF, Cathay Pacific Airways, Asiana Airlines (OZ), China Airlines, EVA Air and Korean Air filled 70% or more of the cargo space available.

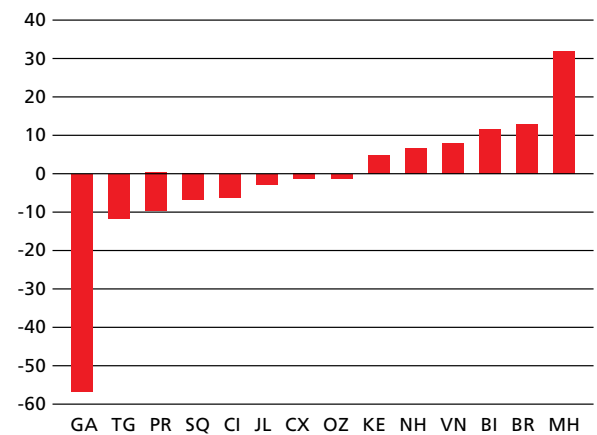
## RESULTS OF THE 12 MONTHS TO MAY 31, 2003

### PASSENGER

The AAPA consolidated RPKs declined by 0.8% for the 12-

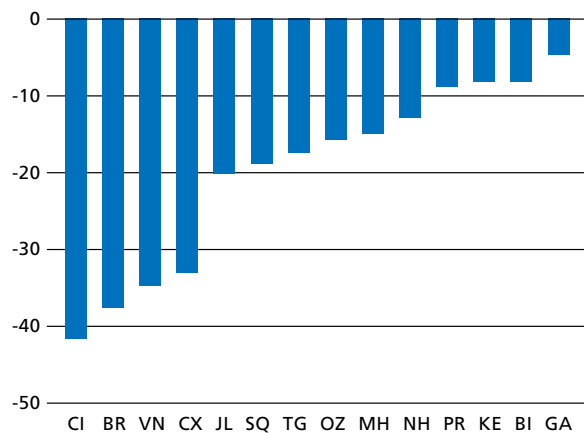
### FTK GROWTH BY CARRIER

Percentage (May 03 vs May 02)



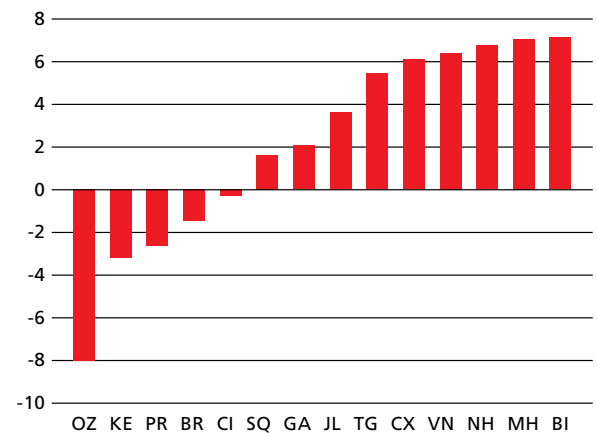
### PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (May 03 vs May 02)



### FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (May 03 vs May 02)



27	30.77	▲	1.17%
19	33.39	▲	0.96%
80	2.93	▲	0.96%
54	96.83	▲	0.96%
30	13.28	▲	0.96%
32	4.70	▲	0.79%
44	0.88	▼	0.79%

month period. PAX fell 2.6% year-on-year. Capacity climbed 2.6%, which resulted in a load factor of 70.0%, a decline of 2.4 percentage points.

### CARGO

The AAPA consolidated FTKs increased by 13.8% for the year under review. Capacity grew 10.0%, which resulted in a load factor of 68.1%, an improvement of 2.3 percentage points.

### SUMMARY

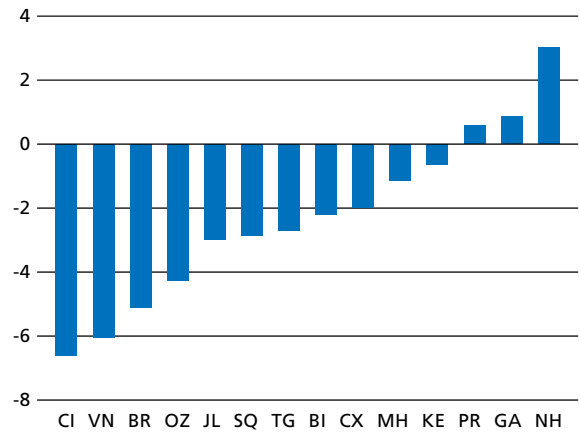
By the end of May, cumulative RPKs were 15.3% below the level recorded in the first five months of 2002. Capacity reductions in April and May had brought the year-to-date capacity level to that of last year's corresponding period. The overall load factor slipped 11.5 percentage points to 63.6%. Year-to-date FTK growth, at 6.6%, slowed considerably follow-



*Philippine Airlines recorded a healthy 72% passenger load factor in May*

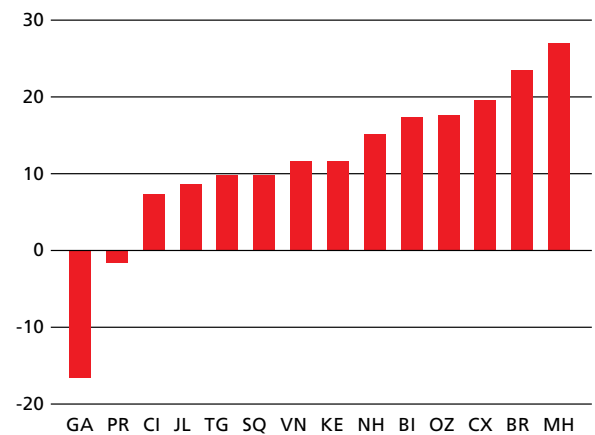
### PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Jun 02 - May 03 vs Jun 01 - May 02)



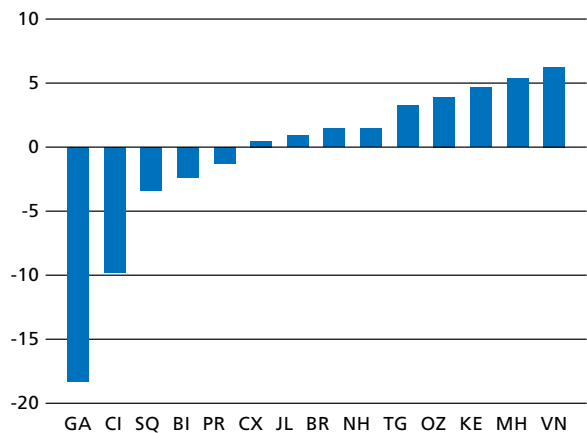
### FTK GROWTH BY CARRIER

Percentage (Jun 02 - May 03 vs Jun 01 - May 02)



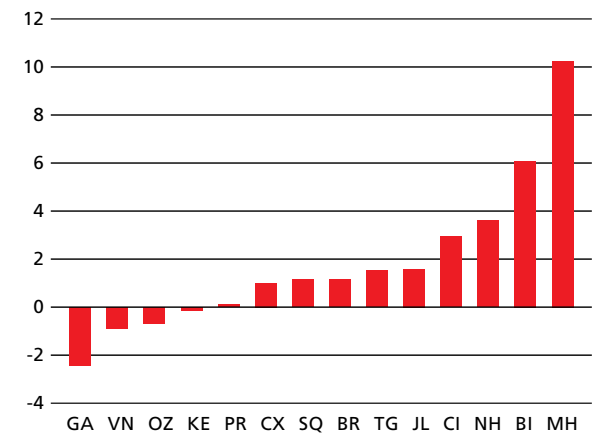
### RPK GROWTH BY CARRIER

Percentage (Jun 02 - May 03 vs Jun 01 - May 02)



### FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Jun 02 - May 03 vs Jun 01 - May 02)



ing a decline in growth for the past two months. The reduced belly hold space due to capacity cutbacks may have been the contributing factor.

SARS has now been brought under control and all affected countries have been declared SARS-free. Early signs indicate a rebound in passenger traffic towards the latter part of June. Moves to restoring capacity have begun, but at a controlled pace. Capacity is not expected to return to pre-SARS levels for the next two to three months unless demand picks up dramatically.

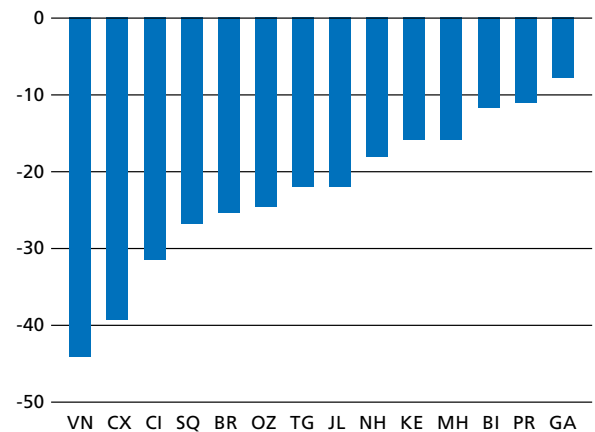
## APRIL 2003 STATISTICS

**A** APA international RPKs in April declined by a massive 37.4% while the number of passengers carried was down 44.2% in the midst of the SARS crisis and the Iraq war – although the war was virtually over by the end of the month. The dramatic fall in demand prompted AAPA carriers to remove a substantial amount of capacity from the market (overall ASKs were down 8.4% year-on-year), but not enough to prevent the passenger load factor from plummeting 23.6 percentage points to 51.3%.

Not a single AAPA carrier was immune from the havoc

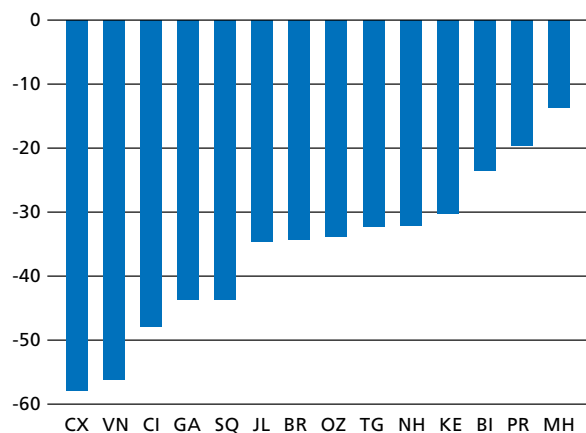
## PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Apr 03 vs Apr 02)



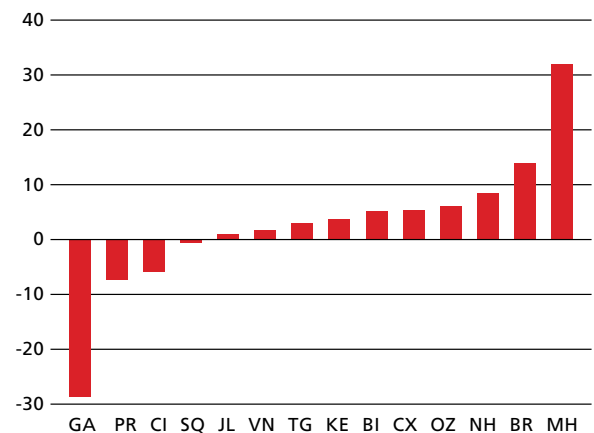
## RPK GROWTH BY CARRIER

Percentage (Apr 03 vs Apr 02)



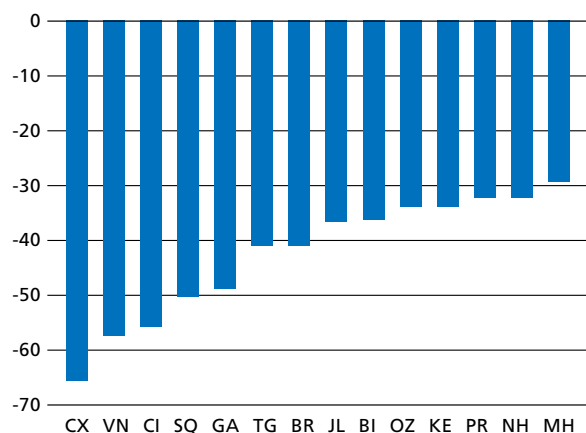
## FTK GROWTH BY CARRIER

Percentage (Apr 03 vs Apr 02)



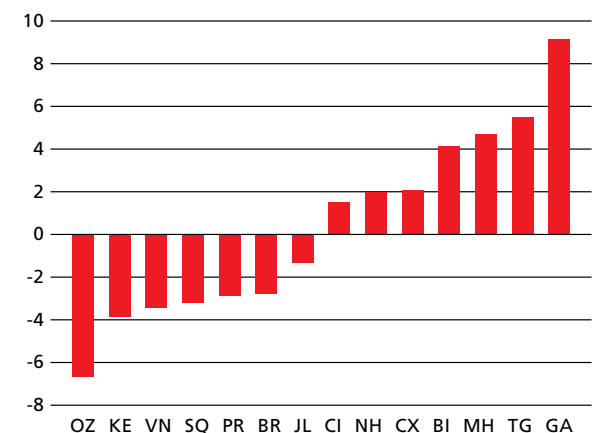
## PAX GROWTH BY CARRIER

Percentage (Apr 03 vs Apr 02)



## FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Apr 03 vs Apr 02)





wrought by the SARS. All suffered a double-digit drop in RPKs, with Cathay Pacific and Vietnam Airlines experiencing the worst (more than 50%) declines. China Airlines (-47.9%), Garuda Indonesia (-43.9%) and Singapore Airlines (-43.6%) also were among the hardest hit. Malaysia Airlines (-13.7%) suffered the least.

Individual load factors also fell sharply, despite quick responses by the AAPA carriers to cut back capacity. Cathay Pacific and Vietnam Airlines saw their load factors plunging to below 40% in April.

## CARGO

FTKs showed an increase of 3.7% over April 2002. Capacity was up 4.7%, which resulted in a freight load factor of 67%, down only slightly from April last year.

Malaysia Airlines (32.3%) and EVA Air (14%) reported double-digit growth in FTKs amid the gloom. On the other hand, Garuda Indonesia experienced a 28.9% drop in FTKs. FLF held up reasonably well for five carriers – China Airlines (75.5%), Asiana Airlines (74.8%), Korean Air (72.4%), Cathay Pacific Airways (72.3%) and EVA Air (72.2%).

## RESULTS OF THE 12 MONTHS TO APRIL 30, 2003

### PASSENGER

AAPA consolidated RPKs slowed to a 3.3% increase for the 12-month period. PAX rose 2.1% year-on-year. Seat capacity expanded 4.4%, which resulted in a PLF of 71.3%, a decline of 0.7 percentage point.

### CARGO

AAPA consolidated FTKs increased 15.5% for the 12-month period under review. Capacity was up 11%, which resulted in a FLF of 67.9%, an improvement of 2.7 percentage points.

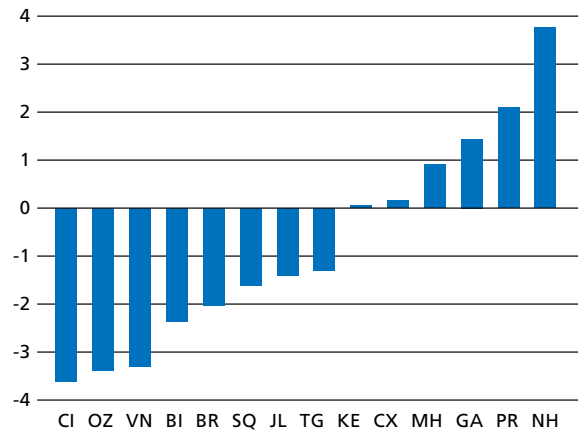
### SUMMARY

Passenger traffic for 2003 to date saw RPKs down 7.6%. Capacity was 6.5% above last year's corresponding period, dragging PLF down to 66.0%, a loss of 10.1 percentage points. Year-to-date FTKs showed an 8.9% increase. ■

*E-mail: krislim@aapa.org.my*

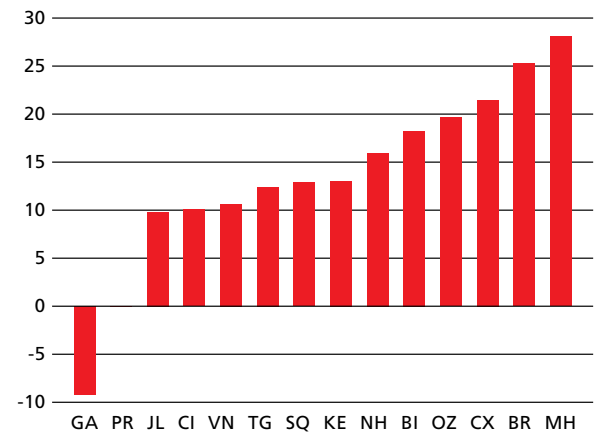
## PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (May 02 - Apr 03 vs May 01 - Apr 02)



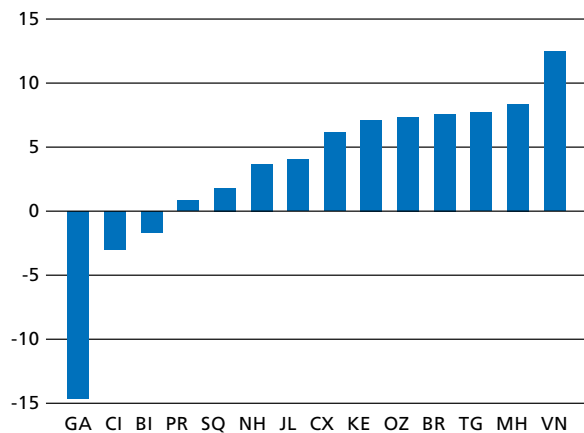
## FTK GROWTH BY CARRIER

Percentage (May 02 - Apr 03 vs May 01 - Apr 02)



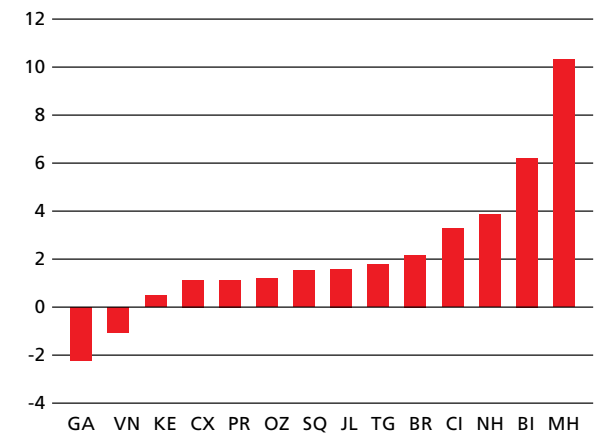
## RPK GROWTH BY CARRIER

Percentage (May 02 - Apr 03 vs May 01 - Apr 02)



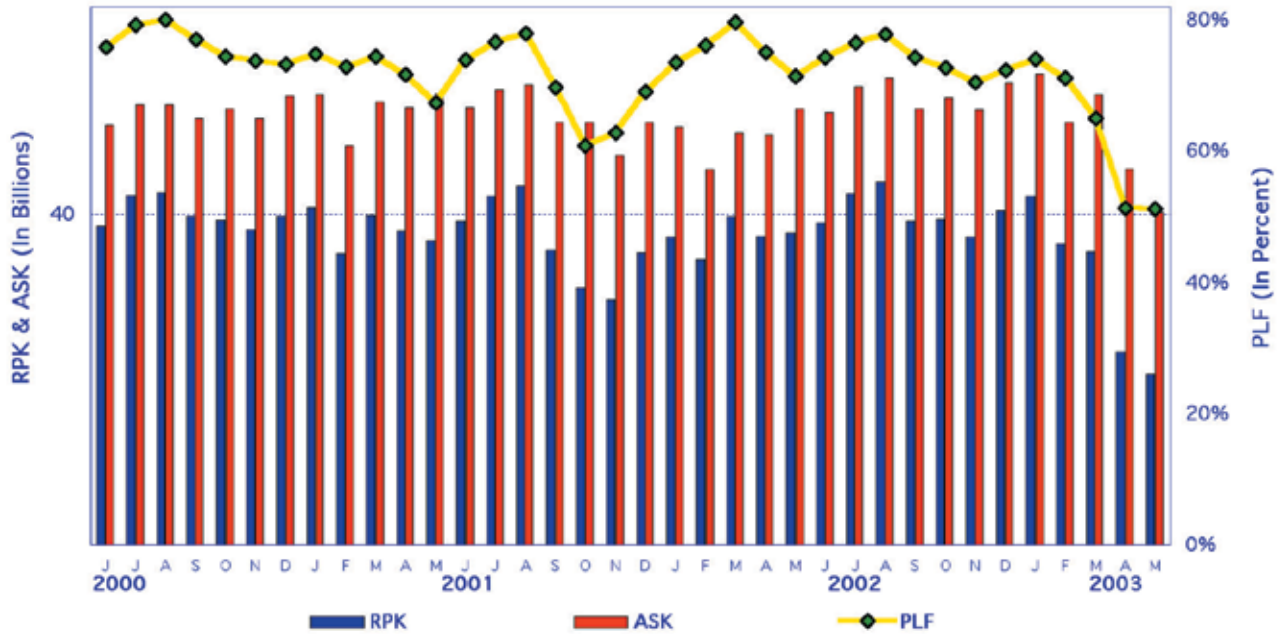
## FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (May 02 - Apr 03 vs May 01 - Apr 02)

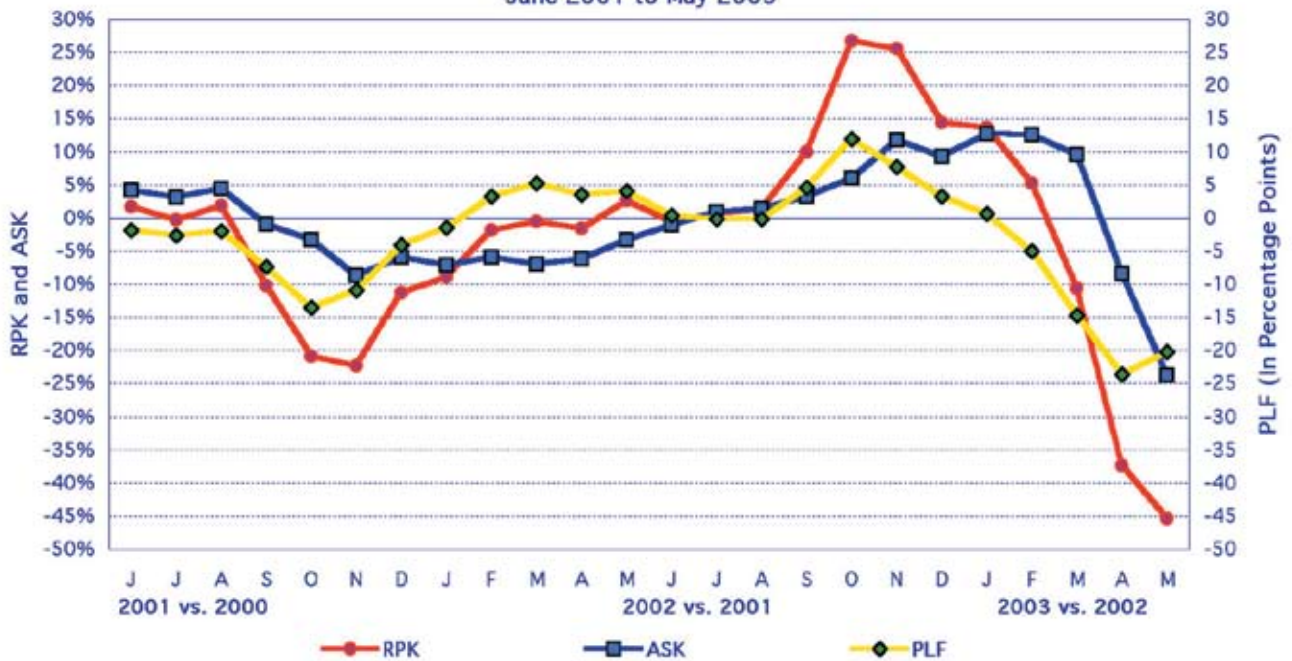


## MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

RPK, ASK, AND PASSENGER LOAD FACTOR  
June 2000 to May 2003



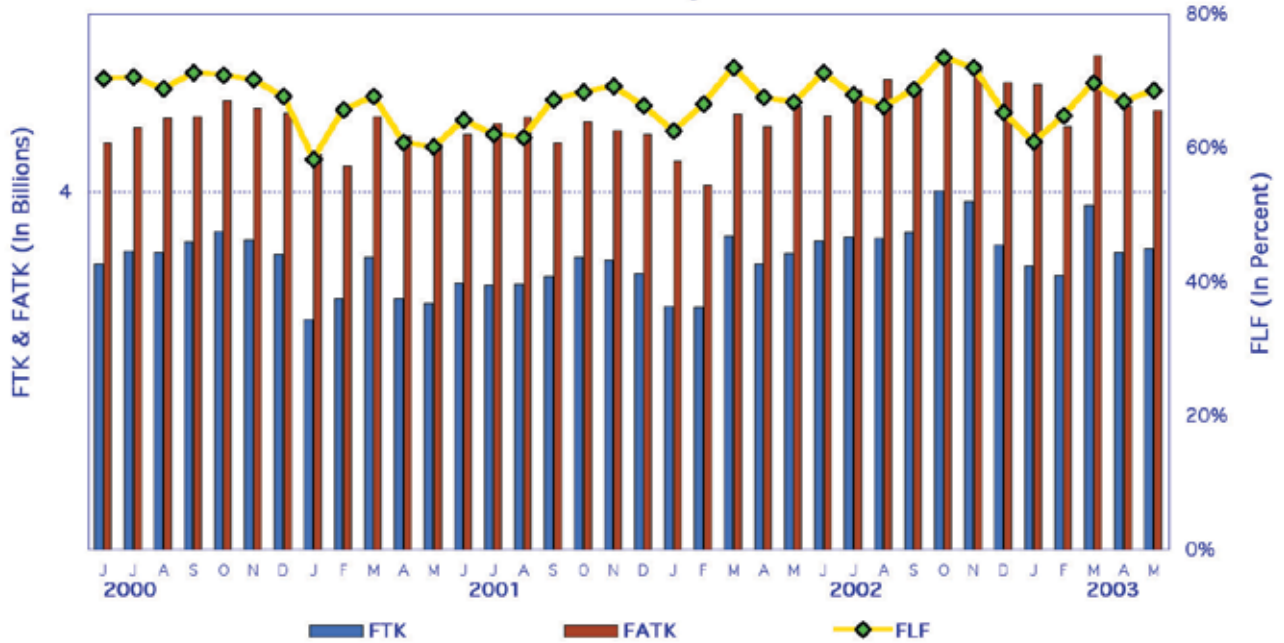
RPK, ASK, and PLF Growth Rates  
June 2001 to May 2003



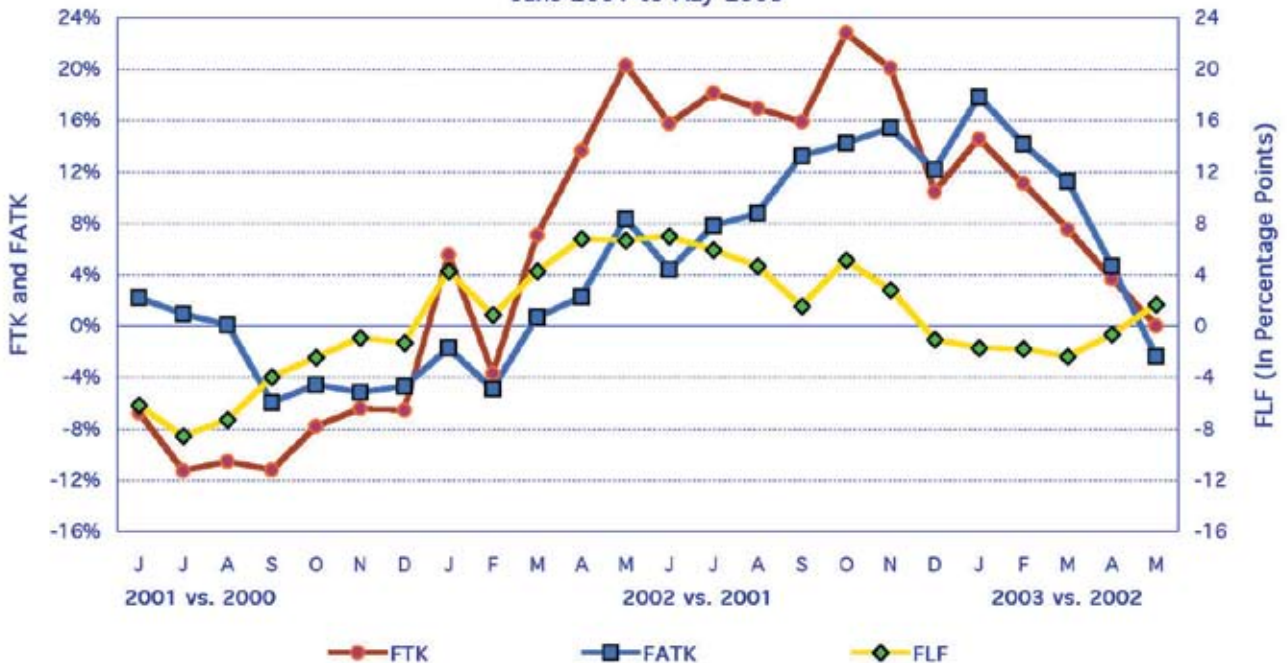
2	20.77	▲	1.17%
75	33.39	▲	0.96%
80	2.93	▲	0.96%
54	96.03	▲	0.96%
10	13.28	▲	0.96%
32	4.70	▲	0.79%
14	0.88	▼	0.79%

# MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS

**FTK, FATK, AND FREIGHT LOAD FACTOR**  
June 2000 to May 2003



**FTK, FATK, and FLF Growth Rates**  
June 2001 to May 2003







## AAPA MONTHLY INTERNATIONAL STATISTICS SUMMARY OF CONSOLIDATED RESULTS IN THOUSANDS

### 2002 TO 2003

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
JUN-02	38,904,838	52,318,624	74.36	3,461,160	4,861,334	71.20	7,124,174	9,640,755	8,831
JUL-02	42,398,522	55,409,545	76.52	3,500,284	5,148,358	67.99	7,456,166	10,215,620	9,714
AUG-02	43,885,864	56,363,848	77.86	3,483,972	5,263,891	66.19	7,580,274	10,409,895	10,123
SEP-02	39,155,092	52,723,895	74.26	3,547,914	5,160,898	68.75	7,204,078	9,986,464	9,014
OCT-02	39,304,575	54,021,467	72.76	4,025,748	5,476,828	73.51	7,714,662	10,424,647	9,282
NOV-02	37,133,162	52,622,659	70.56	3,896,693	5,411,113	72.01	7,431,531	10,228,207	8,765
DEC-02	40,350,605	55,780,248	72.34	3,412,854	5,224,033	65.33	7,176,043	10,322,547	9,386
JAN-03	42,164,204	56,955,320	74.03	3,175,167	5,208,333	60.96	7,125,834	10,420,186	9,547
FEB-03	36,307,917	51,036,989	71.14	3,068,329	4,733,196	64.83	6,402,145	9,446,000	8,626
MAR-03	35,405,748	54,487,442	64.98	3,855,555	5,529,579	69.73	7,195,795	10,525,858	8,413
APR-03	23,316,893	45,438,885	51.31	3,322,708	4,961,615	66.97	5,582,093	9,135,756	4,954
MAY-03	20,547,549	40,172,793	51.15	3,369,718	4,913,660	68.58	5,381,130	8,604,086	4,068
<b>TOTAL</b>	<b>438,874,968</b>	<b>627,331,715</b>	<b>69.96</b>	<b>42,120,101</b>	<b>61,892,838</b>	<b>68.05</b>	<b>83,373,924</b>	<b>119,360,021</b>	<b>100,722</b>

### 2002 TO 2003

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
JUN-02	-0.54	-1.06	0.39	15.77	4.41	6.99	6.86	1.66	-0.19
JUL-02	0.67	0.89	-0.17	18.15	7.80	5.95	7.89	4.32	2.47
AUG-02	1.29	1.43	-0.10	16.96	8.76	4.64	7.79	5.05	2.97
SEP-02	9.96	3.28	4.51	15.88	13.25	1.56	12.42	8.39	9.47
OCT-02	26.73	5.95	11.93	22.82	14.21	5.15	25.40	10.42	24.09
NOV-02	25.56	11.82	7.73	20.10	15.45	2.79	24.29	13.93	21.47
DEC-02	14.39	9.29	3.22	10.43	12.18	-1.04	13.04	10.87	11.88
JAN-03	13.54	12.66	0.58	14.54	17.82	-1.74	13.75	15.39	12.50
FEB-03	5.19	12.60	-5.01	11.09	14.16	-1.79	0.16	19.42	3.88
MAR-03	-10.64	9.54	-14.67	7.52	11.21	-2.39	-1.72	10.44	-10.10
APR-03	-37.43	-8.38	-23.62	3.69	4.70	-0.66	-16.56	-1.45	-44.21
MAY-03	-45.45	-23.81	-20.17	0.04	-2.36	1.67	-22.13	-12.35	-53.95
<b>GROWTH</b>	<b>-0.76</b>	<b>2.60</b>	<b>-2.37</b>	<b>13.78</b>	<b>9.98</b>	<b>2.27</b>	<b>5.53</b>	<b>6.58</b>	<b>-2.62</b>

### CALENDAR YEAR<sup>3</sup>

	RPK (000)	ASK (000)	PLF %	FTK (000)	FATK (000)	FLF %	RTK (000)	ATK (000)	PAX (000)
1998	382,106,292	557,130,177	68.58	30,958,021	46,204,321	67.00	66,141,448	97,199,731	86,198
1999	416,820,106	576,253,703	72.33	35,277,459	51,519,550	68.47	74,179,615	104,437,440	94,242
2000	462,592,401	617,966,475	74.86	39,027,134	56,258,060	69.37	82,551,363	112,893,269	103,610
2001	446,371,390	627,039,303	71.19	35,863,984	55,755,572	64.32	77,654,045	112,989,919	102,847
2002	467,340,919	627,191,375	74.51	40,801,462	59,566,958	68.50	85,046,259	116,493,219	108,974
2003	157,742,310	248,091,429	63.58	16,791,476	25,346,383	66.25	31,686,997	48,131,886	35,607

### CALENDAR YEAR<sup>5</sup>

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
1999	9.08	3.43	3.75	13.95	11.50	1.47	12.15	7.45	9.33
2000	10.98	7.24	2.52	10.63	9.20	0.90	11.29	8.10	9.94
2001	-3.51	1.47	-3.67	-8.11	-0.89	-5.05	-5.93	0.09	-0.74
2002	4.70	0.02	3.33	13.77	6.84	4.17	9.52	3.10	5.96
2003 <sup>4</sup>	-15.29	0.06	-11.52	6.63	8.39	-1.10	-5.79	5.48	-18.81

#### Note:

- The consolidation includes 15 participating airlines. Consolidated results for JAN 2003 to MAY 2003 are subject to revision.
- KA and NZ do not participate in this report.
- CY denotes Calendar Year. 2000, 2001 & 2002 figures have been updated with Air Nippon's traffic results. Air Nippon is a subsidiary of All Nippon Airways.
- YTD Comparison: JAN - MAY 2003 vs. JAN - MAY 2002.