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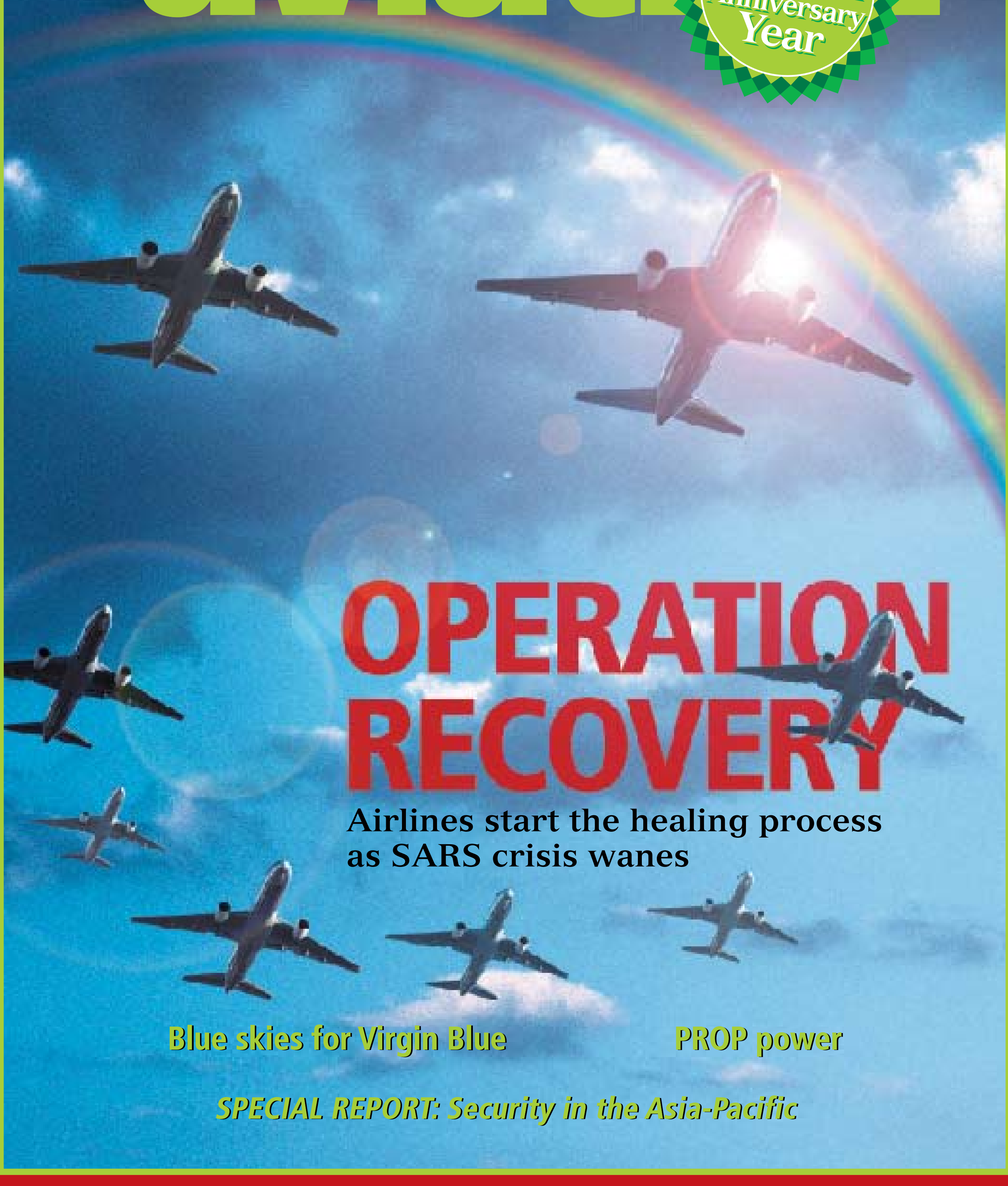

OPERATION RECOVERY

Airlines start the healing process as SARS crisis wanes

Blue skies for Virgin Blue

PROP power

SPECIAL REPORT: Security in the Asia-Pacific

A Wilson Press publication

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COVER STORY

OPERATION RECOVERY Page 10

With SARS on the wane Asia's beleaguered airlines are back in the market with a vengeance. But the pain is still there.

ALSO:
Cathay Pacific Airways and Dragonair chief executives talk about their airlines' darkest days

BPA INTERNATIONAL ®

A DISCOUNT DILEMMA

Now that the World Health Organisation (WHO) has lifted travel warnings against all Severe Acute Respiratory Syndrome (SARS) – affected regions, airline management can hardly be blamed for breath ing a huge sigh of relief. Passenger numbers are inching hesitantly upwards and hundreds of suspended services are gradually being re-instated.

Yet this optimism needs to be tempered by caution. There is a grave danger that in their desperation to encourage travellers back into the air, Asian carriers may do further damage to an already fragile business. A stampede of unprecedented fare discounting has taken pricing back to more than a decade ago, with airlines offering fare cuts of 50% and more. Free accommodation and two tickets for the price of one are among the cheap options air travellers now have.

In these dire times there is a need for drastic action to convince consumers it is safe to fly to and within Asia.

At the same time, marketing enthusiasm should not be allowed to blind airlines to the fact that their margins are already dangerously thin.

Industry insiders believe traffic will climb rapidly once the public realises the worst of SARS is over. Unfortunately, the same happy situation will not apply to margins and profitability. Full aeroplanes, at these prices, may bring cash flow, but they will cause a further decline in margins. The return to full fiscal health will lag far behind a return to pre-SARS traffic levels, possibly by more than 12 months.

The challenge that lies ahead for airline management is to know when to stop the ticket "fire sale" and when to begin easing prices upwards to sustainable business levels. The big problem with discount tickets is that once you offer them, travellers expect and demand them indefinitely.

While they tussle with this, airlines know their future is delicately poised. Many remain concerned that with no cure available in the immediate future, SARS could return to haunt them. Also, the ever-present threat of terrorism lurks in the shadows of any airline's operations.

International Air Transport Association (IATA) director general, Giovanni Bisignani, characterised airlines' last two years as being like "a boxer who gets hit harder after every knockdown". Globally, industry losses totalled US$25 billion for 2001 and 2002. It is expected that more than US$10 billion will be lost by airlines in 2003, much of that due to a ravaged Asian industry.

The quicker carriers progress beyond the discounting stage and proceed with additional rationalisation and restructuring of their businesses, the sooner we will have a long-term, healthy and sustainable industry.

TOM BALLANTYNE
Chief correspondent

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REGIONAL ROUND-UP

KOREAN AIR SIGNS FOR EIGHT A380S

South Korea's largest international airline, **Korean Air (KAL)**, has agreed to buy up to eight A380s – five firm orders and three options – from **Airbus Industrie**. KAL representatives signed a Memorandum of Understanding (MoU) for the double decker aircraft on June 18. The order was announced at the **Paris Air Show** two days after **Emirates Airline** confirmed it would purchase 21 more A380s for an estimated US$12.5 billion (see Paris Air Show orders below), a decision that will bring the number of A380s ordered by the Dubai-based airline to 43. KAL would take delivery of the aircraft from late 2007-2009, a KAL statement said. KAL chairman, **Y. H. Cho**, said the A380s "meet our strategy to reinforce **Incheon International Airport** as the strongest hub in Northeast Asia". The agreement brought the number of A380s ordered to 126. **Qantas Airways**, **Malaysia Airlines** and **Singapore Airlines** also have ordered the A380.

Korean Air: A380 orders will "reinforce Incheon International Airport as the strongest hub in Northeast Asia"

Deliveries to launch customers are scheduled to start from 2006.

At the same time, KAL signed a MoU with Boeing to buy nine aircraft, seven B777s and two B747-400ERFs, at an estimated cost of US$1.5 billion. The airline said the B777s would gradually replace its B747 passenger aircraft from 2004 and the new freighters would be introduced into the fleet as its MD-11 freighters were phased out.

SARS FORCES SIA TO SHED 414 JOBS

In its largest retrenchment exercise since it launched as an airline in 1972, the **Singapore Airlines (SIA) Group** laid off 414 staff in June while leaving open its options to further reduce its workforce of more than 29,000. In his first weeks as SIA's chief executive, **Chew Choon Seng**, said the jobs had to go "to save the company". After Severe Acute Respiratory Syndrome (SARS) struck across Asia, SIA's passenger numbers halved and it was forced to reduce capacity by a third. SIA senior management took pay cuts of between 23%-28% in April – a saving of US$7 million, but, said Chew, the haemorrhaging continued with the carrier losing US$115.2 million in April, followed by losses of US$96 million in May. On average, SIA, regarded as one of the best managed airlines in the world, lost US$3.4 million a day during the height of the SARS outbreak. One hundred and twenty nine staff were retrenched at the airline with four laid off at **SIA Cargo**,196 at **Singapore Air Terminal Services** or **SATS**, 63 at **SIA Engineering Company Limited** and eight at the wholly-owned subsidiary carrier, **SilkAir**. Analysts have not ruled out additional job losses at the carrier, which next time around could include flight and cabin crew. Chew said in an SIA statement: "Unfortunately, although the drop in business has bottomed out, demand is running at a much lower level than pre-SARS and a year-on-year recovery is not in sight." He said after taking all other measures possible to save money, SIA had no alternative but to turn "to our wage costs for savings."

CATHAY CLEARS BEIJING HURDLE

Cathay Pacific Airways is awaiting the outcome of its

Paris Air Show

Airbus in the driving seat

*European planemaker, **Airbus Industrie**, moved ahead of rival **Boeing** in the annual battle for orders supremacy when two Middle East airlines signed on for 81 Airbus A380s, A340-600s, A330s and A321s. **Emirates Airline**, in a stunning display of its global ambitions, ordered 41 Airbus airplanes including 21 A380s, two A340-300s and 18 A340-600s. It also will lease two A340-600s and two A380s from **ILFC**.*

*The Dubai-based airline already has ordered 22 A380s, making it the largest customer for the new double-deck airplane. A few days later, both Seoul-based **Korean Air** and **Qatar Airways** announced orders for up to eight A380s (see separate story) and a mixed fleet of 32 Airbus airplanes respectively. Qatar's order included options on 14 of the airplanes, which included A321s, A330-200s, A330-300s and A340-600s. In addition, Qatar said it would lease two A330-200s from **GECAS**.*

*While Airbus was the obvious winner when it came to orders in Paris, Boeing chose the prestigious show as a launch pad for its new mid-sized commercial aircraft, the 200-250 seat **Dreamliner** aircraft, otherwise known as the 7E7. The global aerospace company also confirmed an Emirates Airline order for 26 B777s – leased from GECAS and ILFC – and an agreement by Korean Air to buy seven B777s and two B747 extended range freighters (see separate story)*

***Alan Mullaly**, chief executive of Boeing Commercial Airplanes, said Japanese aerospace firms were likely to take equity of up to 20% in the Dreamliner, which he estimated had a potential market of between 2,500 and 3,000 aircraft and would roll off the production line in 2008. **Kawasaki Heavy Industries**, which also is planning to manufacture parts for the Rolls-Royce engine being developed for the Airbus' A380, is considered to be a likely Dreamliner equity partner. The company already produces components for Boeing's B777 and B767 aircraft.*

Mullaly said that by the first half of 2004, Boeing hoped "to come to a really fundamental agreement with airlines about the aircraft's specific requirements".

At the Mullaly Paris press briefing, the chief executive said he would not rule out a Boeing decision to establish a separate company to produce the Dreamliner.

applications for landing slots in Beijing and an aircraft operating licence from the Chinese authorities after it was cleared in June to fly to the Chinese capital by Hong Kong regulatory authorities. Hong Kong's **Economic Development and Labour Bureau** granted six flights a week to Cathay – three passenger services and three freighter flights – which the Hong Kong based carrier said will allow it to phase in services to the Mainland capital. It also has been granted permission to apply to fly services to Shanghai and Xiamen. Meanwhile, Mainland China controlled Dragonair has applied for a judicial review of the Air Transport Licensing Authority's decision that allowed Cathay Pacific to resume flying to China after a 13-year hiatus.

MAS AND GARUDA STRENGTHENS TIES

Two of the region's flag carriers, **Malaysia Airlines** and **Garuda Indonesia**, have signed a Memorandum of Understanding (MoU) for extensive commercial operations including plans to operate third country code-share services to Australia, Germany and Britain.

The two carriers will launch new services between Malaysia and Indonesia and will operate the third country code-shares on six times weekly services between Kuala Lumpur and London, daily services from Kuala Lumpur to Frankfurt and flights twice a week from Denpasar, Bali to Darwin, northern Australia. Bachrul Hakim, vice-president commercial at Garuda said: "Where previously our partnership focused on promotion of travel between our two countries, we have become more ambitious and have set our sights on promoting travel and tourism beyond our shores [thereby] increasing passenger numbers and our revenue from tourism. This intensified cooperation will see Garuda Indonesia increasing its use of **Kuala Lumpur International Airport** as a gateway to this region."

CHINA EASTERN TO SPEED UP RE-ORGANISATION

The consolidation of China's nine major airlines into three groupings last year was timely to say the least, **writes Su Ning**, in Beijing, with the outbreak of Severe Acute Respiratory Syndrome (SARS) exposing the mergers to the sternest of tests.

Although the consolidation procedure is still under way and could extend well into next year, **China Eastern Airlines Holding (CEAH)**, which is made up of **China Eastern (CEA)**, **China Northwest** and **Yunnan Airlines**, is accelerating its re-organisation.

The integration of the three carriers' marketing operations in Japan has been completed and the company is repeating the process in Beijing, Guangzhou, Korea and Singapore.

Eventually, unlisted China Northwest and Yunnan will be absorbed into listed CEA and their names and liveries will disappear, but this cannot be done until the airlines' accounts meet legal listing requirements for public companies. This process is expected to be complete later this year. Meanwhile, CEA has decided it will launch its Shanghai – London service, postponed by SARS, before the end of the year.

BRIEFLY. . . .

AIRPORTS . . . Bashir Ahmad Abdul Majid, who was a senior executive at **Malaysia Airlines**, is the new managing director of **Malaysia Airports Holding Bhd**, a position that has remained empty since the resignation of former managing director, **Othman Modh. Rijal**, more than two years ago.

CODE-SHARES . . . Cathay Pacific Airways (CX) and **Qantas Airways** will operate code-share services from Australia through Hong Kong to Rome from September 9. CX currently flies four times a week to the Italian capital and Qantas operates daily services to Hong Kong from its largest Australian cities. **Virgin Blue** has signed a code-share with Australian regional airline, **REX**, from July 1, in a bid to seize market share from Qantas, the dominant Australian domestic carrier.

MAINTENANCE . . . Qantas Airways and **Rolls-Royce** have signed Total Care contracts of 10 years for its 113 RB211-524 and 28 BR715 engines on Qantas' B747-400 and B767-300s and **Qantas Link's** B717 fleet. Zurich-based **SR Technics** has announced across the board cost cuts as its business feels the impact of the Iraq War, SARS, a weakening US$ and a sudden decline in business from troubled carrier, **SWISS**. The company added "layoffs cannot be ruled out".

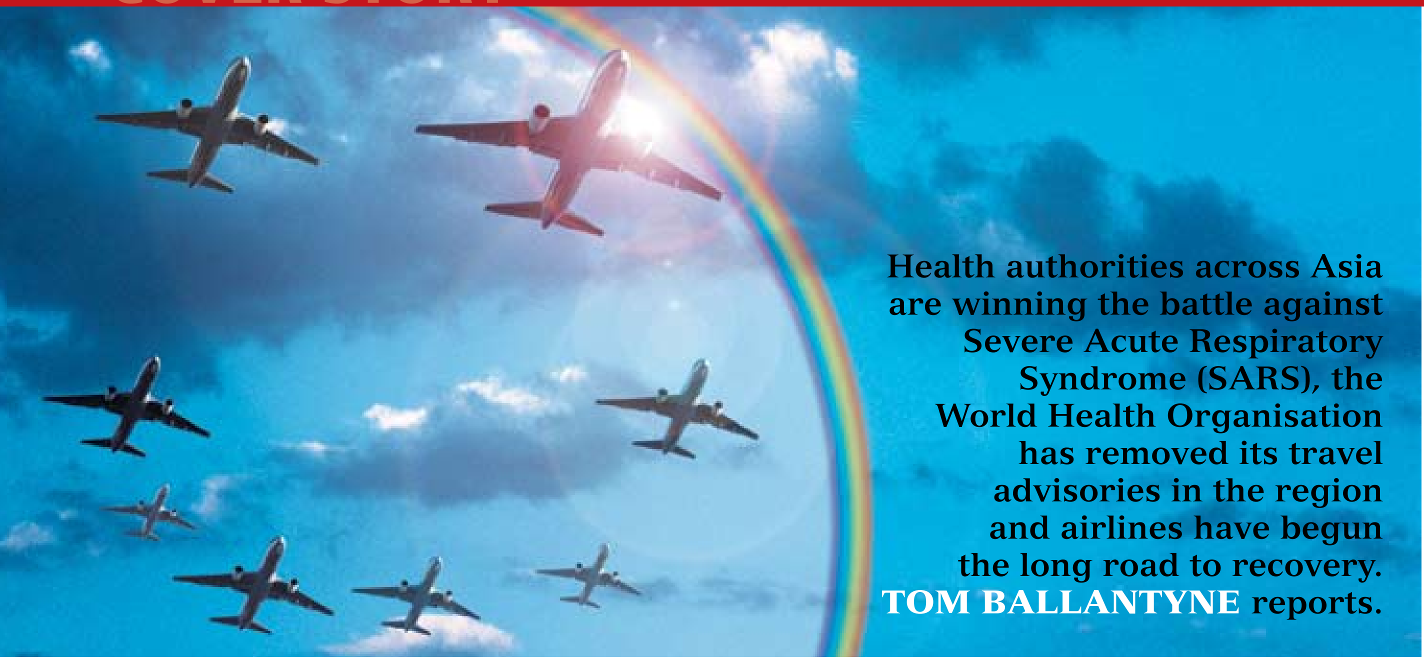
LEASING . . . Singapore Aircraft Leasing Enterprise (SALE) has signed agreements to lease an A320 to **Lao Airlines** for three years and an A320-200 to Bulgaria's **BH Air** for the same period.

ROUTES . . . Hong Kong-based **Dragonair** is reported to be starting summer charter services from Hong Kong to Bangkok, after it received licences from the **Air Transport Licensing Authority** last October to fly to the Thai capital as well as Sydney, Manila, Seoul and Tokyo. At press time, Dragonair said the application was "still being processed". After phasing out its A310s on the Singapore-Brunei route, **Singapore Airlines** has replaced its daily service to Bandar Seri Bega-wan with a five times weekly schedule by B777s (twice a week) and A320s (three times weekly).

AirAsia to add 11 B737s to fleet

AirAsia chief, Tony Fernandes: major growth for his no-frills fleet

Low-cost Malaysian domestic carrier, **AirAsia**, announced in mid-June that it would lease seven Boeing B737-300s and buy four more of the aircraft from **GE Capital Aviation Services (GECAS)**, a decision that will take the carrier's fleet to 18 by mid-2004. AirAsia's chief executive, **Tony Fernandes**, said at the signing ceremony in Kuala Lumpur the new planes would "meet the huge demand for more low fares in Malaysia" and also assist the carrier in reducing its unit costs. Fernandes said earlier this year that the carrier would expand its network to regional leisure routes "at the right time". Since its start-up in February 2002, AirAsia has carried 1.8 million passengers to 12 Malaysian cities from its hub at Kuala Lumpur International Airport. The first of the new aircraft will arrive in October 2003, with the final plane in the order scheduled for delivery to the carrier in June next year. Fernandes is expected to soon announce the foreign investors who will take a substantial equity holding in the carrier following approval of the proposed deal by Malaysia's Foreign Investment Committee.



Health authorities across Asia are winning the battle against Severe Acute Respiratory Syndrome (SARS), the World Health Organisation has removed its travel advisories in the region and airlines have begun the long road to recovery. TOM BALLANTYNE reports.

OPERATION RECOVERY

Battered Asian airlines are rebuilding their shattered networks with a phased re-introduction of services suspended or reduced during the darkest days of the SARS crisis. To help attract passengers, build their confidence and convince them air travel to Asia's cities poses no threat to their health, carriers are offering extensive fare discounts publicised by major publicity campaigns.

"While it is true our airlines are suffering unprecedented losses, we are determined to surmount the catastrophe, to fight back and ultimately to restore the level and scope of services offered before this outbreak," said the chairman of the Association of Asia Pacific Airlines (AAPA), Philip H.H. Wei, who also is chief executive of Taiwan's China Airlines (CAL). He added that carriers had been combating fear and misconceptions during the crisis, not a runaway epidemic.

Passenger numbers are climbing after hitting historic lows in April and May. Airline stock prices also have risen.

But the pain is not over. The Singapore Airlines Group retrenched 414 staff in June. Cathay Pacific Airways told staff there was no guarantee there would not be redundancies at some point. By September 30, Qantas Airways will have reduced its workforce by 3,500 in the past six months.

Carriers also are continuing to cut costs with tens of thousands of airline staff either taking or planning to take unpaid leave.

Association of Asia Pacific Airlines chairman and China Airlines chief executive, Philip H. H. Wei: cannot allow public panic to destroy success of Asia-Pacific airline industry

However, on June 24 the World Health Organisation (WHO) lifted its final Asian travel warning on Beijing. Advisories on Taiwan, Hong Kong, Singapore and the rest of China had been removed earlier in May and June.

It is estimated airlines have lost several billion dollars since the beginning of the year, to which the Iraq war has also contributed. Full recovery is expected to take up to 12 months. To accelerate the upward trend the region has embarked on an unprecedented marketing campaign with tourism, hotel and airline groups coordinating action to woo back visitors.

Some airlines, including Singapore Airlines (SIA) and Cathay Pacific Airways, have slashed air fares by 50%, sometimes more, offering travellers tickets at prices not seen for more than a decade. Forget profit, the short-term aim of the airlines is to get customers back in the air, according to airline chiefs.

AAPA director general, Richard Stirland, said while the lifting of the WHO travel advisories was "fantastic news" he urged caution. "There is still a long way to go before the regional airlines are out of the woods," he said.

The AAPA's 17 member airlines remained nervous about the possibility of a resurgence of SARS later in the year as winter sets in, said Stirland.

In the meantime, the association and its airlines would work closely with the Pacific Area Travel Association (PATA), participate in other co-operative recovery efforts and conduct their own marketing campaigns.

Japan Airlines Corporation (JAL) managing director, Gentaro Maruyama, believed the effects of SARS on its business would be limited to the current financial year. International traffic started to increase in June and Maruyama expected the business environment to

return to normal by March 2004.

The SARS outbreak is predicted to cost Japan's two major airlines – JAL and All Nippon Airways – US$1.6 billion (US$135.6 million) in revenue in 2003-04.

Industry observers are keeping a close eye on Japanese travel patterns, which are critical to a recovery in tourism in many countries. JAL increased services to Hong Kong, Honolulu, Los Angeles, Zurich and Bangkok from July. However, it also reduced frequencies to London, Paris, Seoul, Ho Chi Minh City and Shanghai and extended existing suspensions at a number of Chinese destinations.

The recovery of the Japanese market could be extremely slow. Many Japanese travellers are not only staying at home, but also are cutting back on domestic travel. Officials at Tokyo's Haneda airport, the city's domestic terminal, reported that load factors on domestic flights operated by nine airlines fell to a record low 56.5% in April.

Garuda Indonesia president, Indra Setiawan, told media the carrier would not meet its original 2003 profit target of US$58.4 million. The new forecast is for a net profit of US$16.8 million.

Indonesia faces a particularly bleak future, with the tourism industry estimating losses of US$497.6 million as a result of SARS, which has converged with rebuilding Indonesia's tourism industry after the Bali bombings last October. Now, civil war in Aceh, an Indonesian province, is adding to the country's problems of attracting tourists.

Nevertheless, in June, there were significant signs that the SARS tide was turning. Cathay Pacific announced it would restore 170 flights a week in July, to meet its expected summer demand.

This will mean the airline will be operating 71% of its full schedule after it cut back services to 45% during the worst of the crisis. Thirteen of 22 parked aircraft will return to the fleet as Cathay re-introduces flights and frequencies to 31 destinations worldwide.

Cathay's director corporate planning, Augustus Tang, said there had been an increase in passenger traffic since the Hong Kong travel advisory was removed and there had been an improvement in forward bookings. "However, we are still a long way from our break-even point," he said.

China Airlines passenger traffic in the first 10 days of June was almost double a similar period at the worst of the SARS outbreak. The Taiwan carrier planned schedules to be 90% of pre-SARS levels by July.

Meanwhile, THAI resumed its seven weekly Bangkok-Los Angeles flights – cut to three during the crisis – in July and increased services to Europe from 54 to 62. It is considering adding New York and Chicago as new destinations to its network later in the year. Executive vice-president commercial, Tasnai Sudasna, said he expected a "return to normalcy" by the end of 2003.

"Due to SARS we would expect to see a 30% drop in our revenue during the quarter ending June 30. There are some indications we are seeing a gradual pick-up in the number of bookings and an increase in load factor. Despite the impact of SARS, we will still see a profit [for the year ending September 30] as we have lots of accumulated profits from the first half of this year."

Korean Air resumed services from Seoul to Hong Kong, Bangkok, Singapore, Dubai, two Japanese cities, Cairo and to Alaska in the summer. Rival Asiana Airlines, which has resumed Seoul-Taipei and Busan-Bangkok flights, planned to re-start eight Chinese routes in July.

Cathay Pacific Airways director corporate planning, Augustus Tang: improvement in forward bookings

SIA, which was losing around US$3.4 million a day at the height of the SARS crisis and had cut 32% of flights to stem losses, resumed flights between Singapore and Fukuoka in June and has increased services to Tokyo from eight to 14 weekly in recent weeks.

AAPA chairman Wei said there was a need to change people's perception of the region. "The perception in Europe and the U.S. is, unfortunately, that the whole of Asia is equally risky in terms of infection. When the time is right Asia must act as one in re-establishing its premier role as a destination for tourism and business," he said.

"Asia has had a uniquely successful airline industry for many years. It would be a tragedy if a short-term crisis of this nature destroyed that success simply because of public panic and lack of co-operation. AAPA member airlines are determined not to let that happen."■

Signs of slight recovery on Mainland

By Su Ning
In Beijing

Traffic on China's airlines is picking up although in many cases the improvement is marginal. Li Kun, vice-president of Guangzhou-based China Southern Airlines (CSA), told a press conference the carrier was launching into "a bold marketing programme as it now rotates into a post-SARS airline recovery period".

CSA's traffic declined 85% in May, or 1.1 million passengers, compared to the same month last year. Traffic was down 40% in April.

CSA's recovery programme, tagged the "Sunshine Action Plan", includes deeply discounted domestic fares, extra frequent flyer points for regular travellers and free "SARS liability insurance".

Delivery of 20 Boeing aircraft and two freighters could be delayed.

China Eastern Airlines (CEA) has reported record losses in the three months since the outbreak of SARS. At the height of the crisis CEA cut its flights by 75%, but passenger loads still slumped to 20%. Loads are normally between 80% and 90% for the period.

According to Li Fenghua, vice-president of China Eastern Airlines Holdings (CEAH), the airline was losing about 20 million yuan (US$2.4 million) a day at the height of the crisis.

To help reduce costs staff salaries were cut 30% in May.

CEA is now relying on bank loans to survive and has signed a credit agreement with local banks, said Li. Twelve of the 18 planes scheduled for delivery this year may be delayed.

Air China also has sustained "considerable" losses during the SARS outbreak.

The Civil Aviation Administration of China (CAAC) cut airport landing fees and navigation charges by 20%. The discounts applied retrospectively to May 1 and will remain in place until 31 July. They apply to Chinese and foreign carriers.

The Shanghai Airport Authority Ltd reduced charges on domestic aircraft by 33% and international planes by 20% from May 1 to June 30 to ease costs for airlines.■

Healing slowly

The airlines in Hong Kong and China have been hardest hit by the SARS outbreak. They are still in 'intensive care' but showing signs of improvement. The chief executives of Cathay Pacific Airways, David Turnbull, and Dragon-air, Stanley Hui, talked to *Orient Aviation* about the worst crisis in the histories of their respective airlines.

Cathay's 'leaking bucket'

By Barry Grindrod

Cathay Pacific Airways chief executive, David Turnbull, has been no stranger to crises since he became chief executive in 1998, but he told *Orient Aviation* he was not going to tempt fate by saying business could not get any worse than during the SARS outbreak.

It is, however, hard to imagine. Consider the facts. Cathay Pacific saw its passenger market slump 80% at the height of the crisis. Seats filled fell from 32,000 passengers a day to between 6,000 and 7,000 daily.

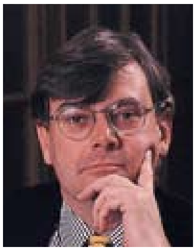
On one day Cathay carried just 5,100 passengers and on some flights, particularly on the usually lucrative Hong Kong -Taipei "Golden Route" to Taiwan, it has had total loads in single digits. Cathay, which in 2002 made the second highest profit in its history, was losing US$3 million a day during the peak period of SARS panic. It cut its network by 45% and grounded 22 planes, but load factor was still averaging below 40% on this radically pruned schedule.

"Resources were draining from the company like water through a hole in a bucket," said Turnbull. "I told my management to forget making a profit, that the priority was stopping the money draining from the bucket. We have to prepare for a long period of rebuilding.

"The SARS outbreak has done massive damage. Like a great blow to the head, it will not heal in five minutes."

Cathay Pacific chairman, James Hughes-Hallett, said recently Hong Kong's relaunch post SARS could only go into overdrive when the WHO had lifted its travel advisories on the whole of China which, by press time, had been removed. He then expected business travel to recover in the third quarter of 2003 with tourist traffic making a comeback in the fourth quarter, starting with mainland China travellers, Japanese and, later, tourists from the U.S.

Just when Cathay's business will return to pre-SARS levels depends on whether Hong Kong is completely SARS free, said Turnbull. The best case scenario is one year, but if SARS remains an issue it could take up to two years.



Cathay Pacific Airways chief executive, David Turnbull: need 20,000 passengers a day to break even

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One of Turnbull's first jobs in 1998 was to lay off 3,000 staff at Cathay during the Asian economic crisis. "We have a young [management] team and they have become experienced and hardened to crises since 1997. They have taken a lot of pain over the years. Having managed the other situations has been invaluable in dealing with the SARS crisis," he said.

Dragonair chief executive, Stanley Hui: cargo kept some planes flying

Preparing for a slow recovery

By Charles Anderson

At press time, the lifting of the World Health Organisation (WHO) travel advisories on Hong Kong, Taiwan and China was a major relief for Hong Kong's second carrier, Dragonair. Its dependence on the mainland and the Hong Kong – Taiwan "Golden Route" to Taipei for the bulk of its business has been hurt badly by SARS.

Chief executive Stanley Hui believed, for this reason, recovery will take time. Passenger numbers were expected to reach between 5,000 and 6,000 a day in July; a welcome improvement on the alarming figures recorded in the depths of the crisis, but numbers are still far short of Dragonair's normal daily 10,000-plus passenger loads.

The lowest total was 500 a day. Although the airline would not comment on financial details, sources estimated losses at the carrier were between US$500,000 and US$1 million a day at one stage during the SARS outbreak.

Hui admitted losses were "huge". Eleven of its 21 Airbuses were grounded, 11 routes – 38% of its passenger network – were suspended and, in May alone, 176 flights were called off. Passenger numbers plummeted 89.5% on a year earlier. At the height of SARS Dragonair cancelled 64% of its flights. By mid-July, 63% of frequencies were scheduled to be operating.

"My idea was that as long as we could recover direct operating costs, that would be good enough for us to keep the services.

"Now we are rebuilding the services, that same logic applies," he said.

One bright spot for the airline has been Dragonair's growing cargo business, allowing a strategic expansion to support overall operations in a way unimagined when it was introduced three years ago.

Cargo kept some planes in the air in recent months that would otherwise have been grounded, with cargo holds full and passenger seats empty. "That is why we were able to keep six flights a day to Shanghai. We even launched some passenger services without any passengers, sending A330s into Taipei just to carry cargo," said Hui.

Healing slowly

The airlines in Hong Kong and China have been hardest hit by the SARS outbreak. They are still in 'intensive care' but showing signs of improvement. The chief executives of Cathay Pacific Airways, David Turnbull, and Dragon-air, Stanley Hui, talked to *Orient Aviation* about the worst crisis in the histories of their respective airlines.

Cathay's 'leaking bucket'

By Barry Grindrod

Cathay Pacific Airways chief executive, David Turnbull, has been no stranger to crises since he became chief executive in 1998, but he told *Orient Aviation* he was not going to tempt fate by saying business could not get any worse than during the SARS outbreak.

It is, however, hard to imagine. Consider the facts. Cathay Pacific saw its passenger market slump 80% at the height of the crisis. Seats filled fell from 32,000 passengers a day to between 6,000 and 7,000 daily.

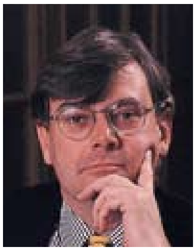
On one day Cathay carried just 5,100 passengers and on some flights, particularly on the usually lucrative Hong Kong -Taipei "Golden Route" to Taiwan, it has had total loads in single digits. Cathay, which in 2002 made the second highest profit in its history, was losing US$3 million a day during the peak period of SARS panic. It cut its network by 45% and grounded 22 planes, but load factor was still averaging below 40% on this radically pruned schedule.

"Resources were draining from the company like water through a hole in a bucket," said Turnbull. "I told my management to forget making a profit, that the priority was stopping the money draining from the bucket. We have to prepare for a long period of rebuilding.

"The SARS outbreak has done massive damage. Like a great blow to the head, it will not heal in five minutes."

Cathay Pacific chairman, James Hughes-Hallett, said recently Hong Kong's relaunch post SARS could only go into overdrive when the WHO had lifted its travel advisories on the whole of China which, by press time, had been removed. He then expected business travel to recover in the third quarter of 2003 with tourist traffic making a comeback in the fourth quarter, starting with mainland China travellers, Japanese and, later, tourists from the U.S.

Just when Cathay's business will return to pre-SARS levels depends on whether Hong Kong is completely SARS free, said Turnbull. The best case scenario is one year, but if SARS remains an issue it could take up to two years.



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In less than three years, Australia's Virgin Blue has grown from a small, low-cost niche operator into a major domestic airline. Chief executive Brett Godfrey spoke to TOM BALLANTYNE in Brisbane about the challenges ahead for his carrier as he prepares to spread its wings offshore.

BLUE skies

Brett Godfrey, chief executive of Australian low-cost airline Virgin Blue (VB), has a dream. He wants to sail off into the sun set.

"That's what I plan to do when I finish at the airline. Pack up and sail off around the world with the family."

But his private voyage of discovery will have to wait a few years. Sydney-born Godfrey, who will be 40 in August, is far too busy running a successful airline – 50% owned by the flamboyant English knight, Sir Richard Branson, and 50% held by Australian transport giant, Patrick Corporation – that is giving national carrier Qantas Airways a serious run for its money.

In Godfrey's opinion, VB is "travelling pretty well at the moment". When *Orient Aviation* interviewed him at the airline's Brisbane headquarters he was days away from announcing a more than three-fold increase in pre-tax profit for the carrier in the year to March 31, up from US$30 million to US$102 million.

VB is rapidly filling the gap left by the failed airline, Ansett Australia. Launched in August 2000, VB first turned a profit in December that year. Since then it has been a regular money-maker.

But it's not all plain sailing. A boardroom battle is underway between the joint owners about the structure of a VB proposed public float later this year. There are persistent rumblings, too, that Patrick boss Chris Corrigan wants to oust the Virgin Group from the airline and take full control himself.

While this sorts itself out, Godfrey has an airline to run. VB has 28% of Australia's domestic market and will fly to New Zealand later this year. This will happen whatever the outcome of the Qantas/Air New Zealand efforts to forge an alliance. The two airlines are awaiting a decision by the Australian and New Zealand competition authorities. VB also is planning short-haul international operations to the South Pacific islands and Southeast Asia.

If proof of the three-year-old airline's fast growing success was needed then one has to look no further than its fleet growth. It started with three leased B737-400s and a staff of 300. Today, VB operates 30 Boeing 737 jets – all New Generation -700 and -800 models except for a single ex-Ansett B737-300. Another 10 B737s will arrive in the next 12 months. It does not end there. The carrier has 50 more aircraft options with Boeing. Its workforce today numbers 2,500.

Virgin Blue co-owner, Sir Richard Branson and chief executive Brett Godfrey: airline in the right place at the right time following the collapse of Ansett Australia

Godfrey, who joined VB in early 2000 to prepare for its launch, believed the carrier would exceed one third market share in the next 12 months, adding it would make VB "a pretty powerful competitor" for Qantas in Australia.

VB was in the right place at the right time, said Godfrey. The collapse of Ansett opened the door for expansion.

VB also has had a powerful influence on market trends by significantly reducing ticket prices and removing restrictions on tickets. These included, until VB arrived, a requirement travellers with discounted tickets had to stay over a weekend, a rule that effectively forced executive flyers to pay top prices for business trips during the working week. Qantas followed suit and has now removed similar restrictions. With VB operating single class aircraft, last year the national airline reconfigured its B737-800 fleet into one class.

"Unfortunately, as much as we love the values of the bygone days, of Catalina flying boats cruising at 3,000ft, its passengers sipping champagne in comfortable lounge seats, these days have long gone," said Godfrey.

"All airlines will have to be more like the Virgin Blues or the JetBlues of this

world, particularly on relatively short sectors of under three hours or they may be priced out of the market. You have to be smart with costs. I believe Qantas will become more like us than we will be like them."

Married with two children, Godfrey was educated at Victoria University in Melbourne, gaining a Bachelor of Business Degree with Honours, before qualifying as a chartered accountant with Touche Ross in 1988. His first venture into aviation was as financial controller of Sherrard/National Jet in Melbourne.

In 1993, be became finance manager for Virgin Atlantic Airways in England. Three years later, Godfrey represented Virgin's interests in the Belgium capital, Brussels, in the acquisition of new European low-fare carrier, Virgin Express.

He was promoted shortly afterwards to chief financial officer and it was from Belgium, with a few clandestine visits to Australia thrown in, that Branson and Godfrey plotted the launch of Virgin Blue.

It brought a complete change in lifestyle. At 36, Godfrey was playing rugby in Brussels and running eight kilometres five days a week. "It stopped when I came down here," he said. And he has only had one family holiday since his return to Australia.

It may be a while before he has another one. The launch of three new routes in June – direct flights from Sydney to Canberra, Alice Springs and Darwin – means VB now has national coverage, including all the country's top 10 trunk routes. Now, he is looking at untried secondary routes, such as Adelaide or Brisbane to Hobart, as well as increased frequencies on major trunk routes.

New Zealand is shaping up as VB's biggest challenge. Trans-Tasman flights and domestic services within New Zealand are a given for VB. At least six of the new B737s arriving over the next year are earmarked for the operation. But, although an application has been made to the International Air Services Commission (IASC), Godfrey will wait until competition regulators rule on the Qantas/Air New Zealand alliance before he launches operations. The decision will not be known until September.

He wants assurances on terminal access in New Zealand and limits put on the operations of Air NZ low-cost subsidiary Freedom Air. VB would like to purchase Freedom, but Air New Zealand does not seem too keen on the idea.

"We are waiting to see how it all evolves to determine what degree of involvement we will have with New Zealand. If the monopoly [Qantas/Air New Zealand alliance] goes ahead without any structural undertakings and they don't find adequate space for us at the airports, or Freedom Air is used to check us down, we will end up being a cherry picker," said Godfrey.

"If we can get these issues removed we believe there is nothing to stop us getting 28% of the trans-Tasman market and 28% of domestic New Zealand."

VB has applied to the IASC for flights to Fiji and Vanuatu. If successful services would start in October. The Cook Islands and Samoa from Australia's east coast, or Southeast Asian ports like Singapore and Kuala Lumpur from Perth and Darwin and the Indonesian resort island of Bali are also on VB's wish list. All would be within non-stop range of a B737.

Godfrey said several options were possible including establishing a separate airline to operate offshore. "But we have enough on our plate at the moment so we have filed the concept for the time being."

VB should not be compared with low-cost operators in Europe and North America, insisted Godfrey. "We have been presented with a unique set of circumstances no other local carrier has ever been offered. We've had a chance to grow very quickly (because of Ansett's demise), but there are different types of low-fare carriers.

"Perhaps U.S. carrier, JetBlue, is more like us, but Ryan Air and EasyJet in Europe are about flying from point A to B and that's it. Don't expect any service. I like to think our service is a lot of fun."

Everything at VB is a profit centre. Contrary to some popular opinion, it is not a no-frills operator. It is low operating cost – up to 30% below Qantas – but customers enjoy plush leather seating and they are served food and beverages. They can even get hot meals on the long, trans-continental services to Perth, but they have to pay for them.

Earlier this year VB opened a lounge for passengers in Brisbane. The former Ansett frequent flyer Golden Wing Club, the Blue Room, offers a bar, comfortable seating, a cinema and massage facilities. For A$5 (US$3.20), anyone can use the lounge. Similar lounges will open in Sydney and Melbourne in July.

Although there is no business class on VB the front section of the aircraft is tagged "Suit Class" by the airline's staff. Where possible, the centre seat in each row of three is left empty. Also, passengers are offered the chance to pre-book the emergency exit seats at the front bulkhead – with 100 centimetres more legroom. For the privilege they pay US$32 on long flights to Perth and between $13 and $20 for shorter haul flights.

"They are incentives for corporate clients to buy us," said Godfrey.

Some analysts believe VB is at a crossroads. It must decide whether to remain low-cost or, with growing market share, step up to become a more traditional type of carrier, they argue.

Godfrey strongly refuted that concept. "Whilst I'm on watch, Virgin Blue will remain a low-cost carrier. We are never going to do anything that does not serve as a profit centre."

The future shape of VB will depend on two factors: which of the co-owners, Virgin or Patrick, will get their way on the public float issue and if the latter ultimately wins control of the airline.

The listing is expected to take place in November. The dispute is about how much of the carrier should be put up for auction. Sir Richard wants 20% to be sold while Patrick chief Corrigan wants only 10% to be sold to the public. In May, unable to settle their differences, the two sides called in a lawyer to mediate and said they would abide by the arbitrator's decision.

In the meantime, both shareholders appear to be more than happy with Godfrey and his management team. ■

Virgin Blue chief executive Brett Godfrey: preparing to fly beyond Australia

Don't just invest in the easy options, says security expert

Training the key to aviation security

By Charles Anderson

While the aviation industry concentrates on the daunting tasks of 100% baggage screening and barring up cockpit doors and argues about the merits of arming pilots and employing sky marshals to counter terrorism, Mark Everitt has more deep-seated, longer-term challenges on his mind.

The general manager of New Zealand's Aviation Security Service is a keen-eyed observer as well as an active participant in the field. He is anxious that states and airlines should not just concentrate on these challenges while ignoring the more general, and possibly more important, requirements laid down by the International Civil Aviation Organisation (ICAO) in its response to the events of September 11, 2001.

If they do not look carefully at the new rules, Everitt says, countries could well find themselves out of compliance with ICAO regulations and at risk of censure, with all the knock-on effects that has in terms of travel, tourism and general economic life. More to the point, the industry in general will not reach the standard of all-round security that stems from continual training of its people and quality assurance programmes demanded by the body.

The last 12 months have seen enough dramas to reinforce the inevitable conclusion that airport and airline security will remain under serious threat for as long as anyone wants to look. War in Iraq, the bombing of tourist nightspots in Bali and the deadly blast outside Davao airport in the southern Philippines all confirm that the wave of global terror typified by 9/11 will continue and that Asia and Australasia are not immune.

In the United States, airlines have met the April deadline for securing flight deck doors as demanded by the Federal Aviation Authority (FAA). Those flying outside the U.S. are pushing to hit

General manager of New Zealand's Aviation Security Service, Mark Everitt: "Are we still taking human factors seriously enough?"

ICAO's November cut-off for the same requirement. Ten thousand planes were involved in the American exercise, 5,800 of which were U.S. registered with the remainder coming from airlines flying into and out of the country.

Some 4,300 of these had Boeing-approved doors while Airbus Industrie is reported to have supplied 1,800 kits worldwide by April, with each door costing airlines between US$23,000 and US$55,000.

Forty-four commercial pilots are now carrying guns on U.S. flights under a test programme devised by Congress and administered by the U.S. Transport Security Administration (TSA). They must keep them in the cockpit and the 0.40 calibre semi-automatics can only be fired to "thwart a potential breach of the flight deck."

The drive to bring future technology into play through the use of biometrics

SPECIAL REPORT

– the digital analysis of individual human characteristics using cameras or scanners – for personal and document checks goes on, with the International Air Transport Association (IATA) taking a lead through its Simplified Travel Programme and ICAO laying down some early standards. Ambitious experiments have been conducted in airports such as London's Heathrow and Amsterdam's Schiphol using iris and facial recognition techniques.

The IATA-driven Global Aviation Security Action Group (GASAG) continues to develop its comprehensive blueprint for a worldwide security system. Airline associations, airport bodies, pilot and transport worker associations are its main members.

To Mark Everitt, many of these initiatives are worthwhile but, he argued, they are the easy ones. They do not get to the crux of the matter. "Are we still taking human factors seriously enough?" he asked. "The facade up front looks good. But in aviation security you can't afford to do just that. It's the engine room and the quality of the training you put into the people who deliver the services that matters," he said.

Perhaps it is no coincidence that full implementation with ICAO's amendments to Annex 17 of the 1944 Chicago Convention, the industry bible in terms of international compliance, would answer Everitt's concerns.

These include the onerous and expensive introduction of wholesale baggage screening by 2006, a process which has a major effect on terminal design and involves high capital costs for the technology required. But there are other clauses which Everitt, who has conducted several audits of security systems in Asia and the South Pacific, fears are being ignored.

"There is a raft of hidden recommendations. One of them talks about the quality of aviation systems and quality audit processes. My feeling is that a lot of contracting states haven't really picked up on that. In New Zealand and Australia we are working to time lines to ensure we achieve those standards," he said.

Each state must provide a quality security system with top-notch procedures for implementing policy and checking the results, flowing down from national aviation security programmes to all other areas. Regular policing of these, overtly and covertly, is required.

"I don't think we have all got our heads around that," said Everitt. "The risk is that while post-September 11 and post-Bali there has been a major improvement because we have all been dragged kicking and screaming forward, we are not visionary enough to look forward and ask, 'what do these new ICAO requirements actually mean?'

"The risk is that as time drags on states unwittingly will fall out of being in compliance with Annex 17. You have to have structured programmes and time lines to achieve and implement these new procedures."

Everitt is quick to explain that he is not singling out Asia for criticism. His are global concerns and he praises many individual Asian airlines. The Bali bombing, however, acted as a wake-up call in this part of the world, bringing terrorism home to Australia – many of the killed and injured were young Australian tourists – and New Zealand for the first time and adding to existing fears in Southeast Asia and China.

IATA spokesman, Tony Concil: if a pilot is locked in a secure cockpit why give him a gun?

"Individual states are now taking aviation security a lot more seriously, driven probably by the events of 9/11, but also by higher threat levels in Southeast Asia. Intelligence that has flown from that, through the states, has meant there has had to be a higher level of security. All carriers now take security a lot more seriously than they did," he said.

Everitt also sees a post-Bali response where information about possible terrorist attacks or groups operating in Asia as a whole or in individual countries is now taken very seriously and acted upon in an aviation context.

At IATA, cooperation among governments through the sharing of information is also seen as essential with the organisation keener on keeping problem people out of the airport than on reinforcing cockpit doors. Initiatives such as the latter are good secondary measures, but not the real key. "The primary focus should not be making sure we have a secure cockpit, but making sure those people don't get on board the aircraft," said spokesman Tony Concil.

"Airlines are very keen to do whatever we can to make the aircraft secure. We are paying for cockpit doors, we are training our people, but fundamentally security is the responsibility of national governments. We don't see the logic that if you step into an airport or on to an airline that governments ask for a surcharge for providing security in that area."

The same thinking applies to sky marshals. "They can't be your prime defence," said Concil. "You put these guys on a 14-hour flight, how do you ensure their alertness for an entire flight? That means you have to have them working in shifts."

As for armed pilots, IATA is fundamentally opposed. "It's the pilot's job to fly the aircraft," said Concil. "If he is locked in his secure cockpit, then why are you giving him a gun?"

Back on the ground, both Concil and Everitt are keen on what biometrics have to offer. "Obviously you are going to get into a lot of data privacy issues," said Concil. "It will be a matter of getting people used to a new system. It's not going to happen overnight. But the benefits on the security side will outweigh this."

"The research and development that is going into future technology for use in aviation security is going 100 miles an hour," said Everitt. "We certainly can't complain about the products that are being offered to us operators. There's lots of good stuff happening there."

The Kiwi security boss gives a final example of how unusual events can bring the industry together, finding a silver lining to the financial cloud caused by Severe Acute Respiratory Syndrome (SARS).

"SARS gave us the opportunity to look at thermal imaging. Instead of just talking about it, we were able to use the technology," said Everitt. There was a wider benefit too, brought about by the common issues of people arriving and departing. "SARS has probably pushed security, customs, police and quarantine closer together. They are starting to look at where there are opportunities for sharing information," he said.

Aviation is facing another make-or-break 12 months and the bill for extra security measures while unavoidable is certainly not welcome. "All of this [the ICAO stipulations] is being imposed on a very sick industry," said Everitt. "You don't want security to be the driver. You want security to be part of a process of getting the airplane away on time. That's the way I look at it. That's the only way security can have any credibility." ■


Narita trials biometrics

By Daniel Baron
in Tokyo

Japan's Ministry of Land, Infrastructure and Transport (MLIT), in conjunction with the Narita Airport Authority (NAA), recently completed the country's first airport trial of biometrics technology.

The ongoing project is part of NAA's "E-Airport Initiative," which, according to the authority, aims to make Narita the world's most advanced facility in terms of IT application by 2005. Also participating is NTT DoCoMo, Japan's largest cell phone operator, which hopes to have users store their personal data in an IC chip embedded in the phone strap.

Conducted between January and March 2003, the trial employed facial and iris recognition technology, with hardware supplied by Panasonic. Japan Airlines System (JAL) supplied the guinea pigs in the form of 500 volunteers from the carrier's frequent flyer programme.

In the trials, facial recognition information was used during check-in. This was followed by iris recognition at the security checkpoint and then again at the gate.

A spokesman for NAA, H. Miyamoto, explained the iris recognition component was included because of its "high recognition rate," while facial recognition was seen as more acceptable, i.e. less intimidating, to the passenger.

Public acceptance promises to be a thorny issue when a permanent system is in place at Narita and other Japanese airports. During the trial, volunteers were assured their data was stored only within the airline's reservation system. Japan has no national identification card and its citizens are wary of any attempt by the central government to collect detailed information. Awareness of personal data issues shot up when the Japanese Government implemented a new "resident registry network" in 2002. Several cities and an entire prefecture boycotted the system and are still refusing to participate.

NAA's Miyamoto acknowledged the challenge. "We recognise the question of who controls the data, how and until when is a key issue." Educating the public about the context – enhanced security for the entire air transport system – is likely to help.

500 volunteers from Japan Airlines System's frequent flyer programme acted as guinea pigs in Narita's biometrics trial

And by the time a permanent biometrics system is up and running at Narita, the Japanese public may already by quite familiar with the "B" word.

In June, the Japanese Government established a working group of ministries and corporations to hammer out a set of biometric technology standards for everything from Internet and cell-phone shopping to restricted area access in buildings. Japan's main business daily, the *Nihon Keizai Shimbun*, reported "the market for biometrics-related goods and services was expected to reach 15 billion yen (US$127.1 million) by 2007."

Together with the MLIT and All Nippon Airways, NAA will conduct another trial this year. This time, facial biometric data will be printed on the passenger's boarding pass in the form of a bar code, which will be used for verification at the security checkpoint and at the gate. During boarding, the passenger will retain the portion of the boarding pass with the bar code, carrying the biometric data with him or her. ■

CHARLES ANDERSON *looks at other recent developments in biometrics:*

- *The International Civil Aviation Organisation (ICAO) plumped for that good old standby – your face – as the best bit of the body for biometric identification in passport and machine-readable travel documents. "The face rated highest in terms of compatibility with key operational considerations, followed by fingers and eye," it announced in May. Facial recognition technology allows a computer to test the face's characteristics and weed out forgeries.*

  Its new biometrics blueprint for travel documents, which it hopes will lead to a standardised global system, allows countries to use a couple of secondary biometrics to back up personal documentation. ICAO also chose high-capacity, contactless IC (integrated circuit) chips as the best for storing identification information in passports.

- ***Australia is experimenting with automated passport checks using facial recognition technology at Sydney airport. Passport photos are scanned in a kiosk and compared with a passenger's face, replacing the old eye-to-eye contact by immigration authorities. Qantas crew members are taking part in the first phase that began at the beginning of the year. The project is likely to be expanded to other Australian airports and to include staff of international airlines some time next year.***

- *The Dutch immigration service gave Amsterdam's Schiphol Airport permission to go live with its Privium frequent traveller service after a trial in which subscribers paid for a chipcard with a digital print of their iris embedded for quick scanning at passport control. The process takes from 10 to 15 seconds. Four thousand travellers had signed up by the time of the official launch at the beginning of the year.*

- ***London City Airport, served by eight airlines and a minnow compared to Heathrow, was thinking big in terms of future technology when it became one of the first to deploy terminal-wide biometric security access for all employees across all airport areas.***

- *A six-month trial has been completed at Heathrow Airport in which British Airways and Virgin Atlantic passengers could enroll for iris recognition procedures at immigration.* ■

PRESSURE

Hong Kong International Airport's security chief talks to CHARLES ANDERSON about what it takes to keep airports free from terrorists – and disease.

Ng Wai-kit's short stint as head of security for Hong Kong International Airport (HKIA) offers a microcosm of challenges that airport bosses region-wide have faced over the last year.

Ng is a 35-year Hong Kong police veteran who rose to senior assistant commissioner in charge of operations and deployment before his secondment as general manager of Aviation Security Co (Avseco).

His first headache when he moved into his new office at the Lantau island facility – the looming anniversary of the 9/11 attacks – was predictable.

What followed, the Bali bombings, the US-lead war on Iraq and finally the outbreak of Severe Acute Respiratory Syndrome (SARS) were not.

Ng had been at the helm of the company charged with all screening and access controls at HKIA for 14 months at the time he spoke to *Orient Aviation*. Even for such an experienced law enforcer, it has been a steep learning curve.

"All airports in the world were still under the overhanging shadow of 9/11," he said looking back to his first few months on the job.

"The pressure was building to a climax. Every airport was talking about the anniversary. We had to tighten up our alertness. We could not escape. We had to do it."

Ng was grateful for the solid foundation he found on his arrival at the 2,700-strong company whose shareholders are Hong Kong's Airport Authority and the Special Administrative Region's government. One hundred percent checks on passengers and hand baggage had been introduced at the old Kai Tak airport in the late 1980s, one of the first airports in the world to do so, and were continued when the new airport opened in 1998.

Head of security at Hong Kong International Airport, Ng Wai-kit: main day-to-day threat from criminals and mentally disturbed

Secondary searches were stepped up from 14% to 16% of passengers and from 4% to 14% of baggage, as procedures were tightened all round.

This was added to an existing multi-layered system that sees hand baggage subjected to X-rays and random searches while checked baggage can be searched automatically, manually, iron scanned or subjected to a CTX (computer transection X-ray) machine. There are four of the latter, which cost US$7 million each, in use at HKIA.

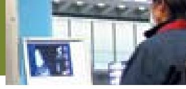
Ng and his colleagues believe that keeping security at crisis levels in less threatening times makes little sense. Once the anniversary had passed without incident, levels were reviewed and adjusted downwards – only for terrorist bombings in Bali and the southern Philippines to require a quick change of heart.

"Then at the beginning of the year we reviewed the situation again," said Ng with a wry smile. "Of course by then we found it was not a good time to adjust them downwards because President Bush had made it very clear what was going to happen."

And, when the tanks finally rolled into Iraq, there was still more to be done. Passengers' thick clothing came under closer scrutiny – who knows what might be hidden under the folds – while frisk searches were raised and fixed at a minimum of 3% of departing passengers.

Both staff and travellers' notebook computers were added to the search list. "These are ideal machines for concealing accessories for a bombing device," said Ng. Provision was quickly made for adding another 50 staff members, with the possibility of hiring 100 to 150 more if they were needed. They were not. In fact staffing levels were soon to prove problematic.

"By the end of March, the war produced good news for us," said the security chief. "Everything went smoothly. There was no need for ad-



ditional measures."

But by now Ng's calculations were being clouded by the onset of SARS. Far from air travel picking up as the immediate terror threat receded, the killer bug was stifling passenger numbers at an alarming rate and, with that, hitting the profitability of Avseco's operations. An airport seeing an 80% drop in passengers and 60% of flights cancelled needs far fewer staff at the security gates. The company quickly started running at a loss.

Recruitment exercises were the first to go, followed by temporary staff positions.

A range of other measures, including the taking of leave entitlement, the introduction of training courses and beefing up Avseco's quality assurance programme took up some of the slack, with the rest used by secondment of staff to work on SARS temperature checks for the many thousands of Airport Authority personnel entering restricted areas.

"I gave them a cut-price rate, a very attractive rate," said Ng, who sees SARS as a temporary hiatus that should not interfere with his moral obligation to his staff and the practical obligation he has to be fully manned and ready to go when this latest crisis lifts.

If Avseco's boss is phased by this frenetic pace, he does not show it. Showing visitors his portable bomb quarantine chamber, his screening vans for VIPs who do not enter the main airport, or just sitting in his office talking about keeping his customers satisfied, Ng Wai-kit appears comfortably in control and with strong views on the future of airport security.

"We have not experienced any act of terrorism or discovered any explosive device here," he said.

"But no system is 100% foolproof. We need a professional system, a comprehensive system, and we are trying our very best to minimise the chances of being exploited by terrorists.

"Every airport in the world has to be like this, to make them think thrice before taking action. Terrorists and professional criminals are alike. They do a lot of planning, physical reconnaissance and research.

"Would-be terrorists will check how well a system works and, if they don't like what they see, they will move on elsewhere.

"The deterrent effect is what we are after. Through diligence we can do this, but not on our own," said Ng who presses the case for global and regional cooperation, citing his airport's close liaison with the CAAC (Civil Aviation Administration of China) and Singapore Changi International Airport, as well as many other regional links, including with Apec (Asia Pacific Economic Cooperation forum) the Association of Asia Pacific Airlines (AAPA), and further afield with IATA (International Air Transport Association), Safe Skies, the TSA (U.S. Transport Security Association) and ISAA (International Seaport and Airport Association).

But it is not only terrorists who take up his time. Ng uses the vexed question of indiscriminatory confiscation of minor items – under fire in some quarters – to illustrate that point. "Nail clippers or something of a pointed or sharpened nature can be made use of by not only terrorists, but by criminals and disturbed people. [Taking them away] serves as a good culture change to promote awareness of aviation security. This kind of restriction is very useful, but quite rightly it has to be adjusted, taking into consideration the local situation and also bearing in mind the need for customer facilitation.

"What effects us most on a day-to-day basis – and every security provider at all the airports would agree with me – is not terrorists. That only happens once in a blue moon. In most airports, not even once. Our top day-to-day problem is criminals and the mentally disturbed." And Ng does not want them anywhere near a sharpened instrument at 37,000 feet.

Another concern, and one where this former law enforcer would like to see more action, is in the cargo area.

Hong Kong is the first city in the region to adopt the Regulated Airlines Regime, that requires cargo on passenger planes to be handled by a known consigner, or for an unknown consigner to channel his cargo through a known consigner. The last man in the chain then has to submit his goods to a series of possible checks.

"It is still at a very primitive stage. We are at the very beginning," said Ng. "So far the regulator is still considering, together with the industry, the percentage of compulsory or random X-ray screening.

Staff at Hong Kong International Airport carried out temperature checks to ensure SARS infected passengers did not leave or enter the city

"If they pitch the percentage at the high end, that will increase costs and do a lot of damage to the industry. If they pitch it too low, it may not be effective." Most European airports have such a system in operation and the U.S. is catching up fast.

When it comes to cargo flights, however, there is no such safety net. The regime does not apply and Ng sees this as a major loophole.

"The theory is that if there are no passengers on that cargo plane, if the plane is going to have a bomb, good luck to the crew. But that misses one point. If it is a dirty crew, they can use it as a weapon, the same as 9/11."

For Ng, there are four priorities in his job: maintaining a very high level of security, coordination within the airport, the region and internationally, keeping training levels up and last, but not least, making the customer feel at ease.

"The industry will never boom again without the trust and confidence of our customers. If no one has the confidence to travel, that's the end of our industry," he said.

Asia-Pacific provides important role for turboprops

PROP POWER

By Charles Anderson

From big city airports in Japan and Australia, along well-beaten tourist routes in Thailand and on the remote airstrips of Indo-China and the Pacific islands, cost-conscious airlines are proving there is plenty of life left in the one-time mainstay of the carrier business, the turboprop.

Numbers have certainly declined. In 1960 turboprops made up 73% of the world's airline fleet. Now that figure stands at 30% with regional jets continuing to erode market share. Manufacturers have dropped like flies in recent years as Fairchild Dornier, BAE SYSTEMS, Saab and Fokker closed their production lines. Embraer, once a force in the field, now concentrates solely on jets.

But with Bombardier and ATR committed to new generation turboprops – faster, environmentally friendly, more comfortable and economically sound – and companies like Saab Leasing and Stork-Fokker pushing hard to bring existing stocks on to the market, any airline wanting a turboprop on short and feeder routes has a good number of models from which to choose.

A comprehensive study on the future of turboprops, prepared jointly by George Washington University Aviation Institute and BACK Aviation Solutions and presented to last year's U.S. Regional Airline Association annual convention, backs their survival.

One-third of all airports globally rely exclusively on turbos, researchers found. At that time there were 6,800 such aircraft worldwide, 12% of which were idle. The Asia-Pacific was home to 18% of the world's fleet with turboprops servicing nearly half the region's routes of less than 480 kilometres (300 miles) distance.

The study came to a simple, but obvious conclusion. So many turboprops cannot be easily, or quickly, replaced by jets. And when airlines do their sums, turbos are still an attractive proposition. The crossover point where regional jets have better operating economics is between 560 and 640 kilometres (350 and 400 miles), depending on fuel cost, the report said, with turbos using almost half as much fuel. Jets generally require 1,500 metres (5,000 feet) of runway; turboprops use 900 metres (3,000 feet).

Bombardier Regional Aircraft vice-president, marketing and airline analysis, Barry MacKinnon: 92 Q series aircraft flying with 21 operators in the Asia-Pacific

"While the overall fleet size will continue to decline as fewer new aircraft are added to the fleet in relationship to retirement, turboprops will continue to be a significant part of the worldwide aircraft fleet for the forseeable future," the report said.

Tougher times are beginning to spark new interest in Bombardier's Q series and ATR's 42 and 72 range in the U.S. and Europe. In Bombardier's case this has been from U.S. airlines turning to regional partners to keep domestic routes profitable and in Europe from airlines such as British European transforming, as FlyBE, into low-cost carriers to meet new economic conditions.

In the Asia-Pacific, however, appreciation of what turboprops offer has always been evident. Short routes and short runways have long been a regular component of many carriers' operations and the regional jet mania of a few years ago was less pronounced in the Asia-Pacific than elsewhere.

Christophe Clarenc, vice-president, sales, Asia-Pacific, for ATR, the Toulouse-based European joint venture, names ownership and operating costs as key factors on short sectors. "This is very significant, because most of the Asian market is low yield. What you pay for on a regional flight in Europe and what you pay on a domestic flight in Asia is completely different. Many airlines could not afford to pay for regional jets."

Reliability, ease of maintenance and the ability to land on almost any surface in less developed countries are also on his list. Finally, he adds comfort and configuration. "New turboprops are very comfortable and well accepted by passengers. This was a necessity, for example, when selling to someone like Air New Zealand. They don't want to damage their image," said Clarenc.

At Bombardier Regional Aircraft, Barry MacKinnon, vice-president, marketing and airline analysis, also believes operating economics are key to future sales. After what he calls the low point for turboprops, which came last year with orders for new turbos worldwide hitting rock bottom, MacKinnon sees the market strengthening both globally and in the Asia-Pacific. He also includes the need to renew ageing fleets built up in the 1980s among his reasons. He adds high performance qualities of new generation turboprops, such as Bombardier's 70-seat Q400, for good measure.

Southern China's Hainan Airlines offers an example of turboprops' versatility, MacKinnon said. When passenger numbers dropped because of the outbreak of Severe Acute Respiratory Syndrome (SARS), the carrier switched its three Q400s on to the Chengdu to Xian route to replace its larger Boeing 737s. This is likely to be a temporary move, but MacKinnnon hopes it will spur the airline to think more about turboprops. It is difficult to make money out of regional jets in China, he said, while breakeven for Q400s in China is a 60% passenger load.

Bombardier, which has 92 of its Q series flying with 21 operators in the Asia Pacific, is seeing the most expansion regionally in Australia and Japan. Qantas is renewing its regional fleet with three of eight new Q300s already delivered and one new Q200 in service. In Japan, where Bombardier has turboprops with six airlines, All Nippon Airways has ordered four Q400s and Japan Airlines

System has taken delivery of three of five new Q400s for its Japan Air Commuter operation.

"Japan is a great market for us," said MacKinnon. "The Q400 is an excellent airplane for Japan. With 70 seats it is just right for domestic routes there."

ATR's 83 turboprops can be found in countries as diverse as India, Taiwan, Vietnam, Myanmar and Kiribati. New Zealand is prime turboprop land with most sectors within the aircraft's range and secondary routes of major importance to Air New Zealand, which operates 10 70-seat ATR 72-500s. "They are very bottom line and the aircraft gives them that – comfort and economics," said Clarenc. "They fly all secondary routes with ATRs, including some that used to be flown by 737s some time ago. The speed advantage they would have in a jet is not turned into a time advantage because of the length of some of those sectors. In terms of comfort, there is no difference between a regional jet and a new generation turboprop. In economic terms, there is a significant difference. So for them it is very logical."

Bangkok Airways started replacing its Dash 8s with ATRs in 1994 for use on its Koh Samui route. "At that time the runway on the island was not that long, now it has been stretched and widened. But they needed an aircraft capable of giving them extra capacity," said Clarenc. The airline now operates nine ATR72-500s and four Boeing 717s, alternating between the ATRs and the bigger jets on the Koh Samui or Siem Reap routes, depending on seat demand. The Boeings have the Phnom Penh sector to themselves because of competition from Thai Airways International.

"They never really thought of a jet the same size as an ATR. It comes with an extra cost. The jets came in because they needed a bigger capacity aircraft," said Clarenc.

Xinjiang Airlines in China, with five 72-500s and Air Tahiti in the Pacific, with five 42-500s and four 72-500s, are worlds apart in geographic location, but both use turboprops to combat the isolation of their operating areas.

In land-locked Urumqi, in the far northwest of China, temperatures range from minus 40 Celsius in winter to plus 40 in summer. ATRs have been coping with such extremes since 1997. "They are far away from everything, but doing very well, despite the climate," said Clarenc.

Air Tahiti's network covers an area much the same size as Europe, but way out to sea. "It is huge and they have some very short sectors, hopping from island to island and some very long sectors." The carrier has utilised ETOPS (extended range twin engine operations) for many years. "That's quite unusual for turboprops," said Clarenc. "You need an aircraft technically capable of that. Air Tahiti is very special."■

Life after death

The production lines may no longer be turning out the famous Fokker and Saab marques, but the companies that hold their stock for sale or lease, and who support existing fleets in the Asia-Pacific, are expanding.

At Fokker, there are both jets and turboprops to be serviced and sold, with a sizeable number – 150 – in operation in the Asia-Pacific, made up of 90-seat twin-jet Fokker 100s, 50-seat twin-engined turboprop Fokker 50s and many older 27 and 28 models. Operations in Singapore come under Fokker Services Asia, part of the Stork Aerospace Group of the Netherlands. Stork acquired Fokker after its bankruptcy in 1996.

At Saab, where production stopped in 1998, Saab Aircraft Leasing provides support for 65 of its 30-34 seat 340s through offices in Sydney and Tokyo, claiming the 340 has the lowest operating costs of any turboprop. Fifty-seat 2000s also are available.

Fokker Services Asia says its primary focus since 1997 has been to remove the perception that Fokker is "dead" and to convince carriers the support is there at its twin-hangar facility at Selatar Airfield in Singapore to keep newer and older planes flying for the forseeable future.

Its strategy seems to be working. Existing operators are expanding their fleets and a number of start-ups have chosen Fokkers. Indonesia's Pelita Air Service has bought three Fokker 50s and five Fokker 100s over the last year for use on both charter and scheduled domestic routes while Air Andaman of Thailand and Riau Airlines of Indonesia started operations with a Fokker 50 each. Aeromongolia and Skywest Airlines of Perth are also recent customers.

A Fokker 50 in service with Thailand's Air Andaman

Support packages for both the 100 and 50 have been devised with partners such as Rolls-Royce to offer a more focused push when re-marketing aircraft being phased out.

Saab also emphasises its strong product support through three training centres, two flight simulators in Melbourne and Tokyo and a major regional spares centre in Australia. With a large number of planes flying, independent overhaul centres have opened, keeping prices down. A pay-by-the-hour support programme is on offer through Saab with General Electric as a partner.

Air Nelson, a wholly owned subsidiary of Air New Zealand, added two more Saab 340s last year bringing its total to 17, used mainly as link flights for ANZ's national and international centres and between regional cities. Regional Express (REX) of Australia holds the largest number of Saabs in the Asia-Pacific, with 21 on its stocks. Japan Air Commuter operates 11.■

Xian 'positive' about 728 prospects

As the break-up of Fairchild Dornier is completed, focus has switched from its 328JET programme to Chinese interest in its larger 728 model, ***writes Charles Anderson****. Development on the project was stalled when the German-U.S. aircraft manufacturer went into bankruptcy.*

The 328JET series was acquired from bankruptcy administrators by Avcraft Aviation in March. The small aircraft completion and maintenance company, based in Virginia in the U.S., said it is putting 18 completed 32-seaters on the market and hopes to re-start production of the aircraft in Germany.

Southern China's Hainan Airlines was a major Fairchild customer with 19 328s delivered and in service and orders for another 21, which never arrived.

Avcraft said it would also provide product support for planes already flying. RUAG Aerospace of Switzerland took over Fairchild's Airbus components division and maintenance unit. Avcraft now has rights to the Fairchild name.

That leaves the ambitious 728/928 regional jet programme. It had cost Fairchild one billion euros (US$1.2 billion) in development costs before the company went under. Major delays had put the 728's service date back 18 months.

Now the shell company selling Fairchild in job lots has been in talks with Chinese conglomerate, Delong, and Xian Aircraft Corporation (XAC) about resuming its development, according to the Deutsche Press-Agentur (DPA) news agency.

At best, the 728's design studio would remain in Munich where assembly would be completed. XAC would build fuselage, wings and other structural parts, DPA quoted the German newspaper Handelsblatt as saying. China would be the finished plane's main market, putting it in competition with the indigenous China Aviation Industry Corporation I's (AVIC1) ARJ21, being produced by Shanghai Aviation, and a joint-venture between Embraer of Brazil and AVIC11 making a 52-seater in Harbin.

Insolvency company chief executive, Thomas Brandt, confirmed the talks were underway, as did XAC, which claimed a "good chance of a positive result". Brandt hoped for a decision by early summer, saying the first aim was to keep the project from unravelling.

STOP PRESS: Delong purchased the 728 project in late June saving 2,300 to 3,600 jobs. Severe Acute Respiratory Syndrome (SARS) had held up efforts to win approval from the Chinese Government. ■

SARS hiccups for small jet makers

By Charles Anderson

Regional and business jet manufacturers report little immediate fallout from the Severe Acute Respiratory Syndrome (SARS) outbreak with smaller inter-regional airlines insulated from the worst of the crisis and deliveries underway as planned. But both Embraer's Bruce Peddle and Bombardier's David Dixon – who view the market from the regional and business perspectives respectively – see possible hiccups further down the line.

At Embraer, Peddle, managing director, Asia-Pacific, is concerned about possible deferment of fleet replacements or expansion plans, arguing however that efficiencies gained by using new technology aircraft of the right size for a particular market will prevail.

Large mainland Chinese carriers flying into SARS hot spots have been hurt the most, he said. Inter-regional traffic in Asia, essential in nature rather than competitive, has fared better. "As these carriers lead the recovery, their need for new generation aircraft will be strong," Peddle added. It may, however, take some time to get airlines refocused.

Bombardier Business Aircraft vice-president of sales, Asia-Pacific, David Dixon: impact of SARS on business jet market still unclear

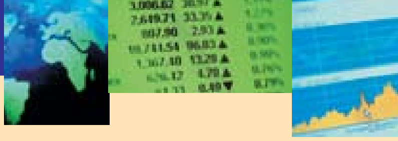
Dixon, Bombardier's Business Aircraft vice-president of sales for Asia-Pacific, cannot see a pattern yet, with some companies that were considering private aircraft for charter or outright purchase heavily hit by SARS and still unsure of its financial impact on their businesses.

Pre-SARS, Dixon saw business activity at its highest level since the 1997-98 Asian economic crisis with positive signs of growth in his sector. Returning to that level requires governments, NGOs (non-governmental organisations) and corporations to be a lot more active and aggressive in telling the rest of the world that the situation is getting better, he said.

Separately, Gulfstream has broken into the Chinese market by leasing a large-cabin, long-range Gulfstream IV to Air China through the carrier's parent, China National Aviation Holding Company (CNAC). It will be operated by China Jet, CNAC's new, wholly-owned subsidiary, which now comes under the Air China umbrella, and means Air China will now be competing with Shandong Airlines, Shanghai Airlines and Hainan Airlines in the business jet market.

VIP charter operations are planned for government and private sectors domestically and across Asia.

The one-year lease includes an option to buy a long-range G400 or mid-range G200 or G300. The GIV, China Jet's first jet, is slated for summer delivery and operation, with type certification under way and flight crew training taking place in the U.S. ■



STATISTICS FOR MARCH, 2003

SARS BITES

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

International revenue passenger kilometres (RPKs) of Association of Asia Pacific Airlines (AAPA) carriers plummeted 10.6% year-on-year in March due to the Iraq war and, more significantly, the outbreak of Severe Acute Respiratory Syndrome (SARS) in the region. The number of passengers carried (PAX) fell 10.1%.

This dramatic single monthly decline of passenger traffic resembled September 2001, following 9/11, and March 1998 during the Asian financial crisis. It also marked the first decline in RPKs since June last year. Capacity, expressed in available seat kilometres (ASKs) was up 9.5%. This resulted in overall load factor falling 14.6 percentage points to 65%.

Malaysia Airlines (MH – 3.4%) was the only AAPA carrier to report positive RPK growth in March. The other AAPA carriers experienced a decline ranging from EVA Air's (BR) 4% to Garuda Indonesia's (GA) 29.3%. Passenger load factor (PLF) of all carriers was below 70%.

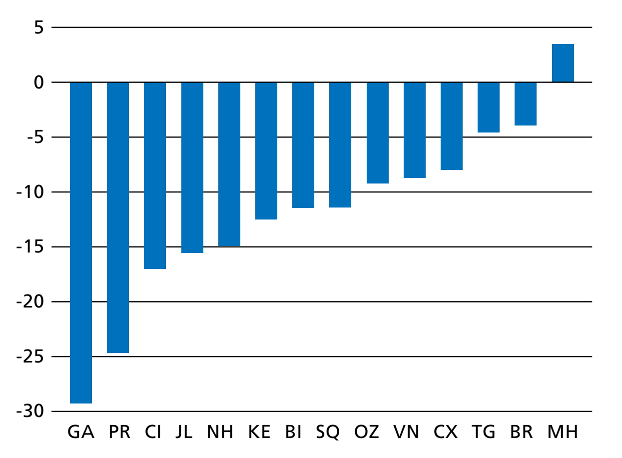
Malaysia Airlines: the only AAPA carrier to record positive RPK growth in March. It also reported a good cargo performance

CARGO RESULTS

One bright spot amidst the gloom of the month under re-

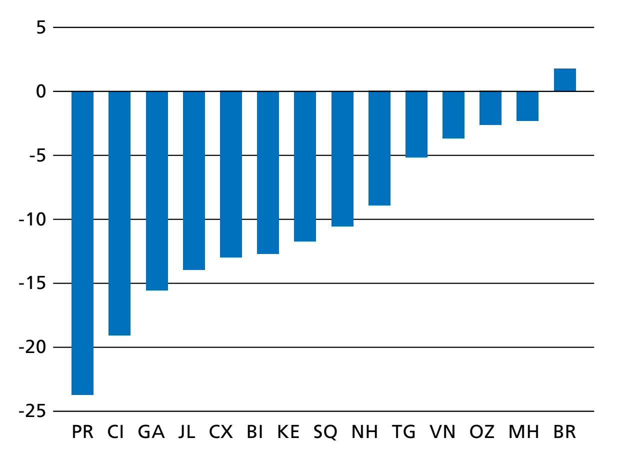
RPK GROWTH BY CARRIER

Percentage (Mar 03 vs Mar 02)



PAX GROWTH BY CARRIER

Percentage (Mar 03 vs Mar 02)



ROLLS-ROYCE NEWS DIGEST

"Rolls-Royce engines power over 500 airlines, including 39 of the world's top 50."

Rolls-Royce

All Nippon Airways: freight growth of 24.2% in March

view was freight traffic. However, after recording double-digit growth for 11 straight months, the international freight tonne kilometre (FTK) growth of AAPA member carriers slowed to 7.5% in March. Capacity rose 11.2%, which resulted in a freight load factor (FTK) of 69.7%, down 2.4 percentage points year-on-year.

Despite the slowdown, five airlines managed to post a double-digit cargo growth rate, with Malaysia Airlines (36.9%) and All Nippon Airways (NH – 24.2%) leading the group, followed by EVA Air (16.8%), Thai Airways International (TG – 14.3%) and Asiana Airlines (OZ – 12.7%).

Asiana reported the highest FLF in March – 79.1%. Other carriers that had more than 70% load factor were China Airlines (CI), Korean Air (KE), EVA Air and Cathay Pacific Airways (CX). Malaysia Airlines recorded the largest improvement in load factor with a 10.8 percentage point gain to 66.3%.

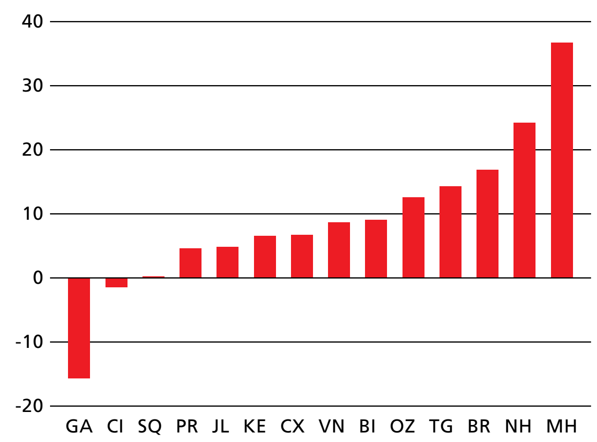
RESULTS OF THE 12 MONTHS TO MARCH 31 2003

PASSENGER

AAPA member airlines posted an RPK increase of 7.3% for

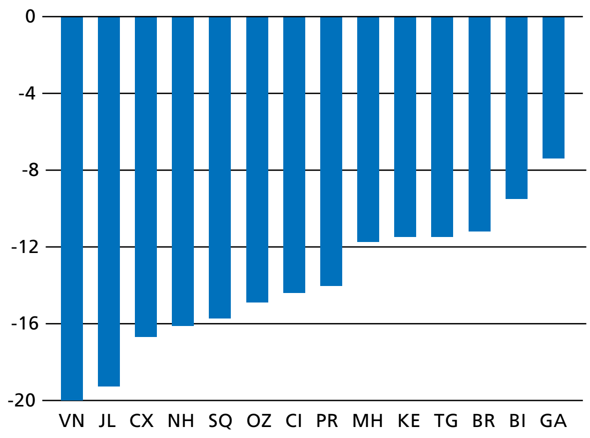
FTK GROWTH BY CARRIER

Percentage (Mar 03 vs Mar 02)



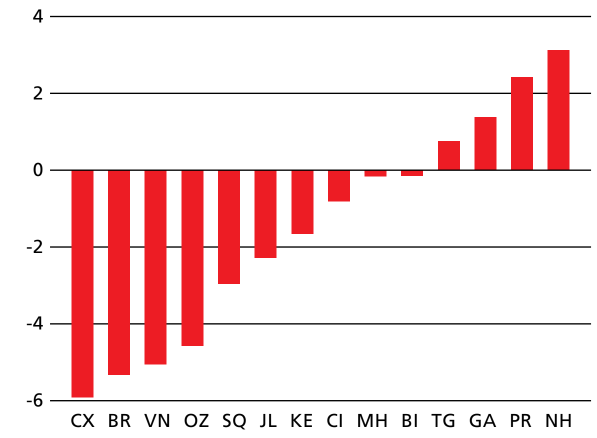
PASSENGER LOAD FACTOR GROWTH BY CARRIER

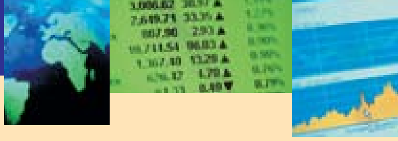
Percentage Points Change (Mar 03 vs Mar 02)



FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Mar 03 vs Mar 02)





the 12-month period. PAX rose 7.3% year-on-year. Seat capacity expanded by 5.6%, which resulted in a load factor of 72.4%, up 1.2 percentage points.

CARGO

AAPA consolidated FTKs rose 16.5% for the 12-month period under review. Capacity increased 11.5%, which resulted in a load factor of 68.9%, an improvement of 2.9 percentage points.

SUMMARY

As a result of the drastic decline in traffic in March, year-to-date RPK growth of AAPA carriers slowed to 2.3%. Load factor dropped to 70.1% year-to-date. Year-to-date freight figures showed FTK growth of 10.7%.

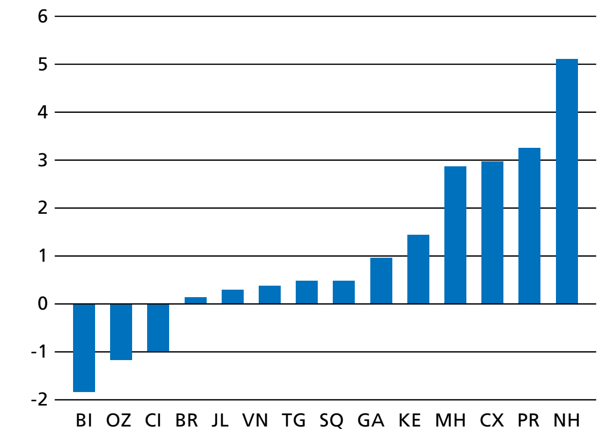
April's passenger traffic is expected to record even more depressed figures as the full impact of SARS was felt throughout the region in the period. ■

E-mail: krislim@aapa.org.my

Asiana Airlines; highest AAPA freight load factor in March – 79.1%

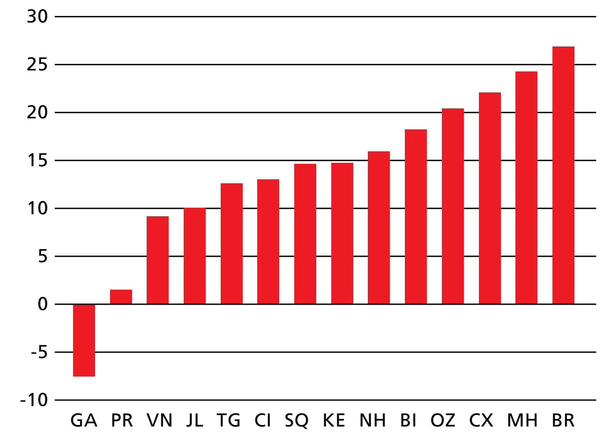
PASSENGER LOAD FACTOR GROWTH BY CARRIER

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



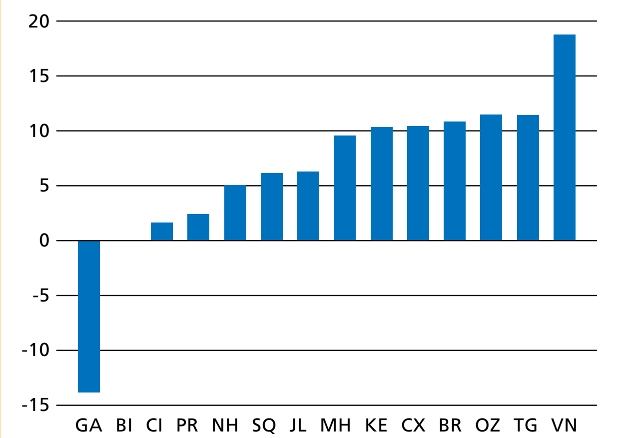
FTK GROWTH BY CARRIER

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



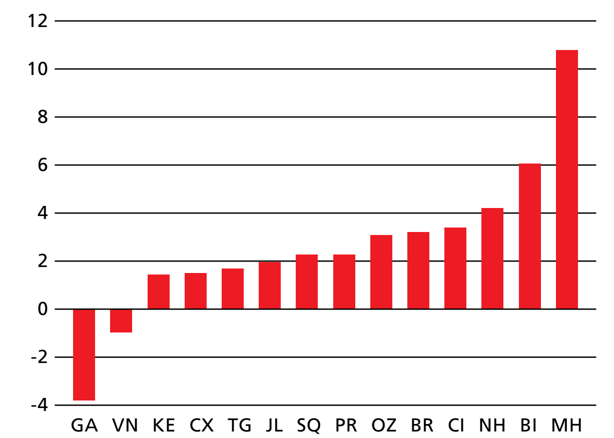
RPK GROWTH BY CARRIER

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

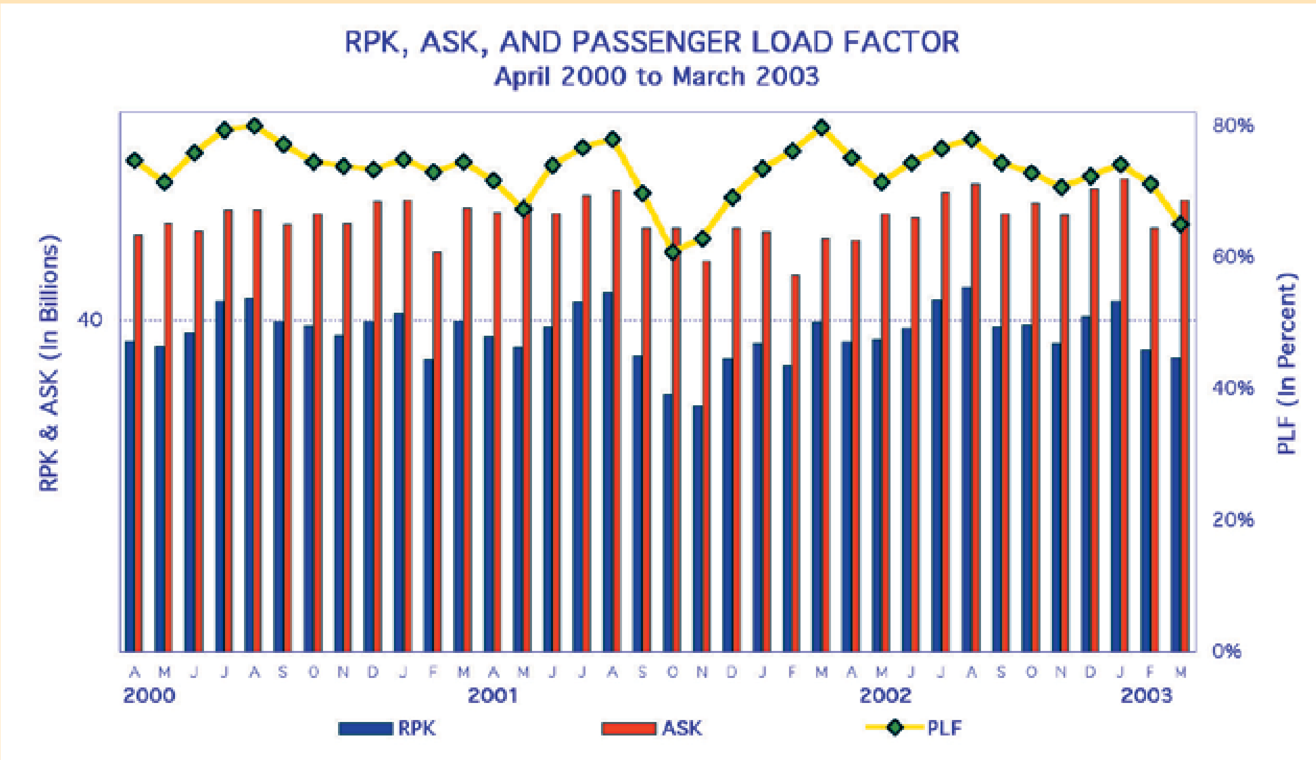


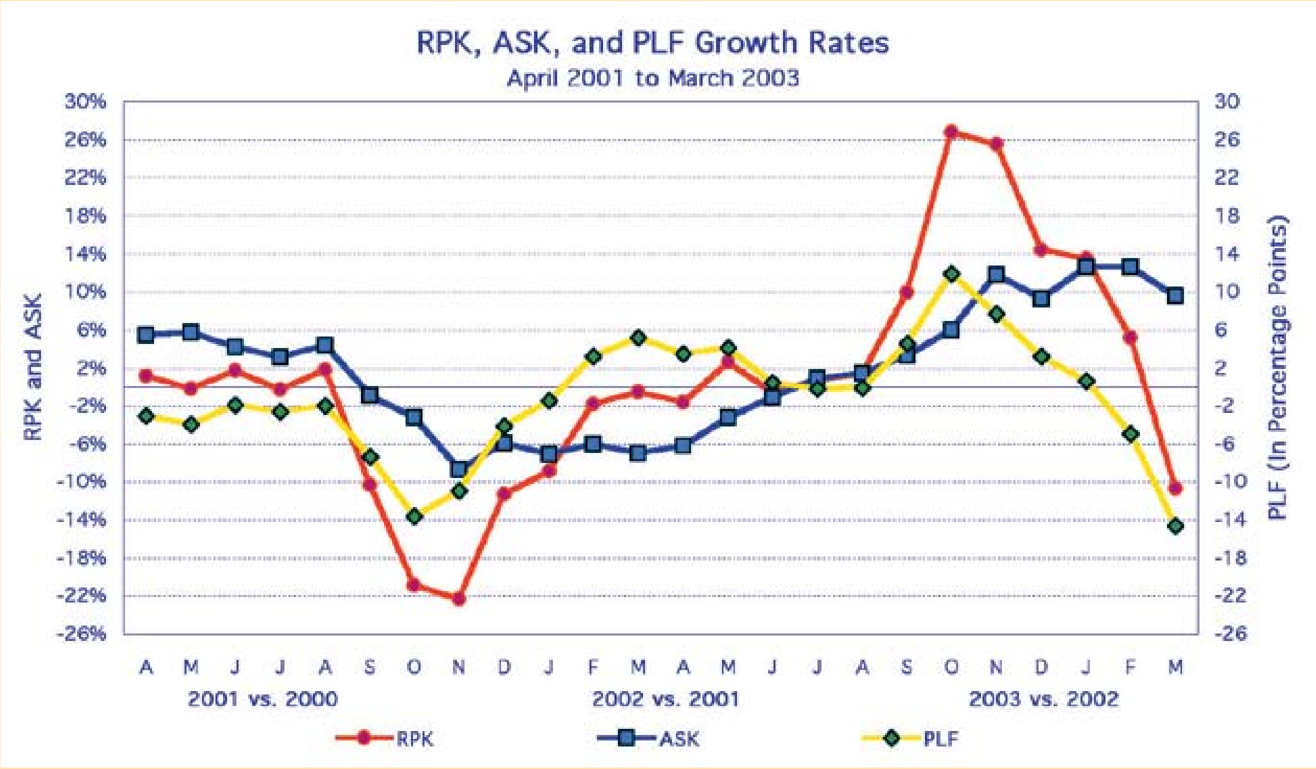
FREIGHT LOAD FACTOR GROWTH BY CARRIER

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

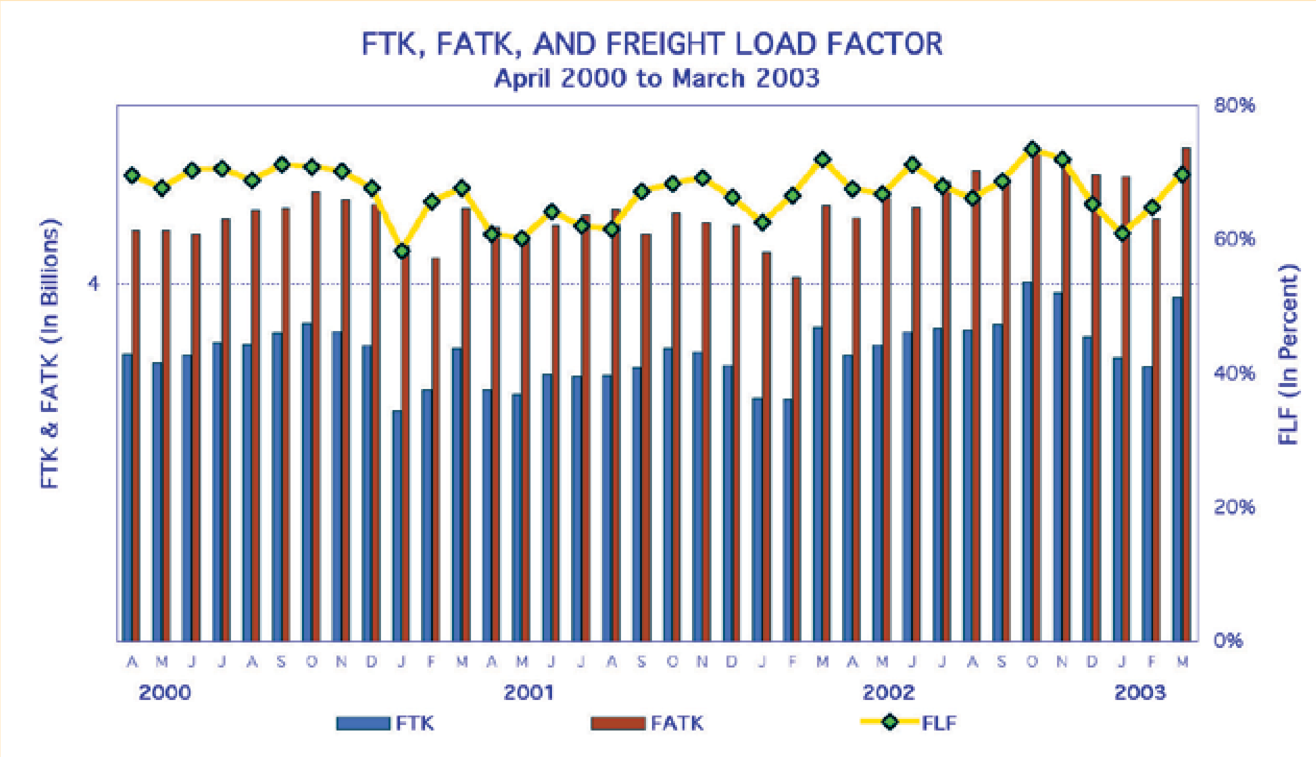


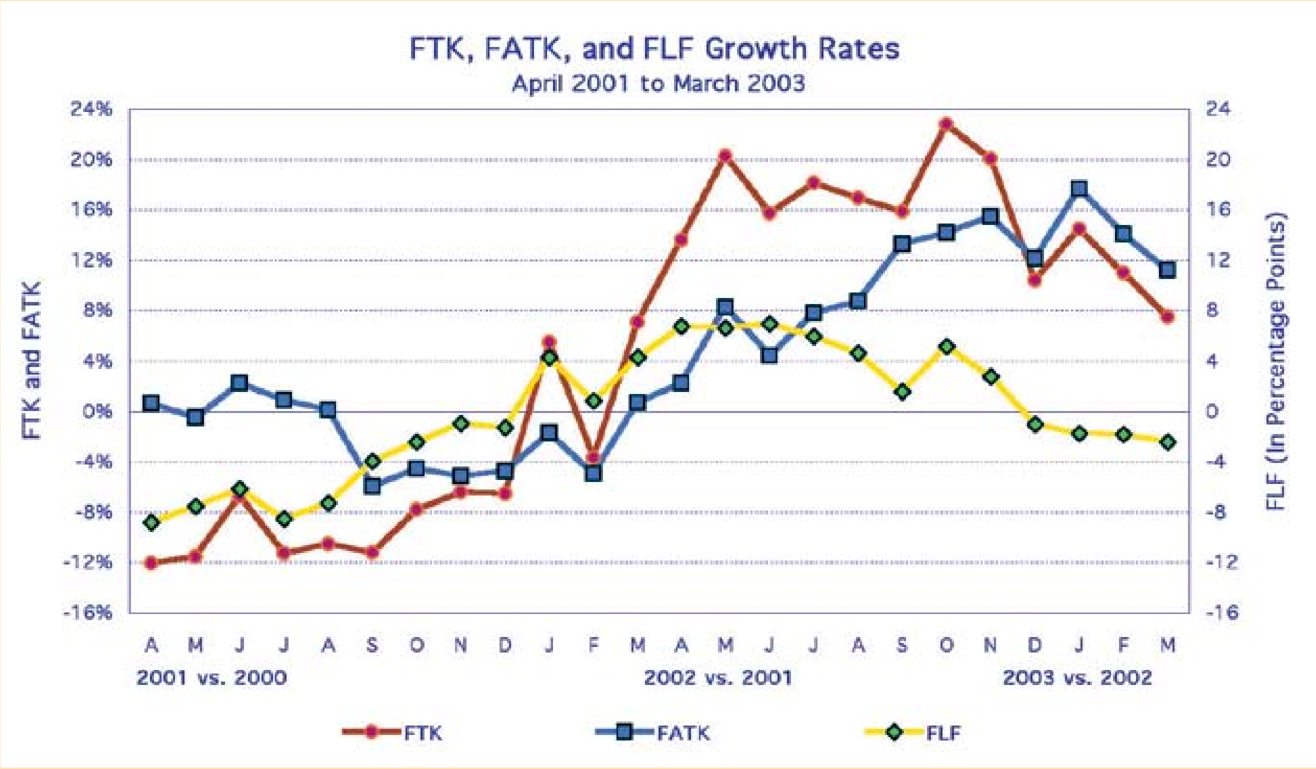
MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

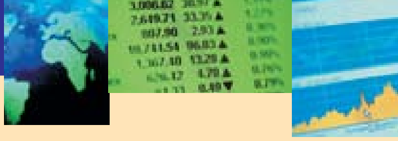




MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS







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)
APR-02	37,267,797	49,595,928	75.14	3,204,320	4,739,035	67.62	6,689,838	9,269,816	8,879
MAY-02	37,666,041	52,729,527	71.43	3,316,589	4,962,379	66.83	6,858,712	9,745,368	8,832
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	3,172,571	5,203,404	60.97	7,120,481	10,413,267	9,547
FEB-03	36,307,917	51,036,989	71.14	3,065,974	4,728,957	64.83	6,398,067	9,438,928	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
TOTAL	469,944,365	644,045,491	72.97	41,943,634	61,709,809	67.97	85,949,820	120,621,372	109,413

2002 TO 2003

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX
APR-02	-1.63	-6.24	3.52	13.63	2.24	6.77	4.86	-2.00	1.85
MAY-02	2.60	-3.27	4.09	20.29	8.30	6.66	10.26	2.06	4.07
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	0.57	14.45	17.71	-1.76	13.66	15.31	12.51
FEB-03	5.19	12.60	-4.96	11.00	14.05	-1.81	0.10	19.33	3.88
MAR-03	-10.64	9.54	-14.61	7.52	11.21	-2.43	-1.72	10.44	-10.10
GROWTH	6.35	4.46	1.29	15.54	10.74	2.82	10.08	8.08	6.40

CALENDAR YEAR[4]

	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	113,877,869	162,479,750	70.09	10,094,100	15,461,940	65.28	20,714,342	30,378,053	26,587

CALENDAR YEAR[5]

	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[5]	2.34	11.57	-6.32	10.68	14.20	-2.08	3.68	14.76	1.68

Note:

1. The consolidation includes 15 participating airlines. Consolidated results for JAN 2003 to MAR 2003 are subject to revision.
2. KA and NZ do not participate in this report.
3. AN data from JUL 1998 to JUN 2001 only. VN data from JAN 1998 onwards.
4. CY denotes Calender Year (January - December): JAN - DEC 2002. 2000, 2001 & 2002 figures have been updated with Air Nippon's traffic results. Air Nippon is a subsidiary of All Nippon Airways.
5. YTD Comparison: JAN - MAR 2003 vs. JAN - MAR 2002.