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10th Anniversary Year

THAI's Mr Transparency

President Kanok sets goal to restore airline to its former glory

SURVIVING SARS

Virus crippling Asia's airlines

Vietnam Airlines' big ambitions

The air aces of Siam

SPECIAL REPORT: Information Technology in the Asia-Pacific

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PUBLISHER
Wilson Press Ltd
GPO Box 11435 Hong Kong
Tel: Editorial (852) 2893 3676
Fax: Editorial (852) 2892 2846
E-mail: orientav@netvigator.com
Web Site: www.orientaviation.com

Chief Executive and Editor-in-Chief
Barry Grindrod
E-mail: orientav@netvigator.com

Publisher
Christine McGee
E-mail: cmcgee@netvigator.com

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

China
Melody Su
Tel: (852) 2893 3676
E-mail: orientav@netvigator.com

Japan and Korea
Daniel Baron
Tel: (813) 3406 4694
E-mail: dbaron@gol.com

Photographers
Patrick Dunne (chief photographer),
Rob Finlayson, Andrew Hunt, Hiro Murai

Design & Production
ü Design + Production

Colour Separations
Twinstar Graphic Arts Co.

Printing
Hop Sze Printing Company Ltd

ADVERTISING
South East Asia and Pacific
Tankayhui Media, Tan Kay Hui
Tel: (65) 9790 6090
Fax: (65) 6280 2823
E-mail: tkhmedia@singnet.com.sg

The Americas/Canada
Barnes Media Associates
Ray Barnes
Tel: (1) 434 927 5122
Fax: (1) 434 927 5101
E-mail: rvbarnes@cablenet-va.com

Europe
REM International
Stephane de Remusat
Tel: (33 5) 34 27 01 30
Fax: (33 5) 34 27 01 31
E-mail: sremusat@aol.com

New Media & Circulation Manager
Leona Wong Wing Lam
Tel: (852) 2865 1013
E-mail: leonawong@orientaviation.com

Association of Asia Pacific Airlines Secretariat
Suite 9.01, 9/F,
Kompleks Antarabangsa,
Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia.
Director General: Richard Stirland
Commercial Director: Carlos Chua
Technical Director: Leroy Keith
Tel: (603) 2145 5600
Fax: (603) 2145 7500
E-mail: ushav@aapa.org.my

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Also: PB Air establishes a niche market

Photo: Patrick Dunne

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PANIC TAKES ITS TOLL

Hong Kong is a city under siege as the Severe Acute Respiratory Syndrome (SARS) virus takes its course. Already having to contend with the fall out from the Iraq War, Cathay Pacific Airways' passenger traffic, to quote its chief executive, David Turnbull, has been "annihilated". The city's second carrier, Dragonair, is going through the same trauma and the tourism industry has been ravaged.

Other airlines in other parts of the Asia-Pacific region have been very badly affected, too, as our main story (Survivng SARS, page 10) reveals, but Hong Kong, so close to the alleged source of SARS in the southern Chinese province of Guangdong, is at the virus's geographical heart.

At press time, more than 1,100 people in Hong Kong had been infected by SARS. Most are on the road to recovery although, sadly, close to 65 people have died. But, which ever way you look at it, in a city of almost seven million people these figures are relatively small. And they are much smaller in countries like Singapore, Malaysia, Vietnam and Taiwan, where SARS also has emerged yet the airlines of these countries also have seen traffic evaporate before their eyes.

Orient Aviation and its staff are based in Hong Kong. We still walk in the city's streets, eat in its restaurants, drink in its bars and, yes, fly on our carriers' aeroplanes. But we are careful. We wear our masks and pay particular attention to personal hygiene. We heed the advice of the medical authorities.

But what we have refused to do is panic, because, quite simply, there is no need to do so.

The problem with a high profile disease is that a tiny proportion of people are infected by it, but a large number of people and entire industries are hit by the panic that accompanies its outbreak.

It seems the whole world sees Asia as a veritable cesspit of disease – as airlines have found to their great cost. Now, that IS frightening, but it is also untrue.

In a leaked memo that appeared on a Hong Kong web site a Cathay Pacific executive said a little known virus and a powerful global media had brought "a healthy and proud airline to its knees". In March, days before the news of the outbreak of the virus, Cathay Pacific had announced a six-fold increase in profit. On April 10 it issued a profit warning – the first in its history!

But what can be done? In truth, little can be achieved in the short-term while new cases come to light. The industry can only ride out the storm, then roll up its sleeves and work hard to restore the confidence of the travelling public in its airlines.

Asia performed this task spectacularly well after 9/11. The difference now is the problem is on its own doorstep and that could make recovery doubly difficult.

BARRY GRINDROD
Chief Executive and Editor-in-Chief

THE ASSOCIATION OF ASIA PACIFIC AIRLINES MEMBERS AND CONTACT LIST:

Air New Zealand
Chief Executive, Mr Ralph Norris
VP Public Affairs and Group Communications, Mr Glen Sowry
Tel: (64 9) 336 2770 Fax: (64 9) 336 2759

All Nippon Airways
President and CEO, Mr Yoji Ohashi
Senior VP, Public Relations, Mr Koji Ohno
Tel: (81 3) 5756 5675 Fax: (81 3) 5756 5679

Asiana Airlines
President & Chief Executive, Mr Park Chan-bup
Managing Director, PR, Mr Hong Lae Kim
Tel: (822) 758 8161 Fax: (822) 758 8008

Cathay Pacific Airways
Chief Executive Officer, Mr David Turnbull
Corporate Communications General Manager, Mr Alan Wong
Tel: (852) 2747 8868 Fax: (852) 2810 6563

China Airlines
President, Mr Philip Hsing-Hsiung Wei
VP, Corp Comms, Mr Roger Han
Tel: (8862) 2514 5750 Fax: (8862) 2514 5754

Dragonair
Chief Executive Officer, Mr Stanley Hui
Corporate Communication Manager, Mrs Laura Crampton
Tel: (852) 3193 3193 Fax: (852) 3193 3194

EVA Air
President, Mr Steve Lin
Senior Vice President, Mr K. W. Nieh
Tel: (8862) 8500 2585 Fax: (8862) 2501 7599

Garuda Indonesia
President, Mr Indra Setiawan
VP Corporate Affairs, Mr Pujobroto
Tel: (6221) 380 0592 Fax: (6221) 368 031

Japan Airlines
President, Mr Isao Kaneko
Director, Public Relations, Mr Geoffrey Tudor
Tel: (813) 5460 3109 Fax: (813) 5460 5910

Korean Air
Chairman and CEO, Mr Yang Ho Cho
Managing VP, Corporate Communications, Mr Jun Jip Choi
Tel: (822) 656 7065 Fax: (822) 656 7288/89

Malaysia Airlines
Chairman, Tan Sri Azizan Zainul Abidin
Tel: (603) 2165 5154 Fax: (603) 2163 3178

Philippine Airlines
President, Mr Avelino Zapanta
VP Corporate Communications, Mr Rolando Estabilio
Tel: (632) 817 1234 Fax: (632) 817 8689

Qantas Airways
Managing Director and CEO, Mr Geoff Dixon
Group General Manager Public Affairs, Mr Michael Sharp
Tel: (612) 9691 3760 Fax: (612) 9691 4187

Royal Brunei Airlines
Acting Chairman, Dato Paduka Haji Hazair
Chief Executive, Mr Peter Foster
Tel: (673 2) 229 799 Fax: (673 2) 221 230

Singapore Airlines
Deputy Chairman and CEO, Dr Cheong Choong Kong
VP Public Affairs, Mr Rick Clements
Tel: (65) 6541 5880 Fax: (65) 6545 6083

Thai Airways International
President, Mr Kanok Abhiradee
Director, PR, Mrs Sunathee Isvarphornchai
Tel: (662) 513 3364 Fax: (662) 545 3891

Vietnam Airlines
President and CEO, Mr Nguyen Xuan Hien
Dep Director, Corp Affairs, Mr Nguyen Huy Hieu
Tel: (84-4) 873 0928 Fax: (84-4) 827 2291

REGIONAL ROUND-UP

SOUTH PACIFIC ALLIANCE IN SERIOUS DOUBT

Qantas Airways and **Air New Zealand (AirNZ)** are preparing to make further concessions to persuade competition authorities in Canberra and Wellington to reverse a draft decision that threatens to unhinge their proposed trans-Tasman alliance, **writes Tom Ballantyne**.

In April, Australia's **Competition and Consumer Commission (ACCC)** and the **New Zealand Commerce Commission (NZCC)** separately ruled against the planned partnership, labelling it anti-competitive and saying the move would give the two carriers a virtual monopoly on air routes between the two countries.

ACCC chairman, **Allan Fels**, said the alliance would mean higher airfares and Qantas and AirNZ would dominate the market, even if low-cost **Virgin Blue** launched flights to New Zealand. Qantas has offered to pay US$300 million for a 22.5% stake in Air NZ. The airlines would co-operate and code-share on key routes. A final decision on their proposal is expected from competition regulators by the end of May.

Qantas chief executive, **Geoff Dixon**, reacted angrily to the rulings. He said he found it "remarkable" both authorities appear to have completely ignored the ongoing crisis in the global aviation industry.

"The draft determinations highlight the growing gulf between the commercial realities and long-term restructuring challenges facing the aviation industry and the pursuit, by competition regulators, of ideals and market outcomes that the industry simply will not be able to deliver on a sustainable basis.

"It is also extraordinary that the NZCC appears to have endorsed government support of airlines (Air NZ is currently majority owned by the New Zealand government), a practice that has only compounded problems in the aviation industry."

Air New Zealand: may be reduced to domestic services only if proposed alliance is rejected

Both carriers have said the alliance is critical to their long-term success. Air NZ has suggested if the alliance is rejected, it may have to become a domestic airline only.

Some analysts believe the strength of the regulators' language in the draft findings will make it extremely difficult for the carriers to force them to change their minds.

CHINA QUIZZES PASSENGERS ON AIR FARES

Representatives of airline consumers gave their views on the ticket prices and service standards of mainland Chinese airlines at a specially convened hearing before the nation's **State Planning and Development Council** in Beijing in April, reported the *South China Morning Post*.

Mainland airlines had mixed reactions to the process as many believe airfares on their carriers should be dictated by supply and demand – as happens elsewhere. The hearings proceeded as the **Civil Aviation Administration of China (CAAC)** prepares regulations that will allow its carriers to establish their own airfares by mid year. Liberalisation of airfares has long been on the CAAC's agenda, but implementation of new laws has been delayed, as the industry fears a price war between carriers.

FRAPORT WRITES DOWN MANILA INVESTMENT

The executive board of **Fraport AG** in Germany has written down its US$313.5 million investment in the new and controversial international terminal at **Ninoy Aquino International Airport** in Manila. Executive board chairman, **Dr. Wilhelm Bender**, said the board had run out of patience [with the project]. "Our massive negotiating efforts, including intensive discussions I had in March in Manila, as well as repeated interventions by the German Government have not produced sufficient tangible results to date," he said. The Airport management company said it would continue its battle to be compensated for its investment in the facility, which did not open as planned last December because the private joint venture partners ran out of money after Fraport withdrew its financial backing from the project. Bender said: "According to an independent expert opinion, the terminal's value clearly exceeds its construction costs. We will take legal action to assert our claims consistently." Fraport added it is preparing an application for arbitration proceedings at the World Bank against the Philippine Government in its quest for compensation.

EXPRESS CARGO CAPACITY FEARS

Express freight operators are facing a serious capacity problem in Asian markets as airlines reduce flights because of Severe Acute Respiratory Syndrome (SARS), according to the chief executive South Pacific of **DHL Danzas Air & Ocean**, **Tony Boll**. He also warned there was pressure on freight fees because of a range of surcharges and increases being imposed by carriers to help cover fuel, security and insurance costs.

"If this continues for another few weeks or perhaps even longer then we will probably have some difficult times.

"The main problem is the bulk of cargo capacity is provided on passenger aircraft. As passenger numbers reduce and airlines cut flights it will be a big problem." Boll said reductions in airline services through Hong Kong, Singapore and southern China are already impacting on freight operators.

Boll was speaking in Sydney after DHL owner, **Deut-sche Post World Net**, announced the global rebranding of its parcel, express and logistics business. In the Asia-Pacific, DHL now consists of three divisions: **DHL Express**, **DHL Danzas Air & Ocean**, and **DHL Solu-**

tions. The group (it also holds a 40% stake in Hong Kong freight carrier **Air Hong Kong**) holds a 40% share of the regional market.

ASIANA SELLS NON-CORE ASSETS

South Korean international carrier, **Asiana Airlines**, sold 80% of its catering division to global airline catering company, **LSG Sky Chefs**, at a calculated value of US$71.54 million. If all regulatory matters associated with the proposed purchase are resolved, the new company, **LSG Chefs Korea**, will operate from 20-month-old catering facilities built by Asiana at Seoul's **Incheon International Airport**. Before the onset of SARS in Asia, the new company had expected to build on a business that produced 13,000 meals daily for Asiana and 14 other airlines that operate services from Incheon.

As well, Asiana, South Korea's second international carrier, said in March it was negotiating to sell some engines, now flying on several of its B747s, to U.S. lessor, Engine Lease Finance, for US$37 million.

AIRBUS FORMS FINANCING ARM

Airbus Industrie announced in April it had formed a new joint venture company, **Avion Capital**, that was "a financing tool" for Airbus customers who had sought the company's assistance to secure financing at delivery of aircraft. Based in Dublin, Ireland, with **Colin Thaine**, the former head of aircraft leasing at London firm **Denton Wilde Sapte**, as chief executive, the venture's other partners are **CIT Group Inc.**, **Credit Agri-cole Indosuez (CAI)** and **Kreditanstalt fur Wieder-aufbau (KfW)**. Avion Capital will "provide, on a non-exclusive basis, financing, in the form of finance leases or long-term loans at market rates for Airbus customers who either have called on Airbus for backstop financing commitment or who have otherwise sought the manufacturer's assistance to source or arrange secured financing at delivery", a statement from the new company said.

BRIEFLY . . .

INFLIGHT . . . Malaysia Airlines has awarded UK headquartered **Spafax** the contract to supply the Kuala Lumpur based airline with Hollywood movies.

CARGO . . . Singapore Airlines (SIA) has been granted fifth freedom rights for cargo in Mainland China. The agreement allows SIA airliners to pick up cargo in China and deliver it to points outside the country without having to return to Singapore first.

FLEETS . . . Air Calin (Air Caledonie International) has signed a contract with Airbus Industrie for an A320, scheduled to be delivered in 2004. In late March, Hong Kong based **Dragonair** completed its deal with **International Lease Finance Corporation**, for a new A330, due for delivery in March 2004. The leased widebody will be the tenth A330 to join the regional carrier. **Emirates Airline**, based in Dubai, has taken delivery of two new aircraft, a B777-300 and an A330-200. The additions to the Emirates fleet are part of a plan by the carrier to increase capacity by 21%.

TRAINING. . . Canada's **CAE** opened its Asia-Pacific Support Centre in Sydney in March, to service its military and commercial clients in the Asia-Pacific, particularly Australia and New Zealand, the company said. ■

Huge ANA order a boost for Boeing

In April, Japan's **All Nippon Airways (ANA)** announced an order for 45 B737NG aircraft, ending a fierce battle between **Boeing** and **Airbus** to replace ANA's 27 older-model 737s and 25 A320s, **writes Daniel Baron**.

The contest for the deal has been followed closely not for its dollar value – an unconfirmed US$1.67 billion – or potential boost to Boeing's order book, but as a gauge of Airbus' success in Japan.

With ANA set to replace its A320s, **Japan Airlines** planning to eventually phase out the 12 A300B2s and B4s it inherited from **Japan Air System** and smaller players in the Japanese market committed to B767s and B737s, the future several years will be challenging for Airbus in Japan.

For its part, ANA stressed that its selection of Boeing for the narrowbody fleet was based purely on the 737's performance. It estimated that streamlining the narrowbody fleet would save the carrier roughly six billion yen per year (US$50.6 million). The replacement process is scheduled to commence in fiscal 2005.

On April 21, Japan Airlines and Japan Air Systems Corp. announced the effects of the Iraq war and the onset of Severe Acute Respiratory Syndrome (SARS) had required the airline to reduce its frequencies on the following routes: Nagoya-Guam (three flights a week from daily); Tokyo-Hong Kong (double daily to daily); Fukuoka-Hong Kong (daily service suspended); Tokyo-Guangzhou (from four to three services per week) [JAS]; Osaka-Guangzhou (twice weekly JAS services suspended from May 8 to May 31); Fukuoka-Shanghai (from daily to three times a week). The company added it may cut more flights from its schedule in May because of the ongoing impact of the Iraq War and SARS at the airline group. ■

CHINA BUSINESS FOCUS

CNAC PROFIT SOARS IN 2002

Hong Kong-based **China National Aviation Co. Ltd (CNAC)**, which has a 43.29% share in **Dragonair**, reported a net profit increase of 47%, to HK$317.4 million (US$40.7 million), for its 2002 fiscal year. CNAC said the HK$101.8 million profit increase was due in part to its acquisition of a majority stake in Air Macau and its subsidiaries last year. Turnover increased to HK$1.33 billion from HK$28.32 million a year earlier. The expanded holding in **Air Macau** gave CNAC Macau 51% ownership of the airline as well as a 26% share of ground handler, **Menzies Macau Airport Services Ltd**, and a 20% equity in **Macau Aircraft Repair and Conversion Company Ltd**. The listed company said Air Macau and Dragonair saw their turnovers increase by 21.6% and 8.7% respectively in 2002, growth that had produced a strong cash flow for CNAC in Hong Kong.

CEA EARNINGS SLUMP 84%

Shanghai-based **China Eastern Airlines (CEA)** announced in April that its profit for the year to December 31, 2002, declined to 86.4 million yuan (US$10.4 million) from 541.7 million yuan 12 months earlier. The airline attributed the decline to extraordinary charges and increases in staff costs and benefits as the airline expanded. Passenger volume grew 14% and cargo business increased by 7.66%. Analysts said CEA is expected to have a difficult 2003 as the Mainland Chinese carrier deals with a passenger decline brought on by the appearance of the atypical pneumonia virus, **Severe Acute Respiratory Syndrome (SARS)**, in China and several other Asian countries.

SHANGHAI AIRLINES TURNS A PROFIT

Shanghai's second carrier, listed **Shanghai Airlines**, reported a net increase in profit of 1.4%, to 140.7 million yuan (US$17 million) for the year to December 31, 2002 and said higher costs contained earnings for the year. In its annual report, the award-winning airline said passenger revenue increased by 14% to 2.99 billion yuan over the same period in 2001 and cargo and postal income grew by 39% to 287 million yuan in the same 12 months. Last September, the airline raised 1.03 billion yuan from an initial public offering. Its management plans to acquire two 737-700 aircraft in 2003.

BOOM YEAR FOR HAINAN AIR

Mainland Chinese carrier, **Hainan Airlines**, beat analysts' predictions of a 50% profit for its 2002 fiscal year by 30%. The listed carrier's profit rose to 181.15 million yuan (US$25.22 million) after it earned 56.8 million yuan in the first half of 2002. The result produced a profit rise of 80.6% for the year to last December 31.

BEIJING AIRPORT'S PROFITS UP 28%

Earnings in airlines fees and from non-aeronautical airport users were largely responsible for the 28% profit rise for the 2002 fiscal year reported by China's **Beijing Capital International Airport**. Profit increased to 506.81 million yuan (US$52.25 million) from 395.93 million yuan in the same period in 2001. Aeronautical income rose by 14% to 1.59 billion yuan and non-aeronautical earnings increased by 23% to 675.56 million yuan. Analysts had predicted the airport would report a net profit rise of 23%. ■

Shanghai Airlines: reported a profit for 2002, but its international rival China Eastern Airlines saw profit slump

As Asia-Pacific airlines adjusted operations to cope with the war in Iraq they could hardly have anticipated that a far greater threat to their financial viability was about to erupt. Severe Acute Respiratory Syndrome (SARS) has ravaged airline traffic across Asia and beyond... and there is no immediate end in sight

SURVIVING SARS

Report by TOM BALLANTYNE

'The spread of SARS has created the worst ever situation faced by the airlines of the Asia-Pacific region' – AAPA director general, Richard Stirland

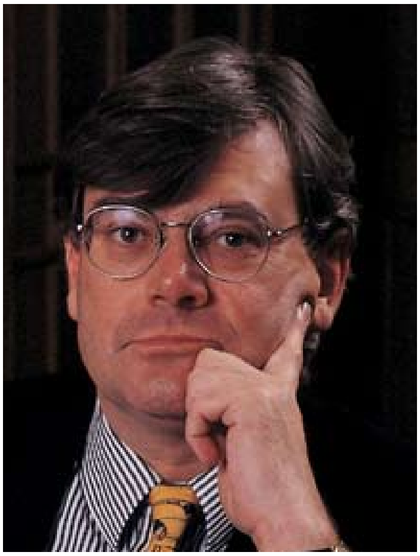
With Asia-Pacific airlines reeling under the twin onslaught of the Iraq war and Severe Acute Respiratory Syndrome (SARS), carriers have called on service providers to defer fee increases, offer rebates and even waive charges to help stave off financial disaster as passenger numbers plummeted in April.

Health experts said it could be some time before a proven vaccine is developed against SARS. In the meantime, the regional travel crisis has far outstripped the war in Iraq as a cause for industry concern. Global publicity is turning much of Asia into a "no go" zone for tens of thousands of travellers.

The ultimate cost to airlines is incalculable at this stage, but it would include the expense of heightened health measures carriers speedily implemented in late March. Airlines also have waived fees for cancellation or deferral of bookings, a decision which has added millions of dollars to airlines' bills.

Airline traffic has been ravaged. Cathay Pacific Airways chief executive, David Turnbull, said passenger bookings had been "annihilated". "Sadly, Cathay Pacific has now entered its most dangerous time in terms of its commercial future in the 26 years I have been involved with the company," he wrote in the airline's in-house magazine *CX World*.

At press time, Cathay Pacific had cut 184 weekly services to 19 destinations – 37% of the airline's weekly schedule and rising. Tourist confidence in Hong Kong had been "shattered", said Turnbull.



Cathay Pacific Airways chief executive, David Turnbull: tourist confidence in Hong Kong shattered

Singapore Airlines (SIA) chief executive, Dr Cheong Choong Kong, told staff SARS was inflicting greater damage to SIA's bottom line than the Iraq war. Load factors were falling steadily, he said.

SIA cut nearly 20% of its flights in early April and increased that number rapidly. Qantas Airways reduced international services by 20% and Malaysia Airlines announced the cancellation of 68 flights a week up to the end of May.

In the first week of April, Garuda Indonesia stopped 30% of its flights within Asia and Taiwan's China Airlines and EVA Air both cut services to Hong Kong by 20%. Taiwan's tourism industry reported 90% of group bookings to China had been cancelled. Japan Airlines trimmed capacity 12%. Most other airlines reduced seats by at least 10% and expected more capacity and route cuts.

"There is a strong feeling amongst the airlines that there has got to be some sharing of the financial burden," said the director general of the Association of Asia Pacific Airlines (AAPA), Richard Stirland. Airports were a case in point, he said. Instead of looking at putting up their fees to cover the deficit from cancelled operations airports should be considering major rebates on landing fees, said Stirland. "They must recognise airlines are staring financial disaster in the face. Every dollar counts and they should be sharing part of that burden.

"It's not just airports, but everyone who is imposing fat fees on the airlines not related to the number of passengers being carried," he said.

Stirland also appealed for more cooperation and co-ordination from governments.

"They [governments] should not adopt arbitrary measures, in particular, blanket embargoes on the entry of passengers from specific countries and territories. Nor should they adopt other unhelpful measures, such as demands for health certificates, refusal to accept suspected cases on arrival and quarantining aircraft and passengers for lengthy periods on the strength of flimsy evidence and unsubstantiated rumour.

"Such measures could lead to retali-

atory action by other governments and unnecessary inconvenience and confusion among travellers. In addition, they can and indeed have led to the suspension of air services which are vital to those passengers for whom travel is essential. This in turn will result in prolongation of the financial and economic consequences of SARS, without measurably curtailing either the spread or the duration of the outbreak."

There is a strong likelihood Asian carriers will mount a joint advertising campaign to woo back passengers, similar to one that followed 9/11.

But for now the picture is grim. In April, the World Health Organisation (WHO) named SARS affected areas as Southern China, Hong Kong, Singapore, Taiwan, Thailand, Vietnam and Canada. That announcement turned off the passenger tap for the entire region's airlines.

"There is nothing the airlines can really do beyond what they have already done. You can't buck WHO warnings that say do not travel to Hong Kong and do not travel to China," said Stirland.

Major carriers have been adjusting their schedules on a near day-to-day basis. The worst hit hub is undoubtedly Hong Kong, with many foreign airlines cancelling services altogether or dramatically reducing flights to the city. At press time, the Airport Authority Hong Kong reported 30% of total scheduled flights at Hong Kong International Airport had been cancelled in April. Passenger numbers were down 60% over the same month in 2002.

Hong Kong's second carrier, Dragonair, with a strong China network, trimmed its capacity by almost 50%.

Cathay Pacific's service reductions included flights to Europe, North America and across Asia. "With lingering uncertainty in the Middle East and the profound impact that fear of atypical pneumonia SARS has had globally, we do not know how long the current weakness in travel demand will continue. It is therefore not possible, at this stage, to quantify the potential impact on the company," said Turnbull.

On April 10, the company issued the first profit warning in its history.

Many other airlines also have issued profit warnings. Airline stock is on a roller-coaster ride, dipping and rising on the strength of news about the progress of war in Iraq and developments in containing and identifying SARS.

Qantas announced it would retrench 1,000 staff and added 400 more jobs will be lost at the airline through attrition. Another 300 staff will transfer from full-time to part-time work. This is over and above 400 jobs already lost.

SIA announced on April 11 it would release 206 trainee cabin crew and warned it is keeping the option of staff cuts open. If jobs go it would be the first major staff lay-off at SIA since 1982.

Thailand's deputy transport minister, Pichet Sathirachawal, said Thai Airways International (THAI) had lost US$23.7 million between March 17 and April 6 because of SARS and the Iraq war. Cabin occupancy dropped from 70% to 59% in that period.

THAI said bookings were down 10% to 15% year-on-year, with Hong Kong traffic plunging by up to 35% and deteriorating.

Stirland said SARS impacts were "much worse than the war" because they are focussed on Hong Kong, Singapore and China, in particular, and southeast Asia in general. "The war was much wider and people could implement contingency plans and fly to where it was perfectly safe. With SARS there is a perception that travel *per se* exposes you to disease on board the aircraft," he said.

After one SilkAir flight landed at Chiang Mai in Thailand authorities refused entry to a passenger suspected of suffering from SARS and insisted he return to Singapore.

"The airline as a precaution felt they had no choice but to fly the passenger back on an empty aircraft. That is extremely damaging and counter-productive because it will encourage other governments to either do the same or take retaliatory measures," said Stirland.

HONG KONG

Cathay Pacific suspended all services to Malaysia after the Malaysian Government imposed stringent visa requirements on Hong Kong residents who did not previously require a visa. The restriction was later lifted but Hong Kong residents will be liable to medical screening.

Dragonair, after it announced an initial reduction in capacity of 25%, cut a further 23% of flights in mid-April. Cabin crew are taking unpaid leave.

Daily tourist arrivals and departures at Hong Kong International Airport were understood to be below 30,000, compared with up to 80,000 under normal circumstances.

Some foreign flight crews refused to fly to Hong Kong and several foreign carriers have moved Hong Kong aircraft to Manila overnight to minimise contamination risks. Occupancy rates at some of Hong Kong's most popular hotels have slumped to less than 10%.

SINGAPORE

Flights to Singapore Changi International Airport had nosedived 13% by mid-April. The cancellation of 82 flights in the first week of April was followed by 123 more in the second week. SIA imposed cutbacks across its network. It encouraged staff to take annual leave or leave without pay and all non-essential capital expenditure has been deferred. The airline placed a request for proposals for new aircraft from Boeing and Airbus on indefinite hold.

"We hope to come back to the issue once the global situation has become clearer. Our existing orders remain in place – 10 Boeing B777 aircraft in 2003 and five Airbus A340-500 aircraft due for delivery from December through next year," said an SIA spokesman.

MALAYSIA

Malaysia Airlines has cancelled 716 flights through to the end of May. These include 162 services from Malaysia to Hong Kong, 132 to Singapore, 86 to Guangzhou and 62 to Beijing.

Malaysia's tourism minister, Datuk Paduka Abdul Kadir Sheikh Fadzir, said SARS is "playing havoc" with hotel occupancy rates, which are dipping as low as 30%. The effect on Malaysian tourism is worse than that caused by 9/11, the Bali bombing and the Iraq war, he told reporters in Kuala Lumpur. Traffic to KL

Qantas Airways: 1,400 more jobs to go

International Airport has dropped 10% overall.

THAILAND

THAI has "quarantined" 31 of its 81 aircraft and only these airplanes will be allowed to operate solely to SARS affected areas. Thailand's deputy transport minister, Pichet Sathirachawal, said the airline wanted to assure THAI passengers flying on other routes that their aircraft had not been used on flights to high-risk SARS-affected countries.

JAPAN

Japan Airlines System (JAL Group), Asia's biggest carrier, said more than 20,000 passengers cancelled bookings on international flights in March and April, since the outbreak of war in Iraq. After the airline announced in March it would cut capacity in April by 8%, the outbreak of SARS prompted further cutbacks, lifting capacity reductions to 12%.

Affected flights were mainly to China, the U.S. and destinations in Europe.

All Nippon Airways has halved its Tokyo – Hong Kong flights from 14 to seven weekly with load factors on the route dropping from 80% to 60%.

KOREA

While there have been no confirmed cases of SARS in Korea, both Korean Air (KAL) and Asiana Airlines have suspended or reduced flights to a number of destinations, including Hong Kong and China. Asiana spokesman, Ma Jae-young, said load factors were worse than they were in the wake of 9/11 and had dropped to 63% compared with 74% in March 2002.

AUSTRALIA

Qantas chief executive, Geoff Dixon, said its retrenchments were part of an ongoing restructuring programme the company was undertaking in response to the changing aviation market. "On current indications, Qantas will be unable to meet market expectations for the full year profit result," he said.

AAPA director general, Richard Stirland: airlines feel financial burden must be shared

INDONESIA

Garuda Indonesia cut services within Asia by up to 30%, with flights to Singapore from Jakarta reduced by 50%. President of Garuda, Indra Setiawan, who is also chairman of the Indonesian National Air Carriers Association, said since the emergence of SARS, Garuda's daily load factor to and from countries affected by the disease – Singapore, Hong Kong, China and Vietnam – had dropped to 60% from 80%. Load factor to and from the Middle East had dropped to 20% from 70% prior to the war.

The sharp decrease in the number of passengers bound for the Middle East forced Garuda to cut its flight frequency to the region from eight times a week to two or three times a week.

TAIWAN

In Taiwan, the number of locals travelling abroad dropped by 20% last month from a year ago. The country's two major international operators, China Airlines and EVA Air, reported a 20% drop in traffic to Hong Kong. EVA said it expected the spread of SARS to contribute to a 23% decline in profit this year. Vice-president K. W. Nieh said the carrier's cargo business was booming and had profited from the war in Iraq.

CHINA

Operating from the heart of the SARS affected area at Guangzhou, in Guangdong, China Southern Airlines would not release any details of flight reductions or impact on passenger numbers. However, as *Orient Aviation* went to press the airline said it is cooperating with all government health organisations to instigate measures to protect passengers and staff from SARS. This included setting up a special task force to coordinate the efforts. One flight attendant [not China Southern] who flies regularly between Hong Kong and China told *Orient Aviation* Mainland Chinese passengers appeared to know very little about the disease and its effects.

VIETNAM

Vietnam Airlines has announced no reduction in flights because of SARS, despite a government statement that the number of passengers arriving on international flights has declined 30% since the virus was discovered in Hanoi on March 18.

NEW ZEALAND

By the end of March, there had been a 5% to 10% decline in forward bookings to Japan and Hong Kong and some softening in the North American market. This trend worsened in April with bookings for Hong Kong dropping up to 20% and Japan up to 15%.■

Airlines act quickly

The depth of the SARS crisis may have stunned Asian airlines, but the region's industry reacted promptly and de cisively to protect passengers and staff, according to industry officials.

"They are doing everything in their power with instructions to staff to monitor people on check-in and nurses meeting aircraft that come from Singapore or Hong Kong or Hanoi, wherever into other airports. They've increased the air flow through the cabin, they're cleaning air filters at regular intervals and they are sterilising the aircraft very frequently," said AAPA director general Richard Stirland.

Measures put in place by the airlines include:

- Cooperation with health authorities at airport departure and arrival points.
- Special training for staff.
- Screening passengers at check-in for SARS symptoms.
- Surveillance of passengers for symptoms during the flight.
- Provision of masks and gloves for both crew and passengers. Crew using gloves during in-flight meals.
- Procedures for cabin crew and maintenance teams.
- Disinfecting procedures for aircraft. Blankets and pillows are used once by one passenger per flight and then cleaned and sterilised. All inflight entertainment equipment, seats and tables are disinfected after each flight. Cockpits are being disinfected regularly.■

During his first year in charge, THAI boss Kanok Abhiradee has urged his executives to break away from the straitjacket mentality of a state-controlled company and think out of the box; even the press has been invited to witness purchasing meetings, said the airline's self-styled...

MR TRANSPARENCY

By Barry Grindrod in Bangkok

Photographs: Patrick Dunne

In April, the spread of the Severe Acute Respiratory Syndrome (SARS) and the war in Iraq was putting intense pressure on the daily schedule of Thai Airways International (THAI) president, Kanok Abhiradee.

Even after arriving in Bangkok, *Orient Aviation's* meeting had to be re-ar-ranged twice as Kanok was called to urgent meetings, including one with Thailand's Prime Minister, Thaksin Shina-watra.

And on the day we did meet the president he was delayed for more than an hour while he attended to late-breaking business of the day.

But it was worth the wait. Kanok walked into the room, mobile phone in hand, and with a wide smile offered a sincere apology. It's easy to warm to the 54-year-old, straight-talking president.

"The [president's] job has been tougher than I thought," said Kanok with a hint of a smile. "But I enjoy work, I enjoy a challenging job."

The challenges started as soon as Kanok took the THAI hot seat a year ago. The day before he started the THAI chairman resigned as pilots threatened to strike. Earlier in the year, his predecessor had been sacked after the prime minister criticised the standards of the airline in most unflattering terms. Staff morale generally was low before he arrived.

Until he joined THAI Kanok had no previous experience of the airline business. And that worried some observers. But what he brought to the company was vast executive experience in industries, which ranged from cars to medical and health services, from multi-media and telecommunications to financing.

His first job was marketing coordinator for General Motors (Thailand). By the time he was 29 he was chairman of the Asean region. Before joining THAI, Kanok, the father of two grown sons, was president of the Small Industry Finance Corporation.

In his first year at THAI – he signed a four-year contract – Kanok has stamped his authority and style on the airline. And, most importantly, he has been positioning the carrier for its long-awaited part-privatisation, which will see the Thai Government reduce its equity in the airline from 93% to 70%.

It has not been plain sailing. Part-privatisation was first mooted five years ago, but it has been postponed several times. Indeed, the part-privatisation has been delayed twice in the last 12 months, latterly because the threat of war in the Middle East had resulted in a lack of confidence in the stock market. Kanok told *Orient Aviation* the share sale programme would be back on track within three months of the end of the Iraq war.

The president re-iterated there were no plans for a strategic partner. In 1998, airlines including Singapore Airlines, Qantas Airways, Lufthansa Airlines, United Airlines and Northwest Airlines announced interest in taking equity in THAI. However, shares are only to be sold to local investors.

"We are in a very good position financially. Technically, too, we are doing well," said Kanok. And he foresees the government eventually reducing its equity in THAI to 51%. When? "That will depend on our capital requirements," said the president.

THAI reported a 427% jump in profit for the 2001-2002 financial year, to 10.18 billion baht (US$233.3 million) from 1.93 billion baht a year earlier. It enabled the carrier to pay a dividend to shareholders for the first time since the onset of the Asian economic crisis in 1997.

"On the revenue side we have concentrated on yield. As a result, while total volume sales stayed the same because of 9/11, net profit went up by five times last year," said Kanok.

Cost-cutting also played a significant role in THAI's buoyant bottom line. "We set out to save two billion baht in 2002. We achieved savings of 1.997 billion baht, over 99% of what we set out to achieve," said Kanok.

And the new financial year started well for THAI when it announced a three-fold increase in net profit to 3.51 billion baht for the first quarter, compared to the previous year. The boom was attributed to a growth in passenger sales and an expanding cargo business, two areas in which Kanok is paying a great deal of attention. But more about those plans later.

"This year we are concentrating on further yield improvement," said Kanok.

But just how this year will pan out financially depends on two major issues, said the president: both the effects of the Iraq war and the SARS outbreak, which started in Hong Kong and China before spreading worldwide.

THAI's Europe-Bangkok services have been hardest hit by the twin traumas, with traffic to some destinations down between 7% and 10%. Traffic on routes to China, Hong Kong, Singapore and Vietnam has been particularly affected by the SARS scare. Kanok said he expected SARS to have a more negative impact on the airline than the Iraq war.

Over the years THAI has been accused of lack of transparency at best and corruption at worst. Kanok is taking the company to new levels of governance. He said there will be complete transparency both inside and outside the airline.

Thai Airways International: image has "slipped a bit"

In striving to achieve this goal, some of his actions have been radical.

He formed a good corporate governance committee. Regulations relating to good governance practices were published and distributed to employees.

A pro-active internal audit system was initiated by the president. "This means for any transaction beyond 50 million baht (US$1.16 million) our internal audit staff can simply walk in [to the office] without prior permission and observe what is going on instead of waiting for the transaction to be completed and half a year later come in to check. This applies from the chairman's office down," said Kanok.

The president has even invited members of the press along to participate in purchasing discussions. "They had been critics so we invited them to participate in the meetings and, on completion, we asked them to sign as witnesses," he said.

Kanok believed the airline had not communicated well to the THAI public in the past. This had led to negative publicity. "Previously, being a state enterprise the company was a little reluctant to release information. They probably felt it worked against certain regulations or groups. But we are no longer shy in giving out information," he said.

As a result the perception is changing, he said. THAI was awarded the Stock Exchange of Thailand's best disclosure award last year.

"We want to be even more pro-active in making available information about the company," said Kanok.

THAI celebrated its 43rd anniversary on May 1 and for the past 35 years it has recorded successive profits. However, despite the financial success of recent months Kanok is aware that THAI's image "has slipped a bit" and that it has lost ground to other major carriers in the region like Singapore Airlines and Cathay Pacific Airways.

In the past, THAI had been a pioneer in Asia's skies. It was the first carrier in the region to introduce business class, the first to serve free drinks and the first to have flight attendants wearing national dress.

Kanok aims to restore THAI to its former glory. The main thrust, he said, is to improve customer service and to employ more creative marketing programmes. "The passengers are the key to our success," said Kanok.

He has formed a cabin crew and inflight improvement committee. Members of cabin staff on the committee are encouraged to give input on ways to improve passenger service.

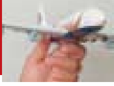
However, the president said he has encouraged staff throughout the company to "think outside the frame [box]".

This includes the five business units set up 18 months ago; cargo, engineering and maintenance, catering, ground equipment and support and passenger service.

"These people need to be inspired, to be encouraged to be more daring. They need to break away from the straitjacket mentality of a state-controlled company. Some have already broken through those barriers and are enjoying themselves," said Kanok.

Some of the units may eventually be floated on the stock exchange, he said. "Each managing director is now much more concerned about the bottom line. Previously their requests may not have been heard by the top [management] because they were not part of the core activity," said Kanok.

He said the staff had responded well to the new challenges. "The new management style was producing creative



thinking and extra productivity at the airline," he said.

And, according to Kanok, the new regime has so far pleased Prime Minister Thaksin.

"Yes, the prime minister has been very pleased with THAI lately, with the continued growth and improvement in the company. We work very closely with him and other agencies like the Tourism Authority of Thailand, foreign affairs and civil aviation authorities.

"What pleases the prime minister is the fact we understand the interdependence, the kind of environment necessary to be successful – team work.

"We must know how to make the best use of government. It is a powerful body. And this government is very pro-active, it is very daring in thinking out of the frame. If THAI does not know how to use this energy then we are not doing our job."

THAI is currently also negotiating the purchase of seven United Airlines' B747-400 aircraft with Boeing. The carrier also has two B747-400s on order from the manufacturer.

Freighters could be on the cards, too – and sooner rather than later. Kanok said THAI's cargo revenue last year was 20 billion baht or 18% of total airline revenue. "Thailand is a regional manufacturing centre for Japan and many European countries. I see tremendous opportunities for cargo which have not been fully exploited by THAI yet," he said.

"I have been trying to inspire the cargo division to leap forward and we can only do this if we go into the freighter market. But I am not going to force them into this. They know their strengths better than I do."

The president said it was important the airline further reduced the number of aircraft and engine types if it was to become more cost efficient. (See THAI at a glance below).

Since 9/11 THAI has completely revamped its domestic network by off loading its loss-making routes to feeder carriers, PB Air and Air Andaman. "Our domestic services are now in the black overall for the first time in many years," said Kanok.

THAI president Kanok Abhiradee: we must know how to make the best use of government. It is a powerful body

"This has been made possible by the government's liberalisation policy. Everybody wins, the airlines, the country and the passengers. We are assisting the smaller carriers by code-sharing with them and by providing technical and marketing assistance when it is needed.

Kanok said THAI was looking at the possibility of launching a no-frills carrier out of Chiang Mai in the north of the country, but the master of surprise also revealed a "super deluxe" carrier was another option on the table.

"I like to look at things differently," said the president, presumably thinking "outside the frame".

He stressed the budget airline was "only being looked at". It would need to work high traffic routes and THAI did not have many flying out of Chiang Mai, he said. Prices were already low, a legacy of the days of heavy regulation.

His "deluxe" model, said Kanok, would be particularly aimed at the new rich of countries like China and India. "In five to 10 years time there will be hundreds of millionaires in China and also hundreds in India. So, would they want to travel budget or pay a few hundred dollars more and get top service?"

THAI is to invest 13 billion baht in new facilities at the Suvarnabhumi International Airport, which will open in September, 2005. But as an additional programme the airline is looking at the feasibility of investing in and possibly managing the transit mall at the new airport. "These malls make a lot of money," said Kanok.

Indeed, he observed, many airline related activities make much more money than the airlines. And he said he planned to raise the issue with the Star Alliance chief executives group (THAI was one of the five founder members when Star was launched in 1997).

"Have we been too unfair to ourselves? Have we been too generous to our partners? Have the profits been adequately shared by all concerned?," questioned Kanok. "This is a sensitive business. Everything that happens in the world effects airlines. Should we be positioning our performance target differently to what we are used to?

"As an ex-outsider I have the liberty to think more freely than other executives in the industry who expect this type of performance."

In his first days at the airline, Kanok said his goal was to achieve double-digit growth for THAI in his four-year tenure. But given the drama of world events in the last 12 months, he would be happy if he could achieve double-digit profit growth.

And beyond his four years? He said he may return to the private sector. Some have said he harbours ambitions for a political future. Kanok emphatically denied that to *Orient Aviation*. "I have no interest in politics. I know I am contributing to the nation in the work that I do already."

Beyond that, and the smile returns, the president said he would welcome just a little more time to play a few more games of golf. "I have probably had no more than 10 games since I started my job," he said. ■

THAI AT A GLANCE

Launched	:	1960. A joint venture between domestic carrier Thai Airways and Scandinavian Airline System (SAS) which invested 30% equity. The Thai Government had bought all of SAS's share by 1977
Staff	:	25,000
Fleet	:	B747-400s, 16; B747-300s, 2; B777-200, 8; B777-300s, 6; B737-400s, 10; MD-11s, 4; A330-300s, 12; A300-600s, 21; ATR-72s, 2
On order *(as of April 7)*	:	B747-400s, 2
Destinations	:	International – 58 destinations in 33 countries Domestic – 13

PB Air finds its market niche

By Barry Grindrod in Bangkok

What Captain Jothin Pamon-Montri does not know about running an airline isn't worth bothering about.

His 47-year career in the airline business started as a dispatcher with Scandinavian Airline System in Bangkok. He went on to Thai Airways International (THAI) where he rose through the ranks from pilot to executive vice-president in 36 years with the carrier.

For the last eight years he has been president of Thailand's small regional carrier, PB Air, and he admitted to *Orient Aviation* it is tougher keeping a minnow in business than it was running a big fish.

But PB Air is doing OK, he added. Not brilliant, but, significantly, it is making money. With a little more capital from its brewery company owner, Dr Piya BhiromBhakdi, Capt. Jothin believes the airline's future is being built on solid ground.

Only 18 months ago PB Air, with an ageing fleet of three Fokker 28-4000 aircraft, was carrying 2,000 passengers a month.

Today, after replacing its Fokkers with two Embraer 145s, 16,000 passengers a month fly PB Air. With new routes – it launched a weekly service to Danang in northern Vietnam in April – and frequencies to be added to the network in coming months, Capt. Jothin expected the passenger numbers to increase to 17,000 by the end of the year. Utilisation of PB's aircraft will increase from 7 1/2 hours a day to nine hours by then.

As well, agreement has been reached with leasing company, GECAS, for a 78-seat Embraer 170 to join the fleet in 2004.

PB Air started in 1991, when a Dornier 328 was acquired for use by Piya's brewery company executives. In 1995, it was granted a charter/non schedule licence to extend flights to the public as Thailand aimed to boost its tourism industry. In 1999, the carrier was granted its scheduled licence and later the same year took delivery of the three F-28s. One was later leased to Lao Aviation for 18 months.

PB's early days as a scheduled carrier were tough, particularly when THAI chose to go head-to-head with emerging Thai airlines. One of PB Air's four scheduled domestic destinations was to the popular island resort of Krabi. It flew daily, but once THAI increased its flights from one to three a day PB had to cut back its service to two flights a week.

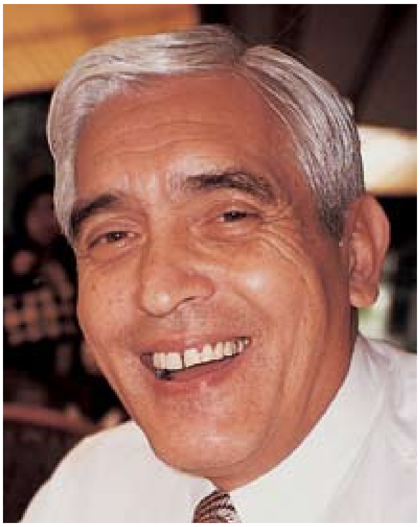
But the picture changed after the 9/11 terrorist attacks in the U.S. "People got cold feet [about travelling]. Even THAI had to sit down and look at our routes," said Capt. Jothin.

PB Air: replaced its Fokkers with two Embraer 145s. An Embraer 170 will be added to the fleet in 2004 as the airline expands

THAI saw PB Air was flying with 80% load factors in their 90-seat Fokkers. THAI was often flying 150-seat aircraft on the same routes with less than 40 passengers on board.

According to Capt. Jothin, THAI was losing between three billion and four billion baht a year on its domestic routes, but after 9/11 a truce was called.

In June 2002, a domestic alliance was formed between THAI, PB Air and a third Thai carrier, Air Andaman. Under the code-share agreement PB Air inherited five of THAI's loss-making routes and Air Andaman was given 11 short distance feeder routes.



PB Air president, Capt. Jothin Pamon-Montri: 47 years in the airline business

Today, THAI, PB Air and Andaman complement each other, and help one another out in times of technical need.

PB Air has a staff of 125 people, including 16 pilots. It is an ambitious carrier, with a niche in the market. Capt. Jothin said he is happy serving the market with 50-75 seat aircraft.

In the future, he wants to capitalise on destinations within an hour's flight of Bangkok, to points including Burma.

PB Air is building a loyal following – 90% of their passengers are Thais – and much of its success, he said, is reflected in his young workforce.

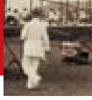
"They come up with ideas and I say if you think it will work, then do it," said Capt Jothin. On some afternoon flights they will serve ice cream. On other flights it will be sushimi.

Another innovative idea came from a coffee shop chain. Passengers get a card stamped each time they fly with PB Air. When they have 10 stamps they qualify for a free round trip ticket on one of the carrier's regional routes.

PB Air has its own reservations system, Alternet. About 10% of its bookings come from the Internet.

Over the years the tiny carrier has managed to overcome stiff competition, fuel price increases, economic recessions and most recently health scares in the region. Another challenge will be the move to the new Bangkok airport in September 2005. Capt. Jothin predicted ticket prices would rise because of the costs of the move.

But he was confident that by mid-2005 his expanding airline would be equal to any challenges that came its way.



The air aces of Siam

By Barry Grindrod

On a breezy afternoon at the Royal Bangkok Sports Club on February 2, 1911, history was made when Belgian Charles Van den Born, in his flimsy Farman biplane, took off from the race track. Before the King of Siam, the Thai Royal Family as well as crowds "such as have never been seen before in Bangkok", he soared about 300 metres into the air.

It was the moment of the first powered flight in Thailand – Van den Born achieved similar records in Saigon, Hong Kong and China on the same tour – and provided the foundation for the extraordinary development of aviation in Siam, as Thailand was then known, in the coming decades.

Thailand has a rich aviation history. It has the oldest air force in Asia, which in turn is one of the oldest in the world. Its pilots flew for the Allies in the First World War. And, as the country prepares for the opening of its new international Suvarnabhumi airport in September, 2005, Don Muang retains its record as the world's oldest airport situated on its original site. It will have been in service for 90 years when the new airport opens.

Indeed, long before Thai Airways arrived on the domestic scene in the 1950s – Thai Airways International's (THAI) inaugural flight was in May 1960 – there were passenger services, albeit unscheduled and unusual, as well as medivacs, dating back to the early 1920s in Thailand.

In June 1922, Siam launched the first regular airmail service in southeast Asia when it used a Breguet 14 aircraft with mailbags lashed to its side to deliver the mail. The route between Korat and Ubol via Roi Et was an instant hit, saving between two and three weeks in delivery time over ground transport.

It was recorded in 1923 that passengers also made use of the service of the two-seater planes.

But there had been many aviation developments in the country before the mail service began.

In January 1912, eight years after the Wright Brothers changed the world with their first powered flight, the Siamese Ministry of War announced that Royal Engineers officers, Major Luang Sakdi Sanlayawut, Captain Luang Arwut Likitkam and Captain Tip Ketuthat, would travel to Villacoublay, near Paris, for pilot training.

The three were awarded their civilian pilots' certificates in 1913, after waiting more than a year to start their training. Major Sakdi achieved the distinction of becoming Siam's first licensed pilot.

Photo credit: Hong Kong Historical Aircraft Association

Charles Van den Born prepares to take off from the race track at Royal Bangkok Sports Club in 1911 – achieving Thailand's (then Siam) first powered flight

The three pioneers returned to Bangkok and became the founding fathers of the Royal Thai Air Force. They trained hundreds of pilots. An Army Aviation Section was soon formed and Lieutenant Colonel Sakdi, now promoted, was put in charge of its development. He went on to oversee the Siamese air service until 1932, including the development of the airmail routes.

The Ministry of War ordered three Breguet Type 111 biplanes and four Nieuport monoplanes for the infant air force. A wealthy businessman purchased a fourth Breguet and donated it to the ministry.

The Royal Engineers built a temporary hangar for the newly formed Aviation Section on land near the Bangkok Sports Club; a site that became the first airfield in Siam. The facility opened in December, 1913 when a big crowd gathered to see their new aviator heroes take to the air for the first time in Siam.

In 1914, the Ministry of War issued an instruction to build an airfield at Don Muang, an area of higher ground 23 kilometres outside Bangkok that was less subject to flooding in the monsoon season than the existing airfield. It was completed in February 1915.

There was no road to the city in those early days, only a railway line.

In July 1917, Siam entered World War I on the side of the Allies. In the following year, shortly before the end of the fighting, it sent 1,200 men, including an aviation contingent of around 340, to France. They were the only Asians to fight in the war.

In the early 1930s, an American pilot said in Bangkok that "Siam is leading most of the countries in the world in aeronautical development".

In 1930, it was decided to relieve the military of the mail and passenger service. On July 3, the first Siam commercial airline was formed, the Aerial Transport of Siam Company (ATSC). In 1931, the airline took delivery of the first two of four single-engine de Havilland "Puss Moths", which accommodated two passengers in seats behind the pilot.

Other landmark dates in Thailand's aviation industry:

March 1947: Siamese Airways Company (SAC) is launched.

May 1947: Pacific Overseas Airlines (Siam) Company (POAS) is founded.

November 1951: SAC and POAS merged and established Thai Airways Company (TAC).

December 1959: TAC and Scandinavian Airlines System formed a joint venture and launch Thai Airways International (THAI). Its inaugural service started five months later.

September 1965 – Air Siam is founded but it did not start services until 1970.

1977 – Air Siam went bankrupt and merged with THAI. ■

Vietnam Airlines has taken global crises in its stride, now its ...

Preparing for the Major League

By Tom Ballantyne in Hanoi

These are heady days for Vietnam Airlines (VNA). In 2002, it proved to be one of the Asia-Pacific region's star performers when it demonstrated a significant improvement in all areas of its business. Now it has major plans for expansion.

VNA is about to undergo the largest fleet expansion in its history. Hand-in-hand with fleet purchases the airline plans to introduce new routes, establish partnerships and launch a low-cost domestic subsidiary to feed more passengers onto its international services.

In 2002, the Hanoi-based carrier recorded a profit of US$31 million and despite the Iraq War and the outbreak in Asia of Severe Acute Respiratory Syndrome (SARS), it is forecasting an increase in profit of 22.3% for 2003.

Last year, it carried 4.1 million passengers. International traffic accounted for 1.8 million travellers, up 19.7% on the previous year, while domestic traffic increased 16.9% to 2.3 million passengers. It is targeting expansion of 13% in passenger traffic this year and a 15% rise in cargo to 66,300 tonnes for the same period. It has started well, recording passenger and cargo growth of 11% and 32% respectively to March 31.

But the airline's president and chief executive, Nguyen Xuan Hien, warned against over-confidence: "Despite the company's successful performance in 2002, we have much to do if we are to count among the region's major airlines," Hien told *Orient Aviation*.

He added: "World civil aviation has been overcoming hardships since the events of 9/11 in the U.S. The Iraq war, the threat of a nuclear crisis on the North Korea peninsula and many other unfavourable events will challenge airlines worldwide. [SARS has since emerged to make matters even more difficult for the industry].

"Facing such a situation, we have to unceasingly improve our service quality, restore passenger confidence, consolidate co-operation and cut expenditure."

Despite this economic and political uncertainty, said Hien, VNA ordered four Boeing B777-200ER aircraft and five Airbus A321s last year. It will also lease additional planes, including B777s (two), B767s and A320/321s to accommodate its long-term expansion plans.

Vietnam Airlines: star performer

"By 2007, we aim to have a fleet of 51 modern aircraft [it now has 28 planes] to operate direct flights linking Vietnam to countries in all corners of the globe," said Hien.

"Even after 9/11, VNA's network expanded to new destinations in China, Japan and Russia. Also, flight frequencies on routes have been increased."

Flights to Moscow, suspended during the 1997-98 Asian economic crisis, were resumed last year, along with new services to Tokyo from both Hanoi and Ho Chi Minh City. VNA also began offering seats to Los Angeles and San Francisco under a new code-share with Taiwan's China Airlines last year.

Before the end of 2003 the airline will launch routes from Hanoi to Siem Reap in Cambodia and from Ho Chi Minh City to Fukuoka in Japan. From July, VNA will fly non-stop from Hanoi to Paris, using the B777, which will be the first non-stop flight between Vietnam and Western Europe. VNA currently has a daily B767 service to Paris via Dubai.

Further expansion will likely hinge on the course of events in the Gulf and the duration of the SARS outbreak, but VNA managers said flexibility is the key to coping with such issues.

In early April, Hien said it was business as usual with flight frequencies and ticket prices maintained at pre-war levels.

This was despite an adjustment to the Paris service that has had to take a more northerly route to France, a diversion that added around 20 minutes to the flight. At prevailing fuel prices the extra flying time will put about US$13 million on to the airline's annual fuel budget of $97.5 million.

According to VNA's director marketing planning, Luong Hoai Nam, an expected new air services treaty with the U.S. will allow direct commercial services between the two countries for the first time. But to build its presence in the U.S., VNA will likely start with a code-share service with American Airlines – an agreement is already in the bag – before launching its own direct flights.

The third round of negotiations on the new air services agreement between the two countries ended without agreement in Hanoi in March. But officials are confident a deal will be struck at the next round of discussions in Washington in June.

Ten percent of Vietnam's international air traffic is from the U.S. where many expatriate Vietnamese live. U.S. carriers have been lobbying hard for direct access to Vietnam. Currently, they have to code-share with non-American operators that fly into Vietnam.

But Hien remains wary about open skies in Vietnam. "VNA should prepare diligently for an open skies agreement, but only when we are strong enough to survive competition will we be able to accept open skies," said the president.

Nam told *Orient Aviation* plans to join a global airline alliance have been shelved. "We had been holding discussions with the big alliances, but the situation altered significantly after 9/11 and we changed our mind about joining for the time being," he said.

It plans instead to build on co-operative agreements already in place, including code-sharing with a number of airlines such as Qantas Airways, Cathay Pacific Airways, Air France, Korean Air, Singapore Airlines and Lufthansa German Airlines.

Vietnam Airlines director, market planning, Luong Hoai Nam: plans to join a global alliance shelved

Vietnam Airlines deputy director, cargo marketing, Pham Hai Phong: aiming to boost cargo revenue

The forerunner of VNA, the Vietnam Civil Aviation Authority (VCAA), was founded in 1956 with a fleet of five small aircraft operating domestically and to one international destination, Beijing. It added Vientiane, in Laos, in 1976 and Bangkok in 1978. The former South Vietnamese airline, Air Vietnam, merged with the VCAA after the end of the U.S. war with Vietnam in 1975. Later, the national carrier, Vietnam Airlines, was born.

Today, VNA has a fleet of 28 aircraft – six Boeing B767s, 10 Airbus A320s, two A321s, two Fokker F70s and eight ATR72s – flying to 15 domestic and 22 international destinations.

By the end of the year the fleet is expected to be 35 aircraft with the addition of B777s and A321s.

Airbus also hoped to convince VNA it should purchase the A340. It may need the capacity. The Vietnamese Government wants to attract more foreign airlines to fly into the country, probably in 2005. This will mean more competition for VNA, which wants to prepare for the new era by slowly expanding its network.

A number of new routes are planned. These include services to Shanghai next year, to add to the existing China network from Vietnam to Beijing, Guangzhou and Kunming. In Europe, it would like to add destinations to the U.K. and Germany.

VNA also is strengthening its domestic base. Apart from its own in-country network, it has "a more than 50%" share in local operator, Pacific Airlines, which operates a small fleet of two A321s, one MD-83, one A300 and one B737.

It also owns a turboprop charter operator, Vietnam Air Services, which will be transformed into a low-cost, all-economy carrier, called VN Express, by 2005. It will use ATR 72s and perhaps Fokker F-70s.

"The aim of VN Express will be to operate short-haul domestic routes and feed passengers into the VNA main network," said VNA's deputy director, passenger marketing, Pham Ngoc Tung.

In the meantime, VNA has worked hard to improve its internal systems and lift on-time performance and reliability. From 1993 to 1996 the average annual increase in passengers and cargo was 35%. By 1997, international operations accounted for more than 40% of total business.

VNA is keen to expand its cargo business. Deputy director, cargo marketing, Pham Hai Phong, said freight contributes about 12% to VNA's annual revenue. The airline hopes to build significantly on this figure.

VNA has no dedicated freighters of its own, but for some time it has used space on Korean carriers, Korean Air and Asiana Airlines. This year it is buying space on board freighters operated by Taiwan's China Airlines and EVA Air. "We are going to have much more space on our own passenger aircraft to Japan and Korea, but we may not be able to take full advantage of the additional cargo capacity to Europe because there may be a payload penalty on non-stop B777 services to Paris," said Pham.

VNA's pragmatic approach may well be the key to it emerging in reasonable shape when the current crises facing the airline industry come to an end. ■

Joy for private pilots

By Charles Anderson

China's small plane manufacturers are hoping their fledgling industry will finally be able to take off with the introduction of new aviation regulations for individual flights on May 1, which lifted restrictions that made private aviation all but impossible.

"There were no rules banning individual buyers from owning private planes in the past, but pilots had nowhere to apply to fly, because we only deal with applications from general aviation companies," the *Shanghai Daily* quoted an official from CAAC's general aviation office as saying.

Flight applications by private pilots on defined routes will now be accepted one day in advance, with approval within six hours, an improvement on the week it used to take for those who managed to get an application through, but still far behind countries like the U. S. where clearance is almost immediate. Private pilots previously also needed permission from government authorities where they planned to both take off and land.

Temporary flight routes will now need three days' notice, but flights for emergencies such as rescues and disaster aid will be cleared within an hour.

The new rules are consistent with those governing China's charter operators. They must currently apply 24 hours in advance under normal circumstances.

Four domestic companies are hoping China's new found wealth will be reflected in enthusiasm for private planes, despite a lack of small airfields in the country. Many potential buyers have so far held off until the flight approval system changed and the expectation is that regulations will be further relaxed in future.

Nanjing Light Aircraft Co. claimed to have 30 orders, mostly from private companies, for its five-seat AC-500, which will go on the market early next year. Shenyang Aircraft Industry Group of China, which makes fighter planes, said it will start producing a super-light plane this year at a cost of 500,000 to 600,000 yuan (US$60,000 to US$72,000). Chengdu Aircraft Industrial Corporation is forecasting a demand for about 500 private planes annually if airspace rules are fully relaxed and Shijiazhuang Aircraft Industry Co, a manufacturer of medium to small planes, is working on a private model.

Overseas manufacturers such as Cessna, with its range of two to four-seater, single-engine piston aircraft, are watching developments with interest.

The new regulations are part of a package covering general aviation, including surveying, manufacturing, agricultural activities, sports and sightseeing.

But, as far as planes owned by private individuals are concerned, the applause will be muted. There are 11 in the country at present, *China Daily* reported.

New carrier wants to use Shandong's

Hong Kong-based CR Airways, set up in 2001 and at present operating a single Sikorsky S76C+ helicopter for charter purposes, has been in talks with Shandong Airlines about the use of the northern Chinese airline's 50-seat Bombardier CRJ200 regional jets, **writes Charles Anderson**.

CR Airways wants to operate the CRJs from Hong Kong to secondary Chinese cities.

The first stage of the ambitious plan has seen the fledgling Hong Kong carrier, chaired by Robert Yip Kwong, who also heads China Rich Holdings, a Hong Kong-listed investment holding company, apply for a Civil Aviation Department licence to fly the Bombardiers. Clearance, which would allow CR Airways to operate charter flights, could be provided by the middle of the year.

Route licences would then be needed from Hong Kong's Air Transport Licensing Authority for route rights and take-off and landing slots at Hong Kong International Airport.

CR Airways director of sales and marketing, Allan Tang, was reported in the *South China Morning Post* as saying the small jets presented a cheaper option for services to secondary cities. Dragonair, currently the only Hong Kong airline serving Chinese destinations, uses a fleet of much larger Airbus A320s, A321s and A330s.

Tang told *Orient Aviation* pilots were currently undergoing training, but it had not yet been decided which routes to apply for. Options were being explored.

CRJs may be flying between Hong Kong and secondary Mainland cities later this year

Dragonair flies to 19 China destinations, although it holds licences for 48. It is in dispute with Cathay Pacific Airways over Cathay's hope to re-introduce flights to Mainland Chinese cities Shanghai, Beijing and Xiamen.

Shandong Airways, until now purely a domestic carrier, is expected to report a loss for 2002 after a period of fast expansion from its Jinan base. It owns 10 CRJ200s and is also eyeing Hong Kong and Macau as possible destinations of its own, along with other Asian cities, after a planned expansion of its fleet of Boeing 737-300s and 737-700s.

Narita stands firm on user fees

By Daniel Baron, in Tokyo

April marked the first anniversary of the opening of Narita Airport's second runway, immediately increasing traffic at a facility forever in high demand but with chronically low capacity. The launch of the new runway was supposed to bring another benefit: lower user charges during a period of unprecedented industry losses.

A year later, the cry for relief has gone unheard, with Narita Airport Authority (NAA) refusing to budge on user fees, citing fear of cost increases after the scheduled privatisation of the facility in 2004.

The International Air Transport Association (IATA) had been holding consultations on the issue with Narita Airport Authority (NAA) since October 2001. Alas, to no avail. NAA cut off face-to-face talks completely when the new runway opened.

In a media presentation timed to coincide with the anniversary, IATA asserted that, given the additional losses incurred by the industry due to the Iraq war and SARS, a cut in charges should be implemented immediately. "NAA is already profitable and its charges are significantly higher than the cost of providing the related services," said Lasantha Subasinghe, IATA assistant director of user charges.

At the heart of the problem, asserts IATA, is a concoction of convoluted accounting practices in which NAA assigns non-airport related transactions as "extraordinary losses". IATA suggested that in fiscal 2000, for example, NAA's posted loss of 4.4 billion yen was, in fact, a profit of 12.8 billion yen. NAA would not disclose the non-airport transactions that comprised the extraordinary losses.

Subasinghe added that actual profit at NAA for 2002 would exceed 20 billion yen. "Charges could be reduced from the current 2,400 to 2,000 yen", he said, "and NAA would still make a profit."

IATA also challenged the plan by which NAA is due to be privatised, claiming that the burden to pay back a hefty government loan would give Narita another reason not to lower charges and that some of the funds would likely wind up subsidising Kansai Airport or a planned expansion at Haneda Airport.

Subasinghe said "privatisation must result in lower charges and not increases. Otherwise, it is a failure".

When asked for comment, an NAA spokesperson reiterated the airport authority's stance, that costs for expansion and privatisation made a fee reduction impossible. He added that NAA would welcome a resumption of negotiations, provided that the issue of landing charges – the primary reason for such talks – were excluded from the discussion.

INFORMATION TECHNOLOGY in the Asia Pacific

SPECIAL REPORT

As Cathay Pacific renews Smartsourcing agreement...

Sabre adds China Eastern, Bangkok Airways deals to portfolio

By Charles Anderson

Sabre is carrying on this year where it left off in 2002 as far as its Asia-Pacific business is concerned, notching up major deals in the IT sector to add to an already lengthy client list.

In late March senior management from the Airline Solutions division of Sabre Holdings flew to Shanghai for the official signing of a contract for an airline operations control centre for China Eastern Airlines, adding Sabre's movement control, flight planning and load planning systems to the schedule manager in use there since 1998.

Then, in early April, Cathay Pacific Airways announced the renewal of its three-year, multi-million-dollar "Smartsourcing" agreement first signed in 1997 under which the airline has access to Sabre's full, integrated product list, including its consulting services, during that period.

The Hong Kong carrier also will be able to utilise new products Sabre introduces and tap into its solutions user groups. So far Cathay has implemented 19 of the company's software applications.

In February, executives had been in Bangkok to seal a deal with Bangkok Airways under which Thailand's second airline signed a five-year agreement for the supply of the advanced passenger reservations and departure control functions it sees as an essential part of its domestic and international expansion programme.

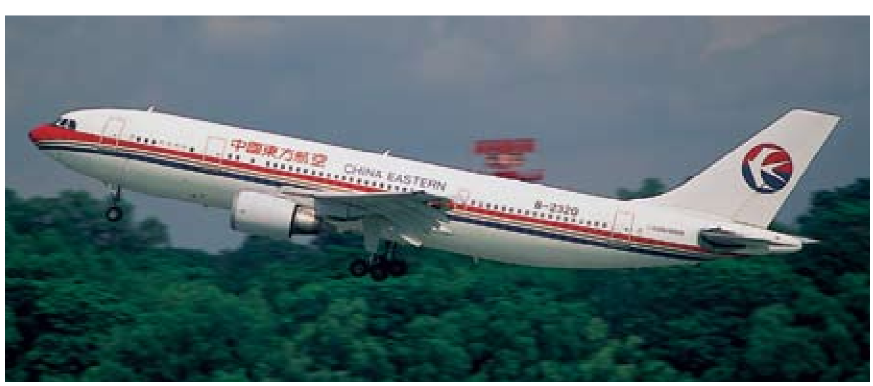
By doing so, Bangkok Airways became the tenth Asia-Pacific airline to outsource reservations and departure systems to Sabre in 12 months.

In 2002, the company signed 65 systems contracts with airlines based in the region, a sizeable chunk of the 300 it won worldwide.

"These were significant wins, not small contracts, things that make a significant impact," said Hans Belle, Sabre's Asia-Pacific sales chief, leaving it to his boss, group president Tom Klein, to underline how the region's importance is perceived at company headquarters in Dallas, Texas.

"This region is the strongest region as you look around the globe," said Klein, pointing to "reasonably good years" for carriers such as Qantas Airways, Cathay Pacific Airways, Singapore Airlines and Thai Airways International as compared to the rest of the world. "Our expectations are for further growth. We would like to see Apac [Asia-Pacific] as 30% of our business."

The addition of China Eastern to carriers such as China Southern Airlines, Air China and Taiwan's China Airlines already using Sabre's air operations software underscores the importance of the country's fast-growing aviation regime



China Eastern Airlines: Sabre's movement control, flight planning and load planning systems will be part of a new airline operations control centre in Shanghai to achieving that goal.

"We are wildly enthusiastic about China, wildly enthusiastic about the carriers there. Chinese airlines will be good users of tech and over time will be world class," said Klein, acknowledging that not all of them are today. "It is one of the places that can get us to 30%."

Such targets are important for Sabre and other IT providers as they compete for business in a depressed global market where the Asia-Pacific stands out for its resilience.

Airlines are continuing to buy technology, said Klein, but they are looking for high value projects with relatively quick returns on investment. Efficiencies and revenue optimisation are a major focus.

"We are not seeing a lot of commitment on projects that are five to six-year-out returns. We are seeing a lot of interest in projects that have a three to six to 12 to 18-month cycle."

Klein believes Sabre, which has been in the business for 40 years and pioneered automated reservation and revenue management systems, is big enough to come out of the downturn fighting.

He could point to the company's 175 airline customers worldwide to bolster his argument, but instead plumps for the US$50 million recently invested in its airline portfolio. "Our customers have been noticing that. We have invested across the entire spectrum and spent a lot of money on products." The outlay also paid for some small companies now integrated into Sabre's portfolio.

Klein names Sabre's Active Server Pages (ASP) model as the first of three key innovations the company is offering the market. "We took the software and leveraged the portfolio across a single infrastructure, charging customers monthly fees instead of big upfront capital expenditure.

"Gartner research shows we are one of the very few companies across all industries that have been successful in building up an ASP model." Dozens of deals have been sealed in the last two years.

Next comes the movement towards a packaged software model. The launch of Sabre's reservations suite on non-stop Hewlett Packard servers is the last of the trio.

Looking more generally, Klein sees customisation of systems and the enhancement of operational functions as two areas of immediate importance to airlines. On the former, carriers may need to be convinced of the value of doing the work themselves, as opposed to contracting outside companies who use powerful technology. Off-the-shelf solutions through packaged software models are key here.

When it comes to the latter "airlines across the globe are saying 'we have added this technology to our systems. How do we best simplify our operations to provide best process at reasonable cost?'" Klein said.

"This is a very exciting time for tech suppliers. We do really have an opportunity on our doorstep to help industry problems or a series of industry problems by implementing technology solutions that can drive down those costs."

Klein hones in on online distribution and self-service as two current bright spots for his industry.

"We continue to see incredible growth in online distribution in North America. We think that will be a global trend. I have very large airline customers who are driving 40, 50, 60% of their business online. We've done that at very high scale."

Kiosks and other self-service tools can help passengers interact with airlines in a variety of ways. "They will also be able to capture information about the passenger and be able to serve them as well, if not better, with that knowledge. It is one of those areas where you can get good customer service benefits as well as good business. We think this will spread around the globe." ■

The airlines' IT perspective

Orient Aviation asked a selection of Asia-Pacific carriers about the role and importance of IT in its company. Here are the replies we received:

CHINA AIRLINES

- Lists IT's most valuable contributions to its operations as online booking, ticketing, check in, enterprise resource planning (ERP), customer relationship planning (CRP), and web-based business-to-business, business-to-customer and business-to-employee capabilities combined with successful IT implementation and a clear business strategy
- Sees IT as a strategic issue of vital importance to its profitability
- Names Sabre's aircraft movement and crew scheduling software, plus SITA's access module baggage tracking systems as its most recent additions
- Says IT expenditure is a "reasonable percentage" of revenue which will grow marginally in the next five years and believes proper investment must continue despite the global downturn
- Includes in the airline's IT success stories: the launch of its eCommerce services for passengers, cargo, ERP and CRM, highlighting electronic ticketing, its eRes PC-based reservation system, its eAWARD frequent flyer internet-based mileage award programme, eBooking, eGroup for travel agents who need to update group tourists, e-CheckIn which allows check-in via the Internet, and the airlines' check-in kiosks

EVA AIR

- Lists IT's most valuable contributions to its operations as Internet booking and data warehousing
- Sees IT as very important to its future operations
- Names eCommerce applications for passenger and cargo marketing and possible outsourcing of its data centre management as its most recent additions that, the airline says, will maintain its competitiveness
- Says IT expenditure will drop this year, but then increase slowly over the four following years
- Includes in its IT success stories: development of a new generation cargo system running purely in a client-server environment with a three-tier structure. This has achieved a "tremendous performance record" since August 2001

KOREAN AIR

- Lists process restructuring as IT's most valuable contribution
- Names freesale codeshare for the SkyTeam alliance as its most recent addition
- Says IT investment will decrease 1% over the next five years
- Includes in its IT success stories: its internet booking engine which has 100,000 individual visitors a day, resulting in 5,000 bookings ■

Airlines sharing on a global scale

Geographical proximity is now relatively meaningless, says IBM chief Diffenderffer

By Charles Anderson

IBM is the gorilla in the bathtub when it comes to internet technology in the airline industry. Its consultants can pull in the full range of capabilities provided by the world's largest IT services provider and aim them full square at anything their customers need. That may not necessarily mean it outsells its rivals at every point, but IBM's size suggests they must be watching it with care.

Talk to Bill Diffenderffer, partner, global travel and transportation, IBM Business Consulting Services, and the big picture is on offer from the start. But there is also concentration on the need to bolster the bottom line of airlines finding the going tough in times of hardship.

"I was talking to Air France last week, Cathay Pacific the week before," he said. "The subject matter was in fact very similar. A global view is very relevant to carriers because when they access the next generation, they will be sharing with carriers that are on other continents."

Later, when reservations systems are being discussed, Diffenderffer returned to the theme. "Importantly it [a new IBM service] is likely to be a shared service across a number of enterprises in a particular industry. In this case shared by a number of airlines," he said.

"Singapore Airlines, for instance, may share a system with Lufthansa because they are both in Star Alliance. It is more likely these carriers are going to develop functionalities and new systems within their alliance.

"It is probably more likely that Singapore will share with Lufthansa now than with an Apac [Asia-Pacific] carrier. Geographical proximity is relatively meaningless now."

IBM has been working with the airline industry since the 1960s and now supplies virtually every major airline in the world in one way or another. "Our particular strength is at the infrastructure and middleware level. That's where we really are at heart," said Diffenderffer. "Alongside that there is hardware, software, consulting services and integration services."

Deals last year in the Asia-Pacific included 30 airport check-in kiosks for Air New Zealand (AirNZ) at Auckland and Christchurch airports, adding to the 2,500 IBM have deployed worldwide. AirNZ has already moved its systems on to a Linux-based IBM mainframe.

IBM China Co Ltd supplied China Southern Airlines with a new electrical technical data management system (TDMS) which is expected to save US$1.5 million a year through computer-based management of the life cycle of aircraft maintenance documents.

Bill Diffenderffer, partner, global travel and transportation, IBM Business Consulting Services: airline industry sitting on a number of old systems in urgent need of replacement

The company has market dominance in the Asia-Pacific, Diffenderffer said. Now IBM wants to make China its priority within the region. "We need to understand strategically how we look forward. We already have very good relationships with big carriers like China Eastern and China Southern. We are also actively involved in companies like Travelsky. We want to be an important part of the travel and technology landscape."

Technology, argued Diffenderffer with the conviction of a man who deals in it, is not the right area in which to cut costs. "You can talk about saving technology costs, but that's a fool's bargain. You can change the process using technology intelligently to provide a system to meet a business goal. That is now something that is extremely important to airlines in particular."

There is no hiding the effects of the current downturn. "It is certainly affecting our clients' businesses," said Diffenderffer. "Our customers are looking more and more at where we can truly provide value. The return on investment for every dollar spent tends to be shorter now.

"It puts the extra challenge on us to deliver improvements to their operating facilities. It has changed the way we approach our opportunities and how we present them. It has changed the way the customers buy and what they require."

The return on a new human resources system, for instance, can be as short as 18 months, with substantial savings after that, he said. There is also an emphasis on reservations systems because of the way they intersect with customer service and management.

Variable cost models as opposed to fixed cost models are the key. "This is something that strategically IBM is investing heavily in," said Diffenderffer. "We operate on a per unit basis. Buying the reservation system for instance, but not as a total fixed cost for a system which you pay for on a non-variable basis."

Diffenderffer, like many others in his business, sees the airline industry as sitting on a number of old systems and solution sets that are in urgent need of replacement. Airlines, he said, largely agree.

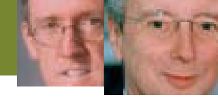
"There is a general view, certainly at CIO level, that they need to go to new generation systems to get both financial economies as well as enhanced functionality."

The future, he believed, lies in consolidation. "There is no question in my mind that some time, it may be 10 years, it may be three, there will be a common dominant infrastructure. The airlines will essentially have common architectural designs for their systems.

"They will be sharing varied services that certainly will include flight handling systems, reservations systems and, I believe, maintenance and overhaul systems will be shared.

"There will probably be a relatively small number of competitors accessing those major solution sets in order to provide the economic benefits that the airlines will be looking for."

What Bill Diffenderffer leaves unsaid is his conviction that IBM will be one. ■



Lufthansa Systems e-mapping shows the way

By Charles Anderson

While Information Technology (IT) is showing the aviation industry the way to a new era of efficiency, Lufthansa Systems is also ensuring one major airline's pilots know exactly where they are heading on a daily basis.

Late last year Qantas Airways became the first customer for the German company's electronic mapping system, which as a fully data-based product is the only one of its kind available. In December, tests were carried out on an Airbus A330 delivery flight between Toulouse and Sydney.

During this year all maps for Qantas destinations will go electronic. Other airlines are being targeted, with Swiss already on board.

"This will be one of the major products we will bring to the market," said Dr Gunter Kuechler, who took up his position as managing director, marketing and sales at Lufthansa Systems last October.

"It's very sophisticated and leading edge. Of course, they have to test these electronic maps.

"They have to use paper maps as well for legal reasons, but that will become unnecessary in the future."

Lufthansa also includes Star Alliance partners Singapore Airlines, All Nippon Airways, Thai Airways International and code-share partner Air China as its major Asia-Pacific clients, with smaller carriers such as Air Macau also on the list. Five of Lufthansa's 13 branch offices are in the Asia-Pacific in Singapore, Beijing, Bangkok, New Delhi and Sydney.

Kuechler is at pains to explain that Lufthansa Systems, 100% owned by the Lufthansa group, but operating as an independent company, competes like any other provider for much of its business.

The company has obvious strengths within the Star Alliance.

It operates StarNet, the Alliance's communications platform, for instance, which has major hubs in Japan and Singapore. That means new partners must be integrated when they join.

Alliance members are continually looking for other common solutions. Lufthansa, with its knowledge of their operations, is a natural front-runner in the programme.

"We have special projects that concentrate on our Star Alliance partners. But we provide our solutions to all airlines. We are very market focused," said Kuechler.

He pointed to 15 customers in Asia-Pacific as proof that there is plenty of life outside the alliance.

A recent deal with Vietnam Airlines for Lufthansa's Netline product goes some way towards proving his point. Signed this year, it is an important plank in the carrier's ambitious expansion plans from 20 to more than 60 aircraft eventually.

Operations control and crew management are the major components, with specific customer needs met. Crew management, for instance, is located in Ho Chi Minh City with operations and scheduling in Hanoi.

"It's very important that information is available for the whole organisation very fast and that's where our products come in. They are highly integrated," said Kuechler.

In China, Lufthansa's concentration has been on Air China, through consulting work in passenger, cargo and MRO operations. Talking continues there as it does with China Eastern Airlines and China Southern Airlines.

"China is very important to us because of everything that is going on in this market; the forming [consolidation] of major airlines and the creation of a strong systems house in Travelsky," said Kuechler. "It will be a major market for us in the future. These airlines are going to face change and a different way of doing business."

Lufthansa Systems managing director, marketing and sales Dr Gunter Kuechler: China's airlines are going to face change and a different way of doing business

The same can be said for the Asia-Pacific as a whole, which Kuechler rates as second to Europe, but ahead of North America in importance to Lufthansa Systems.

"What we expect is that the market will grow faster than other markets and the complexity of the market will grow too. Our experience in the airline processes in Europe and other areas means we can bring big benefits to Asian airlines," he said.

"The only thing for sure is that the market will change. It will change every year faster than it used to change. We learned from major airlines in Europe that they have to manage a crisis every year.

"It could be economical, it could be political, social or internal. We can help airlines manage change, manage a crisis and manage a growing market."

Yields are likely to go down as customer numbers go up. "We think that, especially in Asia, customer demands will drop and so the complexity of the business will grow," said the Lufthansa Systems executive.

For the future Kuechler joins his contemporaries in believing the old mainframes must go, especially in areas like reservations, with more flexible, business-process oriented systems taking their place.

"There will be large, more or less commodity-like data bases on the host. We will be very specific and make custom-tailored solutions on the user interface," he said.

"And so the architecture will change. It will be ASP (active server pages) based so customers will pay for usage or for their business matrix, such as passengers boarded or aircraft [numbers]. On the other hand there will be outsourcing of some of the processes.

"Our whole range is not only software and software products, but also running the software, conducting the IT management of it and taking over some of the customers' business processes. This will be the market of the future." ■

'New kid' making inroads

By Charles Anderson

When it comes to counting the pennies and tracking airline cargo, Mercator, the information technology division of Emirates, believes it has the products to make an increasing impact on the Asia-Pacific market.

Mercator is the new kid on the block in the Information Technology (IT) sector.

It was formed in 1995 out of Emirates' existing capabilities, with the backbone of its work first coming from within the Emirates group, serving the needs of the main airline and of Dnata, another Emirates' wing, which acts as sole ground handling agent at Dubai international airport.

From that stage it has quickly developed a full range of products to be offered outside Emirates, with many key systems being introduced over the last 18 months. Asia-Pacific clients now include Air New Zealand, Air Pacific, Air Tahiti Nui, Philippine Airlines (PAL), Qantas Airways, Royal Brunei Airlines, Singapore Airlines Cargo and SriLankan Airlines. Elsewhere British Airways, Varig and Virgin Atlantic have come on board.

Major deals have been concluded in the last nine months with PAL, under which the airline will become the first Asia-Pacific customer for Mercator's CRIS frequent flyer and relationship programme, and SIA Cargo, which has ordered the cargo version of Mercator's RAPID revenue accounting line. RAPID is targeted at medium to large airlines and offers integrated cargo and passenger systems or products that handle either as a standalone.

FASTRAC Passenger and FASTRAC Cargo, put on the market some 18 months ago, are adapted from RAPID products for use by small to medium-sized airlines that don't need to customise their systems.

An end-to-end bureau service that can handle anything an airline wants to throw at it was introduced nine months ago.

Keeping up the pace in another important area, the company's Chameleon new generation ground handling system is due to go live across Emirates' global SkyCargo network and at Dnata by the end of the year, with interest in its progress already registered by a number of Asia-Pacific carriers. Chameleon, a multi-million dollar investment, manages and monitors consignments from delivery to an airline through to delivery at the destination airport.

Its Nomad cargo unit load device system for airlines and ground handling agents was launched last year and is in use at Emirates, Dnata and SriLankan Airlines (40% owned by Emirates).

A.T. Srinivasan, general manager, sales and marketing, should sound exhausted by all this activity. Instead he is upbeat, pointing to successful deals despite the effects of 9/11, squeezing in a mention of Mercator's adaption of Oracle for airline needs, its reservation and departure product, a plug for "one of the best customer loyalty systems in the market at the moment" and talking in general terms about investments to come.

The SIA Cargo deal fits in with his view of where Mercator can score against the tough competition it faces from the big boys in the IT sector.

"This gives us the opportunity to work with one of the best airlines in the world which is very exciting," he said. "Our strongest suite so far, apart from ground handling, is our financial suite of products. We have reason to believe that in cargo [revenue accounting] we are pretty much the world leader.

"What backs up that statement is that among our customers we count British Airways, Singapore Airlines, Qantas, Air New Zealand, Varig and Olympic Airways.

"We are committed to making major investments into our financial suite and into cargo, where we have a unique strength in business knowledge as well as technical competence.

"There is a unique opportunity in the cargo area in the sense that most cargo systems were old ages ago. We believe the airline industry needs new generation systems and we were the first to put our money where our mouth is with Chameleon, which is completely Java-enabled.

"We are very excited about this one, too, because most products in the cargo area have now become very difficult and expensive to enhance," said Srinivasan, who lists Emirates' extensive cargo operations and Mercator's own success in cargo revenue accounting as key drivers for Mercator in this area.

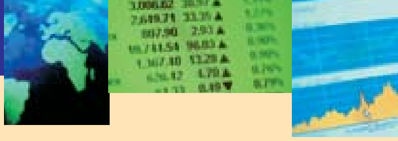
"We believe we have the advantage at Mercator of working within an airline group which is making profits year-on-year and having a reasonably large customer base which has trust in us and who all would be willing to work with us to develop a new generation of cargo systems."

With its base in Dubai close by, the Asia-Pacific is an obvious area of focus for Mercator. But no Chinese airlines appear on its client list, as yet.

"China is a market which, given its size and the growth of its economy, does offer a lot of opportunities," said Srinivasan.

"We have always preferred doing our homework well. I confess that we are at the early stages of understanding that market, its dynamics, its specific requirements. But it is definitely a market on our radar screen."

Mercator believes it is a world leader in cargo revenue accounting systems



STATISTICS FOR JANUARY 2003

IRAQ WAR, SARS SPARKS TRAFFIC SLUMP

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

In January 2003, the international revenue passenger kilometres (RPKs) of the Association of Asia-Pacific Airlines (AAPA) member carriers increased 13.5% compared to the same month last year, and passengers carried (PAX) grew 12.5%.

The increase, albeit from a low but slightly recovered base, also was influenced by post-Christmas and pre-Lunar New Year holiday travel. The seat capacity increase of 12.7% was only slightly below that of RPKs, which resulted in a marginal improvement in load factor to 74% over January, 2002.

All but one member carrier reported growth in RPKs, with 10 recording double-digit growth rates. Vietnam Airlines' (VN) impressive expansion continued with double-digit growth for the 11th consecutive month. Malaysia Airlines (MH), included for the first time in the analysis, posted a 19% increase in traffic this month.

The passenger load factor (PLF) of a majority of AAPA carriers improved from a year earlier despite a significant increase in capacity. Obviously, the upswing in holiday travel helped to fill seats.

EVA Air (BR – 78.5%) posted the highest load factor in January, but the year-on-year (YOY) increase was marginal. A 2.4 percentage point increase pushed Cathay Pacific Airways (CX) PLF to 78.2%. Philippine Airlines (PR), with an average load factor of 75.8% in 2002 – a marked improvement from the late 90s – reached 78% PLF in January.

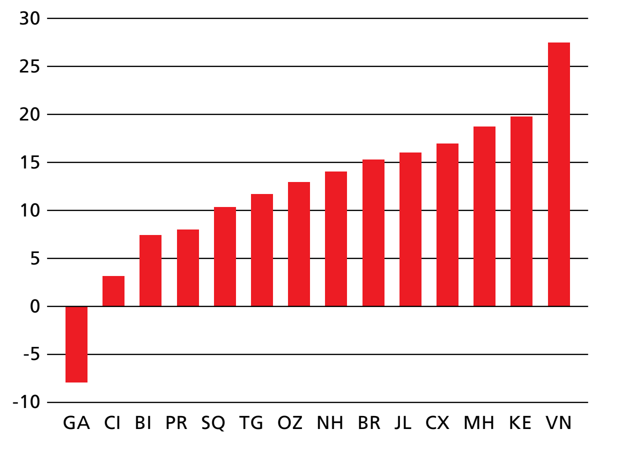
CARGO

The strong upturn in cargo traffic continued in January with a rise of 16.6% in freight tonne kilometres (FTKs) and 14.6% growth in tonnage. Capacity (+19.6%) expanded at a faster pace than FTKs for the second straight month, dragging the freight load factor (FLF) down by 1.6 percentage points to 61%.

Freight traffic picked up ahead of a long Lunar New Year holiday in early February, especially for the northeast Asia-based carriers. Korean Air's (KE) FTKs increased 28.7%, followed by Cathay Pacific (up 25.6%). All Nippon Airways (NH)

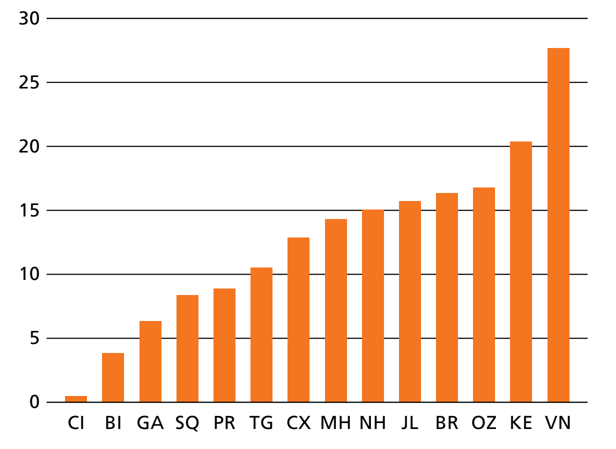
RPK GROWTH BY CARRIER

Percentage (Jan 03 vs Jan 02)



PAX GROWTH BY CARRIER

Percentage (Jan 03 vs Jan 02)



Korean Air: freight traffic up 28.7% in January

reported a 20.6% rise in freight traffic, while EVA Air and Asiana Airlines (OZ) managed increases of 19.8% and 18.1%, respectively.

The FLF deteriorated for the majority of AAPA carriers amid a significant rise in capacity. Only Asiana Airlines and Korean Air managed to fill more than 70% of their capacity.

RESULTS OF THE 12 MONTHS TO JANUARY 31, 2003

PASSENGER

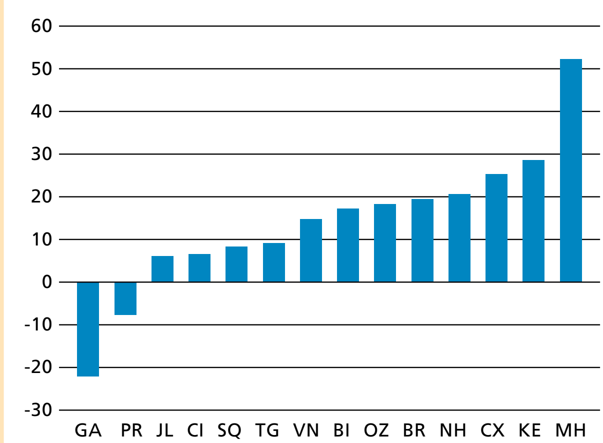
The AAPA member airlines posted an RPK increase of 6.7% for the 12-month period to January 31. The number of passengers carried rose 7.6% YOY. Seat capacity grew 1.7%, which resulted in a load factor of 74.6%, up 3.5 percentage points.

CARGO

The AAPA consolidated FTKs rose 14.6% for the 12-month

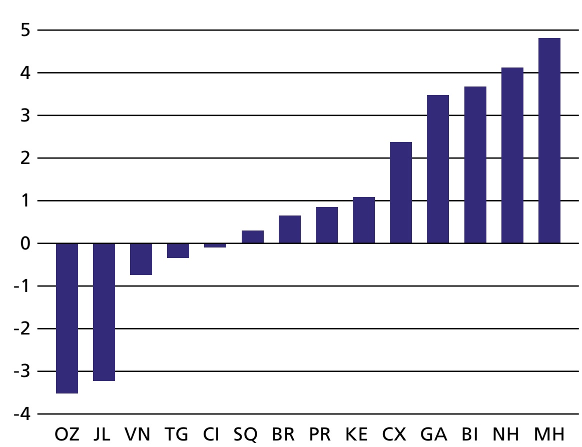
FTK GROWTH BY CARRIER

Percentage (Jan 03 vs Jan 02)



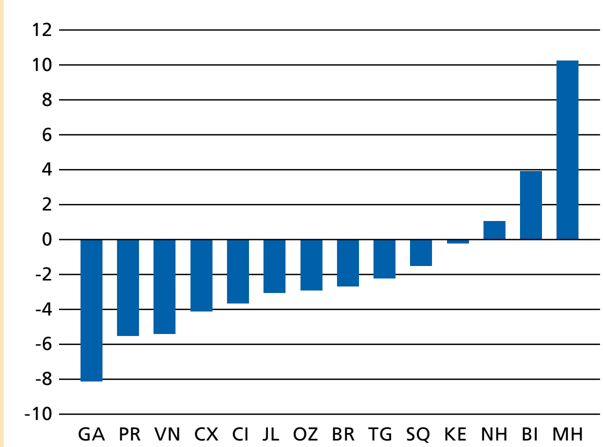
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Jan 03 vs Jan 02)



FREIGHT LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Jan 03 vs Jan 02)



period under review. Capacity expanded 8.5%, which resulted in a load factor of 68.3%, a gain of 3.6 percentage points.

SUMMARY

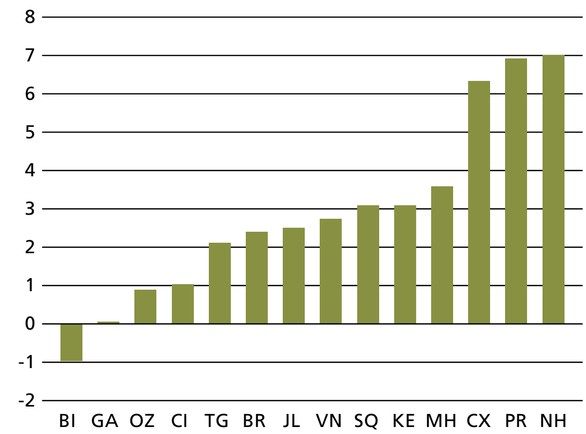
A slump in passenger and cargo traffic is expected for the immediate future following the latest developments in the Iraqi war. However, the extent of the slump is expected to be less severe in the Asia-Pacific region vis-à-vis other regions. The outbreak of Severe Acute Respiratory Syndrome (SARS) also is a concern. This will be reflected in traffic figures for southeast Asia, although it is believed the impact will be short-term.

E-mail: krislim@aapa.org.my

Philippine Airlines: marked improvement in passenger load factor

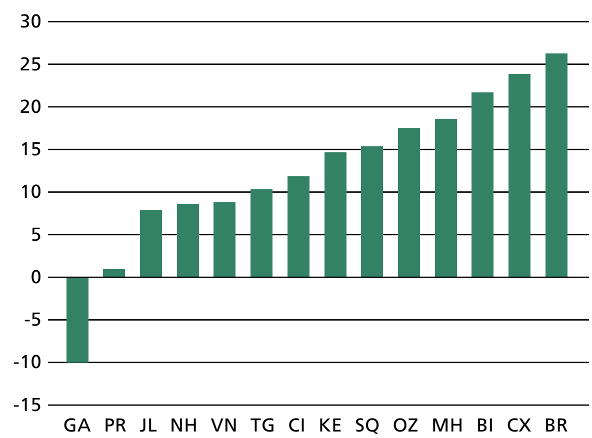
PASSENGER LOAD FACTOR GROWTH BY CARRIER

Percentage Points Change (Feb 02 - Jan 03 vs Feb 01 - Jan 02)



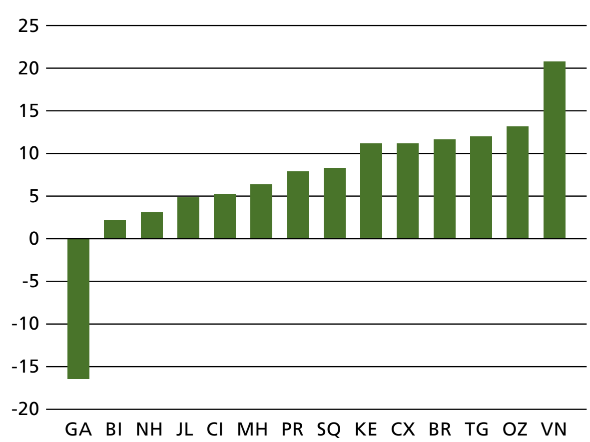
FTK GROWTH BY CARRIER

Percentage (Feb 02 - Jan 03 vs Feb 01 - Jan 02)



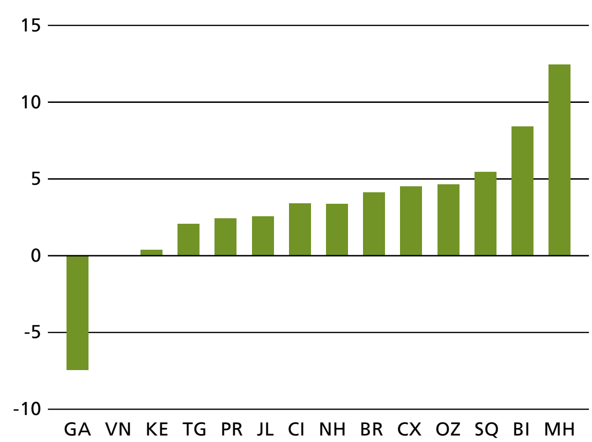
RPK GROWTH BY CARRIER

Percentage (Feb 02 - Jan 03 vs Feb 01 - Jan 02)

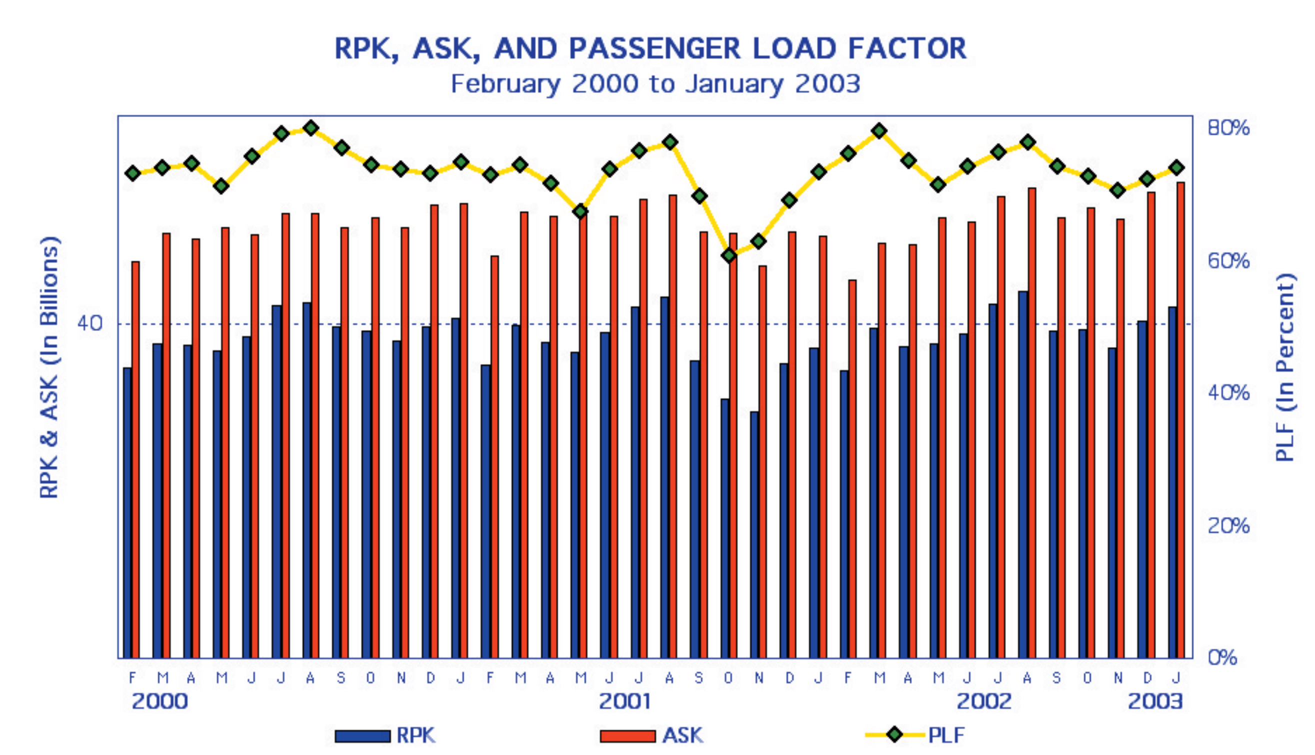


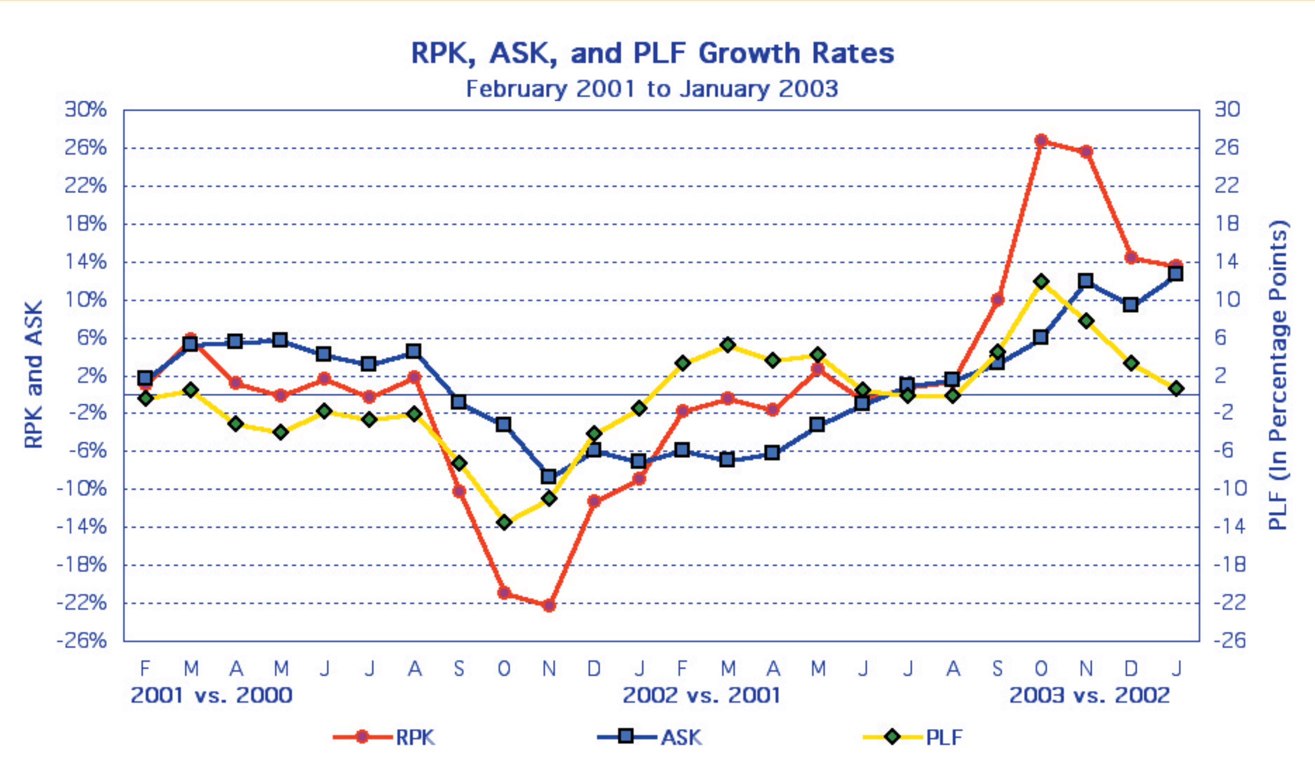
FREIGHT LOAD FACTOR GROWTH BY CARRIER

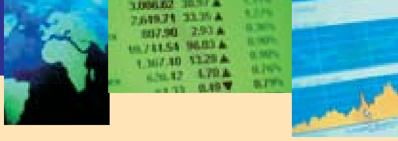
Percentage Points Change (Feb 02 - Jan 03 vs Feb 01 - Jan 02)



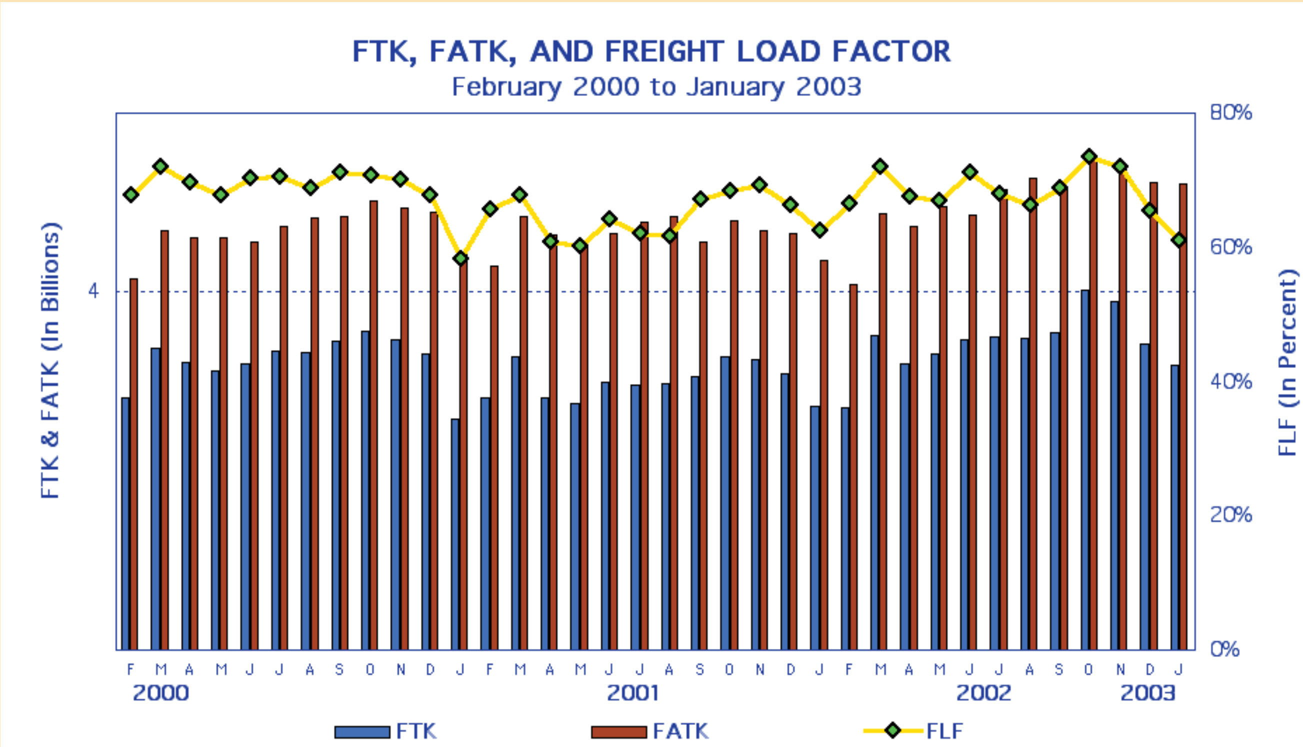
MONTHLY INTERNATIONAL PAX STATISTICS OF AAPA MEMBERS

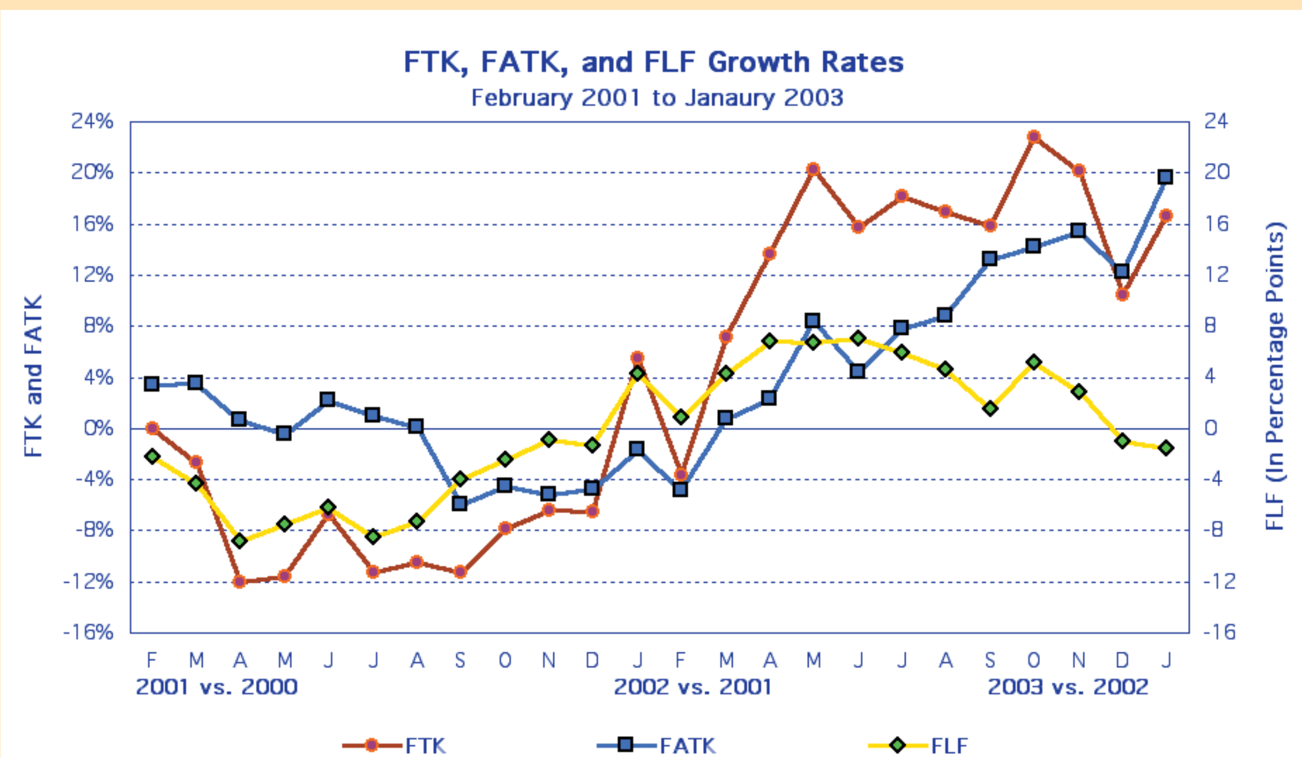


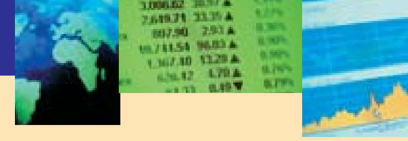




MONTHLY INTERNATIONAL CARGO STATISTICS OF AAPA MEMBERS







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)
FEB-02	34,515,768	45,326,023	76.15	2,714,939	4,082,504	66.50	6,344,795	7,845,193	8,304
MAR-02	39,623,369	49,744,219	79.65	3,513,303	4,883,017	71.95	7,249,596	9,441,395	9,358
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	3,175,167	5,208,333	60.96	7,125,834	10,420,186	9,547
TOTAL	472,369,837	633,591,303	74.55	41,252,943	60,421,723	68.28	85,955,703	117,950,093	110,035

2002 TO 2003

	RPK %	ASK %	PLF	FTK %	FATK %	FLF	RTK %	ATK %	PAX %
FEB-02	-1.82	-5.99	3.23	-3.70	-4.92	0.85	3.59	-9.84	3.55
MAR-02	-0.52	-6.98	5.18	7.09	0.71	4.29	3.18	-2.94	2.99
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	16.58	19.63	-1.62	14.63	16.25	12.51
GROWTH	6.69	1.67	3.51	14.57	8.52	3.61	10.96	4.82	7.59

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	42,164,204	56,955,320	74.03	3,175,167	5,208,333	60.96	7,125,834	10,420,186	9,547

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	13.54	12.66	0.57	16.58	19.63	-1.62	14.63	16.25	12.51

Note:

1. The consolidation includes 15 participating airlines. Consolidated results for JAN 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.